



SECURITIES AND EXCHANGE
COMMISSION
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NLEX Corporation

Offer of ₱4,000,000,000 Fixed Rate Bonds
With an Oversubscription Option of up to ₱2,000,000,000 Fixed Rate Bonds
under its ₱25,000,000,000 Shelf Registration

consisting of

Series A Bonds: 6.6407% p.a. Due 2025

Series B Bonds: 6.9000% p.a. Due 2028

Offer Price: 100% of Face Value

to be listed in the Philippine Dealing & Exchange Corp.

Issue Manager and Bookrunner



Joint Lead Underwriters¹



THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

The date of this Final Prospectus is June 19, 2018.

¹ BDO Unibank, Inc., the parent company of BDO Capital & Investment Corporation, directly owns 12.38% of the outstanding shares of NLEX Corp.

GT Capital Holdings, Inc. has an effective ownership of 11.04% in NLEX Corp, through a 15.55% stake in Metro Pacific Investments Corporation. GT Capital Holdings, Inc. owns 35.82% of First Metro Investment Corporation through Metropolitan Bank & Trust Company.



NLEX Corporation

NLEX Compound, Balintawak
Caloocan City, Metro Manila, Philippines
Telephone Number (632) 580-8900

On March 8, 2018, NLEX Corporation (the “**Company**”, the “**Issuer**” or “**NLEX Corp**”) filed an application with the Philippine Securities and Exchange Commission (the “**SEC**”) for the shelf registration (the “**Registration Statement**”) of Philippine Peso-denominated fixed rate bonds with an aggregate principal amount of ₱25,000,000,000 (the “**Bonds**”) under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799). The Bonds will be offered and sold in the Philippines in one or more tranches within the Philippines within a period of three (3) years from the effective date of the Registration Statement of the Bonds, subject to applicable regulations (the “**Shelf Period**”). The Bonds will be issued at face value and will be applied for listing in the Philippine Dealing & Exchange Corp. (“**PDEX**”).

The offer and sale of the Bonds, including the terms and conditions for each tranche, shall be at the sole discretion of the Company. The specific terms of the Bonds for each tranche will be determined by the Company considering the prevailing market conditions. For each tranche of the Bonds, the Company shall distribute a prospectus. The relevant prospectus will contain the final terms of each offer of the Bonds and must be read in conjunction with the bond agreements for such tranche. Full information on the Issuer and each offer of the Bonds is only available through the relevant prospectus and the relevant bond agreements for such tranche.

This Prospectus (“**Prospectus**”) relates to the offer and sale in the Philippines (the “**Offer**”) of the first tranche of the Bonds with an aggregate principal amount of ₱4,000,000,000 (the “**Base Offer Bonds**”) and, in the event of an oversubscription, BDO Capital, in its capacity as an Issuer Manager and Bookrunner and a Lead Underwriter, in consultation with the Issuer, may increase the size of the Offer (the “**Oversubscription Option**”) by up to ₱2,000,000,000 (the “**Oversubscription Option Bonds**”) and, together with the Base Offer Bonds, the “**Offer Bonds**”). The Offer Bonds will be issued on July 4, 2018 (the “**Issue Date**”) and will be comprised of seven-year Bonds due 2025 (the “**Series A Bonds**”) and ten-year Bonds due 2028 (the “**Series B Bonds**”). While the Issuer has the discretion to allocate the principal amount of the Offer Bonds between the Series A Bonds and the Series B Bonds based on the bookbuilding process, the Issuer may opt not to allocate the principal amount to any of these series.

The Series A Bonds shall have a term of seven (7) years from the Issue Date, with a fixed interest rate equivalent to the 6.6407% *per annum*. The Series B Bonds shall have a term of ten (10) years from the Issue Date, with a fixed interest rate equivalent to 6.9000% *per annum*. For as long as the Offer Bonds remain outstanding, interest on the Offer Bonds shall be payable quarterly in arrears on October 4, 2018 as the first Interest Payment Date, and thereafter, each of January 4, April 4, July 4, and October 4 of each year, or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day. For a more detailed discussion on the interest payments due on the Offer Bonds, see “**Description of the Offer Bonds**” – “**Interest**” of this Prospectus.

In the event that the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the unexercised portion shall be placed under shelf registration to be issued

within the Shelf Period and, consequently, the Bonds under shelf registration will be automatically increased by such principal amount of the Oversubscription Option Bonds that will not be taken up or exercised.

Subject to the consequences of default as may be contained in the Trust Agreement, and unless otherwise redeemed or purchased prior to the relevant Maturity Date, the Offer Bonds will be redeemed at par or 100% of the face value thereof on the relevant Maturity Date. For a more detailed discussion on the redemption of the Offer Bonds, see “**Description of the Offer Bonds**” – “**Redemption and Purchase**” of this Prospectus.

Upon issuance, the Offer Bonds shall constitute direct, unconditional, unsubordinated, and unsecured obligations of the Company and shall at all times rank *pari passu* and without preference among themselves and among any present and future unsubordinated and unsecured obligations of the Company, except for any statutory preference or priority established under Philippine law. The Offer Bonds will effectively be subordinated in right of payment to all of the secured debts of the Company to the extent of the value of the assets securing such debt and all of its debts evidenced by a public instrument under the circumstances contemplated under Article 2244(14) of the Civil Code of the Philippines. For a more detailed discussion on the ranking of the Offer Bonds, see “**Description of the Offer Bonds**” – “**Ranking**” of this Prospectus.

The Offer Bonds have been rated PRS Aaa by the Philippine Rating Services Corporation (“**PhilRatings**”) on March 8, 2018. A rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the rating agency concerned.

The Offer Bonds are offered to the public at face value through BDO Capital & Investment Corporation and First Metro Investment Corporation (the “**Underwriters**”), with the Philippine Depository & Trust Corp. (“**PDTC**” or “**Registrar**” or “**Paying Agent**”) acting as the registrar and paying agent of the Offer Bonds. PDTC has no interest or relation to the Company which may conflict with the performance of its function as registrar and paying agent of the Offer Bonds. The Issue Manager and Bookrunner and the Underwriters will receive a fee from the Company equal to 0.25% of the aggregate principal amount of the Offer Bonds, which shall be grossed up for gross receipts tax of 5% or 7%, as applicable. For a more detailed discussion on the fees to be received by the Issue Manager and Bookrunner and each of the Underwriters, see “**Plan of Distribution**” of this Prospectus.

The Offer Bonds will be issued in scripless form, with PDTC maintaining the electronic records of the Registrar bearing the official information on the names and addresses of the Bondholders and the number of Offer Bonds they respectively hold, including all transfers of the Offer Bonds and the names of subsequent transferee Bondholders (the “**Register of Bondholders**”). The Offer Bonds shall be issued in minimum denominations of ₱50,000 each, and in integral multiples of ₱10,000 thereafter. The Offer Bonds shall be traded in denominations of ₱10,000 in the secondary market.

The Company expects to raise ₱4,000,000,000 as gross proceeds from the Base Offer and the net proceeds are estimated to be at least ₱3,946,724,102 after deducting fees, commissions and expenses relating to the issuance of the Offer Bonds. Assuming the Oversubscription Option is fully exercised, the Company expects to raise gross proceeds amounting to up to ₱6,000,000,000 and the net proceeds are estimated to be at least ₱5,924,903,313 after deducting fees, commissions and expenses relating to the issuance of the Offer Bonds. The net proceeds of the Offer shall be used primarily by the Company to fund capital expenditure requirements of the R-10 Section Project (as such term is defined in the “**Definition of Terms**” section of this Prospectus). Any unused proceeds from the Offer will be used to finance other General Corporate Purposes of the Company. For a more detailed

discussion on the use of proceeds, see “**Use of Proceeds**” of this Prospectus.

The SEC is expected to issue an order rendering the Registration Statement effective and a corresponding permit to offer the securities for sale covering the Offer Bonds. Any subsequent offering of the Bonds under the relevant rules shall be subject to the submission of the Company of the relevant updates and amendments to the Registration Statement and the issuance of the corresponding permit to sell by the SEC. As a reporting company, NLEX Corp regularly disseminates such updates and information in its disclosures to the SEC.

The Company will apply for the listing of the Offer Bonds in the PDEX. However, there is no assurance that such a listing will be achieved either before or after the Issue Date, or whether such a listing will materially affect the liquidity of the Offer Bonds on the secondary market. Such listing will be subject to the Company’s execution of a listing agreement with PDEX that may require the Company to make certain disclosures, undertakings, and payments on an ongoing basis.

The Company reserves the right to withdraw the offer and sale of the Offer Bonds at any time and the Underwriters reserve the right to reject any application to purchase the Offer Bonds, in whole or in part, and to allot to any prospective purchaser less than the full amount of the Offer Bonds sought by such purchaser. If the Offer is withdrawn or discontinued, the Company shall subsequently notify the SEC and, as applicable, the PDEX. The Underwriters, any participating underwriter, co-manager, and selling agent for the Offer may acquire for their own account a portion of the Offer Bonds.

The Offer Bonds will be registered and offered exclusively in the Philippines. The distribution of this Prospectus and the offer and sale of the Offer Bonds may, in certain jurisdictions, be restricted by law. The Company and the Underwriters require persons into whose possession this Prospectus comes, to inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence, or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally.

Each investor in the Offer Bonds must comply with all laws applicable to it and must obtain the necessary consent, approvals, or permission for its purchase, offer, or sale under the laws and regulations in force in any jurisdiction to which it is subject, and neither the Company nor any of the Underwriters shall have any responsibility therefor.

The Company is organized under Philippine law. The Company and its Subsidiary (as such term is defined in the “**Definition of Terms**” section of this Prospectus) are allowed under Philippine laws to declare dividends, subject to certain requirements. These requirements include, for example, that the Board is authorized to declare dividends only from its unrestricted retained earnings. Dividends may be payable in cash, shares or property, or a combination of the three, as the Board shall determine. A cash dividend declaration does not require any further approval from stockholders. A declaration of stock dividends is subject to the approval of stockholders holding at least two-thirds of the outstanding capital stock of the Company. The Board may not declare dividends which will impair its capital. The Company and its Subsidiary declare dividends as determined by the Board, taking into consideration factors such as the implementation of business plans, debt service requirements, operating expenses, budgets, funding for new investments and acquisitions and appropriate reserves and working capital.

The information contained in this Prospectus relating to the Company, its operations and those of its Subsidiary and affiliates has been supplied by the Company, unless otherwise stated herein. To the best of its knowledge and belief, the Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this Prospectus relating to it, its operations, and those of its Subsidiary, and affiliates (other than market data

and certain industry information) is correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect and that the Company hereby accepts full and sole responsibility for the accuracy of such information contained in this Prospectus.

Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstance, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company, its Subsidiary, and affiliates since such date.

No representation or warranty, express or implied, is made or given by the Underwriters, the Trustee or the Registrar and Paying Agent, or their respective affiliates or legal advisers as to the accuracy, completeness, or sufficiency of the information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise, representation, or warranty by the Underwriters, the Trustee, the Registrar and Paying Agent, or their respective affiliates or legal advisers. This Prospectus is not intended to provide the basis of any credit or other evaluation, nor should it be considered as a recommendation by either the Issuer, the Underwriters, the Trustee, the Registrar and Paying Agent, or their respective affiliates or legal advisers that any recipient of this Prospectus should purchase the Offer Bonds.

No person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company or the Issue Manager and Bookrunner and any of the Underwriters. This Prospectus does not constitute an offer of any securities, or any offer to sell or a solicitation of any offer to buy any of the securities of the Company in any jurisdiction, to or from any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Before making an investment decision, investors must rely on their own examination of the Company and the terms of the Offer, including the risks involved. These risks include:

- risks related to the Company's business;
- risks relating to the Philippines; and
- risks relating to the Offer and the Offer Bonds.

There can be no assurance in respect of: (i) whether the Company would issue such debt securities at all; (ii) the size or timing of any individual issuance or the total issuance of such debt securities; or (iii) the specific terms and conditions of any such issuance. Any decision by the Company to offer such debt securities will depend on a number of factors at the relevant time, many of which are not within the control of the Company, including but not limited to: prevailing interest rates, the financing requirements of the business and prospects of the Company, market liquidity and the state of the domestic capital market, and the Philippine, regional, and global economies in general.

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. An investment in the Offer Bonds described in this Prospectus involves a certain degree of risk. As mentioned above, a prospective purchaser of the Offer Bonds should carefully consider several factors inherent to the Company such as risks pertinent to the industry and operational risks relevant to the Philippines *vis-à-vis* risks inherent to the Offer Bonds, in addition to the other information contained in this Prospectus, in deciding whether to invest in the Offer Bonds.

For a more detailed discussion on the risks in investing in the Offer Bonds, see the section entitled “Risk Factors and Other Considerations”, which, while not intended to be an exhaustive enumeration of all the risks, must be considered in connection with any investment in or any purchase of the Offer Bonds.

The Company’s financial statements are reported in Pesos and are prepared based on its accounting policies, which are in accordance with the Philippine Financial Reporting Standards (“**PFRS**”) issued by the Financial Reporting Standard Council of the Philippines. PFRS include statements named PFRS and Philippine Accounting Standards, and Philippines Interpretations from International Financial Reporting Interpretations Committee.

Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

The Company’s fiscal year begins on January 1 and ends on December 31 of the same year. SyCip Gorres Velayo & Co. (“**SGV**”), a member firm of Ernst & Young, the Company’s independent auditor, has audited and rendered unqualified audit reports on the Company’s financial statements as of and for the years ended December 31, 2017, December 31, 2016, and December 31, 2015.

Market data and certain industry information used throughout this Prospectus were obtained from internal surveys, market research, publicly available information, and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information are not guaranteed. Similarly, internal surveys, industry forecasts, and market research, while believed to be reliable, have not been independently verified, and neither the Company nor any of the Underwriters makes any representation as to the accuracy and completeness of such information.

No representation or warranty, express or implied, is made by the Company and the Underwriters, regarding the legality of an investment in the Offer Bonds under any legal, investment, or similar laws or regulations. This Prospectus is not an investment, legal, or tax advice. Prospective investors should consult their own counsel, accountant, and other advisors as to legal, tax, business, financial, and related aspects of a purchase of the Offer Bonds. In making any investment decision regarding the Offer Bonds, prospective investors must rely on their own examination of the Company and the terms of the Offer, including the merits and risks involved. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offer is prohibited.

Each prospective purchaser of the Offer Bonds, by accepting delivery of this Prospectus, agrees to the foregoing.

Conventions which apply to this Prospectus


In this Prospectus, unless otherwise specified or the context otherwise requires, all references to the “**Philippines**” are references to the Republic of the Philippines. All references to the “**Government**” are to the national and local government of the Philippines, including any of its departments, agencies, or other instrumentalities.

The items expressed in the “Definition of Terms” may be defined otherwise by appropriate government agencies or regulations from time to time, or by conventional or industry usage.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED THEREIN IS TRUE AND CURRENT.

NLEX CORPORATION

By:


RODRIGO E. FRANCO
President and CEO

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY, METRO MANILA) S.S.

SUBSCRIBED AND SWORN to before me this JUN 19 2018 in Makati City, affiant exhibiting to me his Philippine Passport No. EC2643926 expiring on 05 Nov-19 as competent evidence of identity.

Doc No. 272
Page No. 56
Book No. II
Series of 2018.


ROSE ANN JOY V. GONZALES
Appointment No. M-221
Notary Public for Makati City
Until December 31, 2019
Liberty Center-Picazo Law
104 H.V. dela Costa Street, Makati City
Roll No. 68583
PTR No. 6619649/Makati City/01-05-2018
IBP No. 020681/Isabela/01-03-2018

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FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors which may cause actual results, performance, or achievements of NLEX Corp to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on assumptions regarding the present and future business strategies and the environment in which NLEX Corp will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include:

- the ability of NLEX Corp to successfully implement its strategies;
- the ability of NLEX Corp to anticipate and respond to consumer trends;
- the ability of NLEX Corp to successfully manage its growth;
- the condition and changes in the Philippine, Asian, or global economies;
- any future political instability in the Philippines, Asia, or other regions;
- changes in interest rates, inflation rates, and the value of the Peso against the US Dollar and other currencies; and
- changes in government regulations, including tax laws, or licensing requirements.

Additional factors that could cause actual results, performance, achievements, or prospects of NLEX Corp to differ materially include, but are not limited to, those disclosed under “Risk Factors and Other Considerations” and elsewhere in this Prospectus.

These forward-looking statements are only as of the date of this Prospectus. NLEX Corp and the Underwriters expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the expectations of NLEX Corp with regard thereto, or any change in events, conditions, assumptions, or circumstances on which any statement is based.

This Prospectus includes forward-looking statements, including statements regarding the expectations and projections of the Issuer for future operating performance and business prospects. The words “believe”, “expect”, “anticipate”, “estimate”, “project”, “may”, “plan”, “intend”, “will”, “shall”, “should”, “would”, and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in this Prospectus as to the opinions, beliefs and intentions of the Issuer accurately reflect in all material respects the opinions, beliefs, and intentions of the management of NLEX Corp as to such matters at the date of this Prospectus, although the Issuer can give no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section “Risk Factors and Other Considerations” and elsewhere, important factors that could cause actual results to differ materially from the expectation of the Issuer. All subsequent written and oral forward-looking statements attributable to either the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by cautionary statements.

DEFINITION OF TERMS

As used in this Prospectus, the following terms shall have the meanings ascribed to them:

“Affiliate” means, with respect to a Person, any Person that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, such Person. In this context, *“control”* means the possession, directly or indirectly, of the power to direct, or cause the direction of, the management and policies of such Person, whether through ownership of voting shares, by contract, or otherwise.

“Applicable Law” means any statute, law, regulation, ordinance, rule, judgment, order, decree, directive, guideline, policy, requirement or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority.

“Application to Purchase” means the application form accomplished and submitted by a Person for the purchase of a specified amount of the Series A Bonds and Series B Bonds, together with all the other requirements set forth in such application form.

“Base Offer Bonds” has the meaning ascribed to it in page 1 of this Prospectus.

“BCDA” means the Bases Conversion and Development Authority, a Government instrumentality vested with corporate powers and created by virtue of Republic Act No. 7227, as amended, with address at the 2nd Floor, BCDA Corporate Center, Bonifacio Technology Center, 31st Street, Crescent Park West, Bonifacio Global City, Taguig City.

“BCDA TOA” means the toll operation agreement dated June 13, 2007 entered into and executed by and between the Republic of the Philippines (acting by and through the TRB) and BCDA relating to the financing, design, construction, operation, and maintenance of the SCTEX.

“BDO Capital” refers to BDO Capital & Investment Corporation, a corporation duly licensed and authorized to operate in the Philippines, with address at the 20th Floor, South Tower, BDO Corporate Center, 7899 Makati Avenue, Makati City.

“BIR” means the Bureau of Internal Revenue of the Philippines.

“Board of Directors” or **“Board”** or **“Directors”** shall mean the Board of Directors of NLEX Corp.

“Bond Agreements” shall mean the Trust Agreement between the Issuer and the Trustee, and the Registry and Paying Agency Agreement between the Issuer, the Registrar and the Paying Agent.

“Bondholder” shall mean a person whose name appears, at any relevant time, as a holder of the Offer Bonds in the Register of Bondholders.

“Bonds” refers collectively to the Philippine Peso-denominated fixed rate bonds of up to an aggregate principal amount of ₱25,000,000,000, inclusive of the Offer Bonds, to be issued by NLEX Corp in one or more tranches within the Shelf Period.

“BSP” means the *Bangko Sentral ng Pilipinas*.

“Business Day” means a day when commercial banks and foreign exchange markets are open for business in Manila City, Caloocan City and Makati City, except Saturday and Sunday

and any legal or non-working holiday.

“Cash Settlement Account” means an account designated by a Bondholder into which shall be credited the interests, principal, and other payments on the Offer Bonds.

“Change in Control” means:

- (a) MPIC (and its Affiliates) ceasing to: (i) have legal and beneficial ownership of at least fifty one percent (51%) of the outstanding shares of MPT North, or (ii) have control of MPT North; or
- (b) MPT North (and its Affiliates) ceasing to: (i) have beneficial ownership of at least fifty one percent (51%) of the outstanding shares of the Issuer, or (ii) have control of the Issuer.

“Change in Law or Circumstance” has the meaning set forth in **“Description of the Offer Bonds”** – **“Redemption and Purchase”** of this Prospectus.

“Clause 17.5 Agreements” means: (a) the agreement(s) entered into among, *inter alia*, the Republic of the Philippines (acting by and through the TRB), the Issuer, PNCC, and JP Morgan Chase Bank N.A. and Mizuho Corporate Bank, Ltd. detailing the consequences of any taking over of the NLEX Concession by the Republic of the Philippines (acting by and through the TRB) pursuant to Clause 17.5 of the NLEX STOA; and (b) any other agreements entered into or to be entered into pursuant to any of the documents referred to in (a) above.

“Concession” means each of the NLEX Concession, SCTEX Concession or any future tollway-related concessions as may be granted to the Issuer.

“Connector Road Concession Agreement” means the agreement dated November 23, 2016 entered into and executed by and between the Government of the Republic of the Philippines, acting through the DPWH, and NLEX Corp, with respect to the Connector Road Project.

“Connector Road Project” means the concession to finance, design, construct, operate, and maintain the toll road project covered by the Connector Road Concession Agreement.

“Disruption Event” means either or both of:

- (a) a material disruption to those payment communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the transactions contemplated by the Trust Agreement by the Trust Agreement to be carried out which disruption is not caused by, and is beyond the control of, any of the parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a party preventing that, or any other party from: (1) performing its payment obligations under the Trust Agreement; or (2) communicating with other relevant parties in accordance with the terms of the Trust Agreement.

“DPWH” means the Department of Public Works and Highways.

“EBITDA” means earnings before interest, taxes, depreciation and amortization, as determined in accordance with PFRS.

“FMIC” refers to First Metro Investment Corporation, a corporation duly licensed and authorized to operate in the Philippines, with the address at the 45th Floor, GT Tower International, 6813 Ayala Avenue corner H.V. dela Costa Street, 1227 Makati City, Philippines.

“General Corporate Purposes” refer to expenditures of the Company which may include capital expenditures to enhance, upgrade and improve the tollway services and facilities in the NLEX and SCTEX.

“Government” refers to the Government of the Republic of the Philippines.

“Governmental Approval” means any authorization, consent, concession, grant, approval, right, franchise, privilege, registration, filing, certificate, license, permit or exemption from, by or with any Governmental Authority (with jurisdiction over the subject matter in question), whether given or withheld by express action or deemed given or withheld by failure to act within any specified time period.

“Governmental Authority” means the Philippine government or political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to the Philippine government.

“Indebtedness” means, for any Person:

- (a) all financial obligations of such Person for borrowed money;
- (b) all financial obligations evidenced by a promissory note or other instrument;
- (c) all financial obligations for the deferred purchase price of property or services except trade accounts payable arising in the ordinary course of business;
- (d) all financial obligations of any other corporation, person or other entity, the payment or collection of which such Person has guaranteed (except by reason of endorsement for collection in the ordinary course of business) or otherwise, including without limitation, liability by way of agreement to purchase entered into by, to provide funds for payment to, to supply funds to, or otherwise invest in, such other corporation, person or entity;
- (e) all financial obligations of any other corporation, person or other entity for borrowed money evidenced by a promissory note or other instrument or for the deferred purchase price of property or services except trade accounts payable arising in the ordinary course of business secured by (or for which the holder of such financial obligations has an existing right, contingent or otherwise to be secured by) any Lien (including without limitation, accounts receivable and other contract rights) owned by such person, whether or not such Person has assumed or become liable for the payment of such financial obligation or obligation(s);
- (f) obligations treated as capitalized lease obligations of such Person in accordance with PFRS; and
- (g) any other arrangement assuring a creditor against loss;

Provided, that in determining the amount of Indebtedness, no amount shall be taken into account more than once in the same calculation, and where the amount is to be calculated on a consolidated basis in respect of a corporate group, monies borrowed or raised, or other indebtedness, as between members of such group shall be excluded;

Provided, further, that as used herein, the term “financial obligation” shall be construed as to

include any obligation (whether incurred as principal or surety) for the payment or repayment of money, whether present or future, actual or contingent.

“Interest Payment Date” means October 4, 2018 as the first Interest Payment Date, and thereafter, each of January 4, April 4, July 4, and October 4 of each year, or the next Business Day if such date falls on a day that is not a Business Day, without adjustment to the amount of interest to be paid, for as long as the relevant series of the Offer Bonds remain outstanding.

“Issue Date” means July 4, 2018 or such other date as NLEX Corp and BDO Capital may agree in writing, provided that such date shall be a date which is within the validity of the SEC Permit to Sell Securities.

“Issue Manager and Bookrunner” refers to BDO Capital, which has been appointed by the Issuer to provide assistance regarding the management, structure, timing and organization of the Offer.

“km” means kilometer.

“LCAL” refers to the Leighton Contractors (Asia) Limited – Philippine Branch.

“Lien” means any mortgage, pledge, lien, charge, encumbrance, hypothecation, set-off, preferential arrangement, security interest or claim of any kind or nature on or with respect to any asset, whatsoever, howsoever and wherever created or arising and whether consensual or non-consensual (including any agreement to give any of the foregoing and any conditional sale or other title retention agreement), in each case to the extent securing payment or performance of an Indebtedness prior to any general creditor of such person notwithstanding that it may be documented as a sale or absolute assignment of such assets under the laws applicable to the transfer of such assets.

“Majority Bondholders” means, at any time, the Bondholder or Bondholders who hold, represent or account for more than fifty percent (50%) of the aggregate outstanding principal amount of the relevant Offer Bonds, provided that, in respect of any matter presented for resolution at any meeting of Bondholders that affect the rights and interests of only the holders of the Series A Bonds, holders of Series A Bonds, exclusively, will be considered for quorum and approval purposes; and in respect of any matter presented for resolution at any meeting of Bondholders that affect the rights and interests of only the holders of the Series B Bonds, holders of Series B Bonds, exclusively, will be considered for quorum and approval purposes.

“Master Certificate of Indebtedness” means, for each of the Series A Bonds and Series B Bonds, the bond certificate issued by the Issuer in the name of the Trustee for the benefit of the Bondholders covering the entire principal amount of the relevant series purchased during the Offer Period and to be issued by the Issuer on the Issue Date, evidencing and covering such amount corresponding to the Offer Bonds so purchased.

“Material Adverse Effect” means, in the reasonable opinion of the Majority Bondholders, acting in good faith and in consultation with the Issuer, a material adverse effect on (a) the ability of the Issuer to observe and comply with the provisions of and perform its financial obligations under the Offer Bonds and the Bond Agreements; or (b) the ability of the Issuer to comply with its financial and other material obligations under other material agreements to which it is a party; or (c) the validity or enforceability of the Offer Bonds or any Bond Agreement; or (d) the financial condition, business or operations of the Issuer taken as a whole.

“Material Agreements” means (i) the NLEX STOA, (ii) the Clause 17.5 Agreements, (iii) the ROP Letter, (iv) SCTEX Business Agreement, (v) the SCTEX STOA, and (vi) the Connector

Road Concession Agreement provided, that such other tollway-related concession agreements that may be entered into by the Issuer shall also be considered Material Agreements under this definition upon effectivity thereof.

“Maturity Date” means, (i) with respect to the Series A Bonds, July 4, 2025 which is seven (7) years from Issue Date; and (ii) with respect to the Series B Bonds, July 4, 2028 which is ten (10) years from the Issue Date; provided that, in the event that the relevant Maturity Date falls on a day that is not a Business Day, the Maturity Date shall be automatically extended to the immediately succeeding Business Day without adjustment to the amount of interest and principal to be paid.

“MPIC” refers to Metro Pacific Investments Corporation, a domestic corporation.

“MPT North” refers to Metro Pacific Tollways North Corporation.

“NEDA” refers to the National Economic and Development Authority.

“NLEX” refers to the North Luzon Expressway.

“NLEX Corp” or the **“Company”** or the **“Issuer”** refers to NLEX Corporation, and when the context requires, NLEX Corp and its Subsidiary.

“NLEX Concession” means the rights, obligations, and privileges granted to the Issuer pursuant to the NLEX STOA.

“NLEX Project” means the toll road project covered by the NLEX Concession.

“NLEX STOA” means the Supplemental Toll Operation Agreement (together with its annexures) dated April 30, 1998 (and notarized on May 5, 1998) executed by and among the Republic of the Philippines (acting by and through the TRB), PNCC and NLEX Corp, as clarified by the TRB Clarifications, with respect to the NLEX Project, as the same may be amended or supplemented from time to time.

“North Diversion Road” means the old toll road expressway operated by PNCC.

“North Luzon Expressway” or **“NLEX”** refers to all Phases and Segments of the NLEX Project commercially operated as a toll road by NLEX as of the date of this Prospectus.

“NVC” means NLEX Ventures Corporation.

“Offer” means the issuance of the Offer Bonds by the Issuer under the terms and conditions set forth in this Prospectus.

“Offer Bonds” means the SEC-registered Series A Bonds and Series B Bonds, to be issued by the Issuer in the aggregate amount of up to ₱6,000,000,000, consisting of the Base Offer Bonds of ₱4,000,000,000 and the Oversubscription Option Bonds of up to ₱2,000,000,000.

“Offer Period” means the period when the Offer Bonds are publicly offered for sale, distribution, and issuance by the Issuer to eligible investors, commencing at 9:00 a.m., Manila time, on June 21, 2018 and ending at 5:00 p.m., Manila time, on June 27, 2018, or such other date as may be mutually agreed between the NLEX Corp and BDO Capital.

“OMA” refers to the Operations and Maintenance Agreement dated July 6, 2001.

“Oversubscription Option” means the option that may be exercised by BDO Capital, in

consultation with NLEX Corp, to offer up to an additional to ₱2,000,000,000 worth of Offer Bonds to the investing public, to cover oversubscriptions, if any.

“Oversubscription Option Bonds” has the meaning ascribed to it in page 1 of this Prospectus.

“Paying Agent” refers to PDTC, a corporation with a quasi-banking license duly organized and existing under and by virtue of the laws of the Philippines, whose principal obligation is to handle payments of the principal of, interest on, and all other amounts payable on the Offer Bonds, to the Bondholders, pursuant to the Registry and Paying Agency Agreement. The term includes, wherever the context permits, all other Person or Persons for the time being acting as paying agent or paying agents under the Registry and Paying Agency Agreement.

“Payment Account” means the account to be opened and maintained by the Paying Agent with such Payment Account Bank designated by the Issuer and managed by the Paying Agent, in trust and for the irrevocable benefit of the Bondholders, into which the Issuer shall deposit the amount of the interest payments, principal payments, and all other payments due on the Outstanding Bonds on a relevant Payment Date and exclusively used for such purpose, the beneficial ownership of which shall always remain with the Bondholders. As used in this definition, the terms “Outstanding Bonds” and “Payment Account Bank” shall have the respective meanings given to such terms in the Registry and Paying Agency Agreement.

“Payment Date” means each date on which payment for interest, principal, and all other payments due on the Offer Bonds become due.

“PDEX” refers to the Philippine Dealing & Exchange Corp.

“PDTC” refers to the Philippine Depository & Trust Corporation, the central depository and clearing agency of the Philippines which provides the infrastructure for handling the lodgment of the scripless Bonds and the electronic book-entry transfers of the lodged Bonds in accordance with the PDTC Rules, and its successor-in-interest.

“PDTC Rules” means the SEC-approved rules of the PDTC, including the PDTC Operating Procedures and PDTC Operating Manual, as may be amended, supplemented or modified from time to time.

“P.D. 1112” means Presidential Decree (P.D.) No. 1112 issued on March 31, 1977, creating the TRB.

“P.D. 1113” means Presidential Decree (P.D.) No. 1113 issued on March 31, 1977, granting the NLEX franchise to PNCC.

“P.D. 1894” means Presidential Decree (P.D.) No. 1894 issued on December 22, 1983, amending P.D. 1113.

“Permit to Sell Securities” means the permit to be issued by the SEC authorizing the Issuer to sell, distribute and issue the Offer Bonds to the public.

“Person” means an individual, firm, partnership, limited liability company, joint venture other form of association, trust, corporation, Governmental Authority, committee, department, authority or any body, incorporated or unincorporated, whether having distinct legal personality or not.

“Peso”, “Pesos”, “₱”, “Php” and “Philippine currency” means the legal currency of the Republic of the Philippines.

“**PFRS**” shall mean Philippine Financial Reporting Standards, as the same may be amended or supplemented from time to time.

“**Phase**” the combination of Segments in respect of which the Issuer shall proceed with construction, as set out in the NLEX STOA.

“**Philippines**” means the Republic of the Philippines.

“**PhilRatings**” means Philippine Rating Services Corporation.

“**PNCC**” means the Philippine National Construction Corporation (formerly Construction and Development Corporation of the Philippines).

“**Prospectus**” means this Prospectus and any amendments and supplements hereto for the offer and sale to the public of the Offer Bonds.

“**PSE**” refers to the Philippine Stock Exchange.

“**Record Date**” has the meaning set forth in “**Description of the Offer Bonds**” – “**Interest**” of this Prospectus.

“**Register of Bondholders**” means the electronic registry book of the Registrar and Paying Agent containing the official information on the Bondholders and the amount of Offer Bonds they respectively hold, including all transfers and assignments thereof or any liens or encumbrances thereon.

“**Registrar**” refers to the PDTC, being the registrar appointed by the Issuer to maintain the Register of Bondholders pursuant to the Registry and Paying Agency Agreement.

“**Registration Statement**” means the registration statement filed with the SEC on March 8, 2018 in connection with the offer and sale to the public of the Bonds (inclusive of the Offer Bonds), as approved by the SEC.

“**Registry and Paying Agency Agreement**” means the agreement so titled and dated June 19, 2018, and its annexes and attachments, as may be modified supplemented or amended from time to time, and entered into by the Company and the Registrar and Paying Agent in relation to the Offer Bonds.

“**ROP Letter**” means the letter dated July 4, 2001 from the Republic of the Philippines, acting through the Department of Finance, acknowledging that the Republic of the Philippines will perform its commitments and undertakings under the NLEX STOA.

“**ROW**” means right of way.

“**RTGS**” refers to Real Time Gross Settlement.

“**R-10 Section**” refers to the 2.6-km, 2x2 elevated ramp to be built along the median of C-3 Road that forms part of the NLEX Project. It will have three interchanges located at C-3 Road, Dagat-Dagatan Avenue leading to Malabon, and R-10 road.

“**R-10 Section Project**” refers to the design, construction, finance, operation and maintenance of the R-10 Section.

“**SCTEX**” shall refer to the Subic-Clark-Tarlac Expressway.

“SCTEX Business Agreement” means the agreement dated February 26, 2015 entered into and executed by and between the BCDA and NLEX Corp, with respect to the assignment by BCDA to NLEX Corp of BCDA's rights, interests, and obligations under the BCDA TOA.

“SCTEX Concession” means the rights, obligations and privileges granted to the Issuer pursuant to the SCTEX Business Agreement and the SCTEX STOA.

“SCTEX Project” means the toll road project covered by the SCTEX STOA.

“SCTEX STOA” means the Supplemental Toll Operation Agreement covering the SCTEX dated May 22, 2015 executed by and among the Republic of the Philippines (acting by and through the TRB), BCDA, and NLEX Corp.

“SCTEX TOC” refers to the Toll Operation Certificate dated October 22, 2015 issued by the Republic of the Philippines (acting by and through the TRB), granting NLEX Corp the authority to operate and maintain the SCTEX.

“SEC” means the Philippine Securities and Exchange Commission.

“Segment” means any of the integral portions of a Phase as described in Clause 3.1 of the NLEX STOA or any further sub-divisions thereof into sub-segments as otherwise agreed upon.

“Series A Bonds” means the Offer Bonds to be issued by the Issuer with an aggregate principal amount of Three Billion Pesos (₱3,000,000,000.00), and in case the Oversubscription Option is exercised, such additional principal amount equivalent to the Offer Bonds as may have been taken up for this series, having a term beginning on the Issue Date and ending seven (7) years from the Issue Date (or on July 4, 2025), with a fixed interest rate equivalent to 6.6407 *per annum*.

“Series B Bonds” means the Offer Bonds to be issued by the Issuer with an aggregate principal amount of One Billion Pesos (₱1,000,000,000.00), and in case the Oversubscription Option is exercised, such additional principal amount equivalent to the Offer Bonds as may have been taken up for this series, having a term beginning on the Issue Date and ending ten (10) years from the Issue Date (or on July 4, 2028), with a fixed interest rate equivalent to 6.9000% *per annum*.

“SGV & Co.” means SyCip Gorres Velayo & Co., the Company's independent auditors.

“Shelf Period” means, subject to applicable regulations, a period of three (3) years from the effectivity date of the Registration Statement within which the Bonds under shelf registration may be offered and sold in tranches.

“SRC” means the Securities Regulation Code of the Philippines, as the same may be amended from time to time.

“STOAs” refers, collectively, to the NLEX STOA and the SCTEX STOA.

“Subsidiary” means, with respect to NLEX Corp, any corporation directly or indirectly controlled by it, whether by way of ownership of at least fifty percent (50%) of the total issued and outstanding voting capital stock of such corporation, or the right to elect at least fifty percent (50%) of the number of directors in such corporation, or the right to control the operation and management of such corporation by reason of contract or other authority granted by said corporation to NLEX Corp.

“Sub-Underwriting Agreement” refers to the agreement so titled and dated June 19, 2018 and its annexes and attachments, as may be modified, supplemented or amended from time to time, and entered by and between BDO Capital and FMIC.

“Tax Code” means the National Internal Revenue Code of 1997, as amended.

“TMC” means Tollways Management Corporation.

“TOC” shall refer to the Toll Operation Certificate issued by the Republic of the Philippines (acting by and through the TRB), granting the relevant holder the authority, right, privilege, and obligation to undertake the operation and maintenance of a toll road, commencing on the date of its issuance and expiring at the end of the franchise period.

“Toll Projects” shall refer, collectively, to the NLEX Project, SCTEX Project and Connector Road Project.

“Toll Concession Agreements” refers to the NLEX STOA, SCTEX STOA, and the Connector Road Concession Agreement, collectively.

“TOP” means the Toll Operation Permit issued by the TRB authorizing the operation by NLEX Corp of any completed Phase, Segment, or any of the interchanges thereof, of the toll roads subject of the NLEX Project.

“TRB” refers to the Philippine Toll Regulatory Board.

“TRB Clarifications” means the letter of clarifications issued by the Republic of the Philippines (acting by and through the TRB) dated July 5, 2001 in relation to the NLEX STOA.

“Trust Agreement” refers to the agreement so titled and dated June 19, 2018, and its annexes and attachments, as may be modified, supplemented or amended from time to time, and entered into by the Company and the Trustee in relation to the Offer Bonds.

“Trustee” refers to BDO Unibank, Inc. – Trust and Investments Group, the entity appointed by the Issuer which shall act as the legal title holder of the Offer Bonds and shall monitor compliance and observance of all covenants of and performance by the Issuer of its obligations under the Offer Bonds and enforce all possible remedies pursuant to such mandate.

“Underwriters” or **“Joint Lead Underwriters”** refers to BDO Capital and FMIC, the entities appointed as underwriter and sub-underwriter, respectively, for the Offer Bonds.

“Underwriting Agreement” refers to the agreement so titled and dated June 19, 2018 and its annexes and attachments, as may be modified, supplemented or amended from time to time, and entered by and between the Company and BDO Capital.

“\$” or **“US\$”** refers to United States Dollars, being the currency of the United States of America.

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information and the consolidated financial statements of NLEX Corp and notes relating thereto. For a discussion of certain matters that should be considered in evaluating an investment in the Offer Bonds, see the section of this Prospectus entitled "Risk Factors and Other Considerations." Prospective investors are recommended to read this entire Prospectus carefully.

In this Prospectus, unless otherwise specified or the context otherwise requires, all references to the Company are to the Company and Subsidiary and affiliates (or the Company and its Subsidiary or affiliates, as the context may require).

Company 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 tollroad projects. As of the date of this Prospectus, 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.

NLEX Corp operates the NLEX and the SCTEX through TMC, which serves as its operations and maintenance service provider under the OMA. TMC was incorporated under the laws of the Republic of the Philippines and was registered with the SEC on August 2, 2000, primarily to engage in and carry on the operations and maintenance of tollways, its facilities, interchanges and related works, or otherwise engage in the operation and maintenance of roads, highways, bridges, buildings, and structures of all kinds.

The NLEX Project

The NLEX currently spans approximately 95 km, or 527 lane-kms, and services an average of 237,046 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.

In October 2008, TRB approved the extension of the concession period to December 31, 2037 in view of NLEX Corp's implementation of the 2.7-km NLEX-Mindanao Avenue Link, or Segment 8.1 of the NLEX Project, which is the first segment under Phase II of the NLEX Concession.

On June 5, 2010, Segment 8.1 was opened to the public, allowing motorists to have an alternative access to NLEX from Mindanao Avenue in Quezon City, bypassing the Balintawak Toll Plaza.

On March 19, 2015, the 2.4-km Karuhatan Interchange, or Segment 9 of the NLEX Project, was opened to the public. Segment 9 connects NLEX, from Mindanao Avenue, to the MacArthur Highway in Valenzuela City. It provides motorists with a third alternative access point to and from NLEX.

On April 28, 2014, NLEX Corp started the construction of Segment 10 of the NLEX Project under a target cost contract with LCAL. As at the date of this Prospectus, construction of Segment 10 is still underway and is estimated to be completed by the third quarter of 2018. In April 2017, the TRB granted NLEX Corp a notice to proceed with respect to the R-10 Section

Project that will provide a direct link to the Manila Port area by way of an elevated ramp spanning 2.6 km along C-3 Road to R-10.

SCTEX

The SCTEX is a 94-km, 2x2 expressway stretching from Subic-Tipo until La Paz, Tarlac, connecting the special economic zones in Subic and Clark, Olongapo City, to Tarlac City. It was completed by the BCDA in 2008 using Official Development Assistance financing from the Japan Bank of International Cooperation.

In October 2009, BCDA conducted a competitive bidding for the selection of a private sector partner for the management, operation, and maintenance of SCTEX. NLEX Corp participated in the selection process and was eventually awarded the SCTEX Concession in June 2010. After an extended period of commercial negotiations and regulatory approvals, NLEX Corp took over the SCTEX toll facilities and officially commenced the management, operation and, maintenance of SCTEX on October 27, 2015.

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. In 2017, 54,566 average daily vehicle entries were recorded for SCTEX.

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 Prospectus, pre-construction activities have commenced including the preparation for the ROW requirements for the Connector Road Project.

Merger with Tollways Management Corporation

TMC is the operations and maintenance service provider for the NLEX and SCTEX. TMC's services range from toll collection, traffic and security management, facilities, and equipment maintenance, and roadway routine maintenance.

On October 19, 2016, the Board of Directors of NLEX Corp and TMC, respectively, approved the proposed merger between NLEX Corp and TMC, with NLEX Corp as the surviving corporation (the "**Merger**"). Stockholders representing at least 2/3 of the outstanding capital stock of each of NLEX Corp and TMC ratified the Merger on November 16, 2017 and December 15, 2017, respectively.

On April 17, 2017, NLEX Corp and TMC executed the Plan and Articles of Merger. The Merger will enhance NLEX Corp's ability to deliver public service to motorists through the combined resources of NLEX Corp and TMC. The consolidation of assets will likewise enhance the

financial position of NLEX Corp as the surviving corporation, making it a stronger and more competitive concession company after the Merger, with a higher capacity to finance its expansion projects. The Merger will 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 will continue and NLEX Corp will be deemed to have: (a) acquired all the 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.

As of the date of this Prospectus, the Plan and Articles of Merger are being reviewed by the SEC. In the meantime, NLEX Corp and TMC have implemented a functional merger of the two companies, pursuant to which the operations of NLEX Corp and TMC were simplified, streamlined, and aligned to ensure efficient and effective performance of NLEX Corp’s obligations under the Toll Concession Agreements.

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.

Competitive Strengths

The Company believes that its principal strengths are the following:

- NLEX Corp has a proven track record in toll road development and management.
- NLEX Corp has concessions over high-growth service areas.
- NLEX and SCTEX have a stable traffic base.
- NLEX Corp’s stockholders are industry leaders.
- NLEX Corp has an experienced management team.

Business Strategies

The Company shall employ the following principles in pursuit of its business:

- NLEX Corp shall strengthen the operating performance of its toll road network.
- NLEX Corp shall complete the implementation of its concession projects.
- NLEX Corp shall develop a pipeline of future projects.

Corporate Information

The Company’s principal place of business is at the NLEX Compound, Balintawak, Caloocan City, Metro Manila, Philippines. The Company’s telephone number is (632) 580 8900. Information on the Company may be obtained at www.nlex.com.ph. Information contained in the Company’s website does not constitute as part of this Prospectus.

SUMMARY OF FINANCIAL INFORMATION

The summary of financial information set forth in the following tables has been derived from the Company's audited consolidated financial statements as at December 31, 2017, December 31, 2016 and December 31, 2015 and for the years ended December 31, 2017, December 31, 2016 and December 31, 2015, and should be read in conjunction with the audited consolidated financial statements, and notes thereto annexed to this Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included herein.

The Company's audited financial statements were prepared in accordance with PFRS and were audited by SGV, in accordance with Philippine Standards on Auditing ("PSA").

The summary financial information set out below does not purport to project the results of operations or financial condition of the Company for any future period or date.

Statement of Income Data

In ₱ Millions	For the year 2017	For the year 2016	Increase (Decrease)	
	(Audited)	(Audited)	Amount	%
Operating revenue	₱11,760	₱10,696	₱1,064	10
Cost of services	(4,554)	(4,393)	161	4
General and administrative expenses	(845)	(726)	119	16
Interest expense and other finance costs – net of interest income of ₱51 million in 2017 and ₱62 million in 2016	(472)	(381)	91	24
Foreign exchange gain (loss)	1	–	1	100
Other income (expenses)	66	11	55	500
Provision for income tax	(1,312)	(1,120)	192	17
Net income	₱4,644	₱4,087	₱557	14
Net income margin	39%	38%		

Statement of Financial Position

In ₱, Millions	December 2017	December 2016	Increase (Decrease)	
	(Audited)	(Audited)	Amount	%
Cash and cash equivalents	₱2,715	₱390	₱2,325	596
Total assets	40,146	35,289	4,857	14
Total liabilities	29,490	25,677	3,813	15
Total equity	10,656	9,612	1,044	11

Please refer to the section entitled "Selected Financial Information" in this Prospectus for further details.

SUMMARY OF THE OFFERING

A discussion containing the “Summary of the Offering” in relation to the Offer Bonds is set out below. However, such summary should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus, including, but not limited to, the discussion on the “Description of the Offer Bonds” and “Plan of Distribution”, and agreements executed in connection with the Offer of Bonds as a whole. Such overview may not contain all of the information that prospective investors should consider before deciding to invest in the Offer Bonds. Accordingly, any decision by a prospective investor to invest in the Offer Bonds should be based on a consideration of this Prospectus, and agreements executed in connection with the Offer Bonds as a whole and the other documents referred to in the first paragraph of “Description of the Offer Bonds”. Please also refer to such paragraph on the other general matters that must be considered before deciding to invest in the Offer Bonds.

Issuer	NLEX Corporation
Issue Manager, Bookrunner, and A Joint Lead Underwriter	BDO Capital & Investment Corporation
A Joint Lead Underwriter	First Metro Investment Corporation
Instrument; Total Issue Size	<p>Philippine Peso denominated fixed rate bonds with an aggregate principal amount of ₱4,000,000,000, with an Oversubscription Option of up to ₱2,000,000,000, consisting of the Series A Bonds and Series B Bonds.</p> <p>The Offer Bonds may be issued in up to two (2) series, at the discretion of the Issuer, to wit:</p> <ul style="list-style-type: none"> • 7-year Series A Bonds due 2025 • 10-year Series B bonds due 2028 <p>The Issuer has the discretion to allocate the principal amount among the different series of the Offer Bonds based on the bookbuilding process, and may opt not to allocate any amount to any of these series.</p> <p>The Offer Bonds will be issued from the ₱25,000,000,000 fixed rate bonds shelf registration program of NLEX Corp.</p>
Oversubscription Option; Oversubscription Option Bonds	<p>BDO Capital, in its capacity as an Issuer Manager and Bookrunner and a Lead Underwriter, has reserved the right to increase, in consultation with the Issuer, the firm offer size of ₱4,000,000,000 by up to an additional ₱2,000,000,000, such that the aggregate issue size of the Offer Bonds will be up to ₱6,000,000,000.</p> <p>The Offer Bonds form part of the Bonds with an aggregate principal amount of ₱25,000,000,000 that are under shelf-registration. The remaining balance of the Bonds under shelf-registration in the aggregate principal amount of ₱19,000,000,000 will be issued in tranches within the Shelf Period.</p>

However, in case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the Bonds under shelf registration will be automatically increased by such principal amount of Oversubscription Option Bonds that will not be taken up or exercised. Hence, after the Offer, the remaining bonds under shelf registration may potentially increase to an aggregate principal amount of up to ₱21,000,000,000, which may be issued in tranches within the Shelf Period.

Use of Proceeds	Proceeds of the Offer will be used by the Issuer to (i) fund capital expenditure requirements of the Segment 10: R-10 Section Project, and (ii) fund other General Corporate Purposes.
Offer Price	100% face value
Form and Denomination of the Offer Bonds	The Offer Bonds shall be issued in scripless form in minimum denominations of ₱50,000 each, and in integral multiples of ₱10,000 thereafter.
Offer Period	The Offer shall commence at 9:00 AM of June 21, 2018 to 5:00 PM of June 27, 2018 or such other period as may be determined by NLEX Corp and BDO Capital, during which the Offer Bonds shall be offered to the public.
Issue Date	July 4, 2018 or such other date as NLEX Corp and BDO Capital may agree in writing, provided that such date shall be a date which is within the validity of the Permit to Sell Securities.
Maturity Date	<p><u>Series A Bonds</u>: July 4, 2025 or the seventh (7th) anniversary of the Issue Date</p> <p><u>Series B Bonds</u>: July 4, 2028 or the tenth (10th) anniversary of the Issue Date</p> <p>Provided that, if such date falls on a day that is not a Business Day, the Maturity Date shall be the next succeeding Business Day without adjustment for accrued interest and principal.</p>
Interest Rate	<p><u>Series A Bonds</u>: 6.6407% <i>per annum</i></p> <p><u>Series B Bonds</u>: 6.9000% <i>per annum</i></p>
Interest Payment	<p>October 4, 2018 as the first Interest Payment Date, and thereafter, each of January 4, April 4, July 4 and October 4 of each year, for as long as the relevant series of Offer Bonds remain outstanding. If the Interest Payment Date is not a Business Day, interest will be paid on the next succeeding Business Day, without adjustment as to the amount of the interest to be paid.</p> <p>Interest on the Offer Bonds shall be calculated on a 30/360-day</p>

count basis and shall be paid quarterly in arrears. If the Interest Payment Date is not a Business Day, interest will be paid on the next succeeding Business Day, without adjustment as to the amount of the interest to be paid.

Early Redemption Option

The Issuer shall have the right, but not the obligation, to redeem in whole (and not in part) any series of the Offer Bonds before the relevant Maturity Dates (the “**Early Redemption Option**”) and on any of the relevant dates indicated in the following schedule (each an “**Early Redemption Option Date**”):

	Early Redemption Option Date	Early Redemption Price
Series A Bonds	First Interest Payment Date immediately occurring after the fifth (5 th) anniversary of the Issue Date	101.00%
	Sixth (6 th) anniversary of the Issue Date	100.50%
Series B Bonds	Seventh (7 th) anniversary from Issue Date	102.00%
	Eighth (8 th) anniversary from Issue Date	101.50%
	Ninth (9 th) anniversary from Issue Date	101.00%

provided, that if the relevant Early Redemption Option Date falls on a day that is not a Business Day, then the payment of the early redemption price shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and optional redemption price to be paid.

The amount payable to the Bondholders upon the exercise of the Early Redemption Option by the Issuer shall be calculated, based on the principal amount of the Offer Bonds being redeemed, as the sum of: (i) accrued interest computed from the last Interest Payment Date up to the relevant Early Redemption Option Date and (ii) the product of the principal amount of the Offer Bonds being redeemed and the applicable early redemption price.

The Issuer shall give not less than thirty (30) nor more than sixty (60) days prior written notice to the Trustee, the Registrar, and Paying Agent of its intention to redeem the relevant series of the Offer Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the relevant Offer Bonds on the Early Redemption Option Date stated in such notice.

Redemption for Taxation Reasons	If payments under any series of the Offer Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem such series of the Offer Bonds in whole, but not in part, having given not more than sixty (60) nor less than thirty (30) days prior written notice to the Trustee, the Registrar, and Paying Agent, at par or 100% face value plus accrued interest thereon.
Redemption due to Change in Control	Upon the occurrence of a Change in Control, Bondholders holding at least two-thirds (2/3) of the outstanding principal amount of the Offer Bonds may require the Issuer to redeem in whole, but not in part the Offer Bonds, at par (or 100% face value) plus accrued interest thereon. The decision of the Bondholders holding at least two-thirds (2/3) of the outstanding principal amount of the Offer Bonds shall be conclusive and binding upon all the Bondholders.
Redemption due to Change in Law or Circumstance	Upon the occurrence of a Change in Law or Circumstance, the Issuer shall redeem the Offer Bonds in whole, but not in part, having given more than sixty (60) days nor less than thirty (30) days' written notice to the Trustee, the Registrar, and Paying Agent, at par or 100% face value plus accrued interest thereon.
Negative Pledge	<p>Until redemption or payment in full of the aggregate outstanding principal amount of the Offer Bonds, the Issuer shall not, without the written consent of the Majority Bondholders, directly or indirectly, incur or suffer to exist any Lien upon any of its assets and revenues, present and future, or enter into any loan facility agreement secured by or to be secured by a Lien upon any of its assets and revenues, present and future, unless it has made or will make effective provisions, satisfactory to the Majority Bondholders, in the Bondholder's absolute discretion, whereby the Lien thereby created will secure, on an equal first ranking and ratable basis, any and all the obligations of NLEX Corp under the Offer Bonds and such other debt which such Lien purports to secure; provided, that the foregoing restriction shall not apply to the following:</p> <ul style="list-style-type: none"> <li data-bbox="547 1615 1102 1644">(a) Liens existing as of the Issue Date; <li data-bbox="547 1682 1366 2011">(b) Liens granted to a bank or other institution solely in connection with the issuance of a bid bond, performance bond or letter of credit in the ordinary course of the Issuer's or its Subsidiaries' business, including in connection with the bidding for/or acquisition of assets or concessions by the Issuer or its Subsidiaries, and which shall include cover cash deposits, and letters of credit, which Lien shall be released automatically when such bank or other institution is paid, cash covered or reimbursed for

	<p>payments made under such bid bond, performance bond or letter of credit;</p> <p>(c) any netting or set-off arrangement entered into in the ordinary course of banking arrangements for the purpose of netting debit and credit balance;</p> <p>(d) Liens to meet any margin requirement in respect, or any netting or set-off arrangement in the ordinary course, of derivative transactions for hedging purposes;</p> <p>(e) Liens over the shares owned by the Issuer in a new investee company (as may be allowed under the Trust Agreement), where the Lien is created to secure an indebtedness obtained by such investee company for the purpose of financing a project of that investee company, where such financing is on a non-recourse basis against the Issuer;</p> <p>(f) any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any Lien referred to in paragraphs (a) to (e) inclusive, or of any indebtedness secured thereby; <i>provided</i>, that such extension, renewal or replacement is limited to all or any part of the same property that secured the Lien extended, renewed or replaced (plus any construction, repair or improvement on such property) and shall secure no larger amount of financial indebtedness than that existing at the time of such extension, renewal or replacement; and</p> <p>(g) Liens created with the prior written consent of the Majority Bondholders.</p>
Covenants	The Trust Agreement provides for positive and negative covenants.
Purchase and Cancellation	<p>The Issuer may at any time purchase any of the Offer Bonds at any price in the open market or by tender or by contract, in accordance with PDEX rules, as may be amended from time to time, without any obligation to make <i>pro-rata</i> purchases from all Bondholders. The Offer Bonds so purchased shall be redeemed and cancelled and may not be re-issued.</p> <p>Upon listing of the Offer Bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.</p>
Status	The Offer Bonds constitute direct, unconditional, unsubordinated, unsecured obligations of the Issuer and will rank <i>pari passu</i> and ratably without any preference or priority among themselves and at least <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the Issuer, other than obligations mandatorily preferred by law.

Taxation

Subject to the exceptions provided below, all payments made in respect of the Offer Bonds (i.e., interest and principal payments) shall be made free and clear of any deductions or withholding for, or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including, but not limited to, documentary stamps, issue, registration, value-added or any similar tax or other taxes and duties, including interest and penalties. Should the foregoing taxes or duties be imposed, the Issuer shall be liable to pay such additional amounts as are necessary so that holders of the Offer Bonds will receive the full amount of the relevant payment which otherwise would have been due and payable: Provided, however, that the Issuer shall not be liable for, and the foregoing payment undertaking of the Issuer shall not apply to:

- (a) the final withholding tax applicable on interest income earned on the Offer Bonds as prescribed under the Tax Code;
- (b) as applicable, any income tax (whether or not subject to withholding), percentage tax and documentary stamp tax on the redemption of the Offer Bonds or on the liquidating distributions as may be received by a holder of the Offer Bonds,
- (c) any value-added tax which may be payable by any holder of the Offer Bonds on any amount to be received from the Issuer under the terms and conditions of the Offer Bonds;
- (d) any withholding tax on any amount payable to any holder of the Offer Bonds or any entity which is a non-resident foreign corporation; and
- (e) any applicable taxes on any subsequent sale or transfer of the Offer Bonds by any holder of the Offer Bonds which shall be for the account of the said holder (or the buyer in case such buyer shall have agreed to be responsible for the payment of such taxes).

All sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments or governmental charges provided said entities present sufficient proof of such tax-exempt status from the tax authorities.

Documentary stamp tax for the primary issue of the Offer Bonds and the documentation, if any, shall be for the account of the Issuer.

Credit Rating

PRS Aaa by PhilRatings

Registrar and Paying Agent

Philippine Depository & Trust Corp.

Trustee	BDO Unibank, Inc. – Trust and Investments Group
Listing	The Issuer intends to list the Offer Bonds in PDEX on Issue Date. However, there is no assurance that such a listing will actually be achieved either before or after the Issue Date of the Offer Bonds or whether such a listing will materially affect the liquidity of the Offer Bonds on the secondary market. Such listing will be subject to the Company's execution of a listing agreement with PDEX that may require the Company to make certain disclosures, undertakings and payments on an ongoing basis.

RISK FACTORS AND OTHER CONSIDERATIONS

An investment in the Offer Bonds involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. There may be a large difference between the buying price and the selling price of these securities. Investors deal with a range of investments, each of which may carry a different level of risk. This section entitled "Risk Factors and Other Considerations" does not purport to disclose all of the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors may request publicly available information on the Offer Bonds and the Company from the SEC. Each prospective investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of, the securities to be invested in or the nature of risks involved in the trading of securities.

Prospective investors should carefully consider the risks described below, in addition to the other information contained in this Prospectus, including the consolidated financial statements of NLEX Corp and notes relating thereto included in this Prospectus, before making any investment decision relating to the Offer Bonds. The occurrence of any of the events discussed below and any additional risks and uncertainties not currently known to NLEX Corp or that are currently considered immaterial could have a material adverse effect on the business, results of operations, financial condition, and prospects of NLEX Corp and prospective investors may lose all or part of their investment.

The means by which the Company plans to address the risks discussed herein are principally presented in the sections of this Prospectus entitled "Description of Business - Competitive Strengths," "Description of Business - Business Strategies" and "Management's Discussion and Analysis of Results of Operations and Financial Condition."

RISK RELATING TO THE BUSINESS OF THE COMPANY

Substantially all of the Company's assets and revenues are anchored on the concessions granted under the Toll Concession Agreements.

Each of the NLEX STOA and Connector Road Concession Agreement grant NLEX Corp the right and obligation to finance, design, construct, maintain and operate the NLEX Project and the Connector Road Project. The SCTEX STOA grants NLEX Corp the right and obligation to maintain and operate the SCTEX Project.

The business, operations, financial condition, and prospects of NLEX Corp could be materially and adversely affected if, for any reason, the Toll Concession Agreements or any part thereof are cancelled, terminated, becomes invalid or unenforceable, or are otherwise indefinitely restrained or cease to have full force and effect.

Amendment or Revocation of the Toll Concession Agreements

The Toll Concession Agreements, like any franchise granted by the Government, are subject to certain restrictions and limitations, and may be amended, altered, or repealed by Congress when the common good so requires. Similarly, under relevant laws, such as P.D. 1112, P.D. 1113 and P.D. 1894, the relevant Government agency may amend or modify the authority or franchise that it granted whenever the public interest so requires.

These restrictions and limitations, however, are not unique to the Toll Concession Agreements, and are inherent in all franchises granted by Government. More importantly, if and when the Government does exercise its power to amend or modify a franchise, such exercise must be required by the "common good" or "public interest".

Termination of the Toll Concession Agreements

NLEX Corp's concession rights under the Toll Concession Agreements will be in effect for the following periods:

Project	Start of Concession Period	End of Concession Period
NLEX	June 15, 1998	December 31, 2037
SCTEX	October 27, 2015	October 30, 2043
Connector Road	2019 (est.)	37 years from notice to proceed

Prior to the expiration of the Toll Concession Agreements, and subject to the terms thereof, the concessions granted to NLEX Corp may be terminated by the Government if NLEX Corp commits a breach of its material obligations under the relevant Toll Concession Agreement and fails to remedy the same within the period as may be stipulated in the relevant Toll Concession Agreement.

For example, under the NLEX STOA, NLEX Corp will be in default if any of the following occurs and NLEX Corp fails to remedy the same within the period as may be stipulated in the NLEX STOA:

- NLEX Corp materially fails to operate and maintain the NLEX project roads in accordance with the standards approved by the Republic of the Philippines (acting by and through the TRB); or
- NLEX Corp fails to implement the NLEX Project; or
- NLEX Corp becomes the subject of liquidation or dissolution proceedings; or
- NLEX Corp is declared insolvent or in default of its loans; or
- NLEX Corp persistently or flagrantly breaches any material obligation under the NLEX STOA for causes solely attributable to NLEX Corp; or
- NLEX Corp abandons the construction or the operation and maintenance of the NLEX project roads.

As of the date of this Prospectus, NLEX Corp has complied with and performed its material obligations under the Toll Concession Agreements, and has not received any notice of default under the Toll Concession Agreements.

NLEX Corp intends to continue to perform its obligations under the Toll Concession Agreements to develop, complete, operate, and maintain the different Phases of the Toll Projects within the agreed timeframes. NLEX Corp likewise endeavors to continue its over-all business strategy of prudent financing and sound management of toll road development. Nevertheless, to manage the Company's reliance on the Toll Concession Agreements, NLEX Corp intends to undertake the development, operation, and management of other toll road projects. NLEX Corp further intends to diversify its revenue base by expanding its business operations by growing its non-toll revenues through NVC.

In case of any amendment or revocation any of the Toll Concession Agreements, NLEX Corp shall endeavor to dialogue with the Government to mitigate and/or secure compensation for the adverse impact of an amendment or revocation on NLEX Corp's franchises. In addition, in the event that any of the Toll Concession Agreements are amended to implement changes initiated by the Republic of the Philippines (acting by and through the TRB), NLEX Corp shall enforce the compensation mechanisms and/or applicable adjustments provided under each of the Toll Concession Agreements.

Failure to secure TRB approval of toll rate adjustments could affect NLEX Corp's operating results.

NLEX Corp derives substantially all of its revenue from toll collections from the users of NLEX and SCTEX. Each of the STOA's set a fair and reasonable toll rate formula and a clear toll rate adjustment procedure. However, it is possible that adjustments to the authorized toll rate ("ATR"), although warranted under the prescribed procedure, are not effected due to reasons not attributable to NLEX Corp.

Since it started commercial operations of the NLEX, NLEX Corp has successfully implemented a series of toll rate adjustments following the original NLEX STOA formula in February 2005, January 2007 and July 2008. Last January 1, 2011, NLEX Corp was able to successfully implement its first toll rate increase in line with the revised toll rate formula. With the removal of the foreign exchange adjustment factor from the ATR formula, future toll rate adjustments are expected to increase moderately.

Under the SCTEX STOA, NLEX Corp may file an application for toll rate adjustment every calendar year. Prior to October 27, 2015, 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.

However, NLEX toll rate adjustments for the years 2013, 2015, and 2017, and SCTEX toll rate adjustment for the year 2017, are pending approval by the TRB. The delay in the approval and implementation of the toll rate adjustments has affected and may continue to affect the ability of NLEX Corp to meet projected revenues. The same risk of delay in, or failure to secure, TRB approval of toll rate adjustment petitions may also apply to the Connector Road Project.

NLEX Corp was nevertheless able to secure TRB's approval of the investment recovery scheme relating to Phase 1 of the NLEX Lane Widening Project. The TRB approved the add-on toll in the amount of ₱0.25 per kilometer in the NLEX closed system. This was implemented on November 6, 2017.

NLEX Corp has historically engaged the TRB working group in advance for the review of the periodic toll rate adjustment. NLEX Corp intends to continue working with the TRB for the implementation of the petitions for toll rate adjustment and shall endeavor to resolve and settle any disputes with respect thereto through amicable settlement, mediation, or arbitration.

To offset the impact of the delay in the implementation of the toll rate adjustments, NLEX Corp has tightened its cost control measures and explored opportunities for generating savings, such as prudent tax management and the reduction of financing costs. NLEX Corp remains committed to increasing the volume of traffic in the NLEX and SCTEX by enhancing customer satisfaction through continuous improvement of the toll system. Further, NLEX Corp intends to diversify its revenue base by growing its non-toll revenues through NVC.

NLEX Corp operates in a regulated environment and its business could be adversely affected by changes in the regulatory environment.

NLEX Corp operates in a regulated industry. The TRB, created by virtue of P.D. No. 1112, is the Government agency authorized to regulate toll operations in the Philippines.

Considering that the rights, obligations and privileges of NLEX Corp with respect to the Toll Projects are highly dependent on Government requirements and regulations, there can be no assurance that future regulatory requirements, rulings and legislations will not adversely affect

NLEX Corp's business and/or its ability to comply with its financial and/or other contractual obligations.

Nevertheless, NLEX Corp shall endeavor to work with the TRB to ensure compliance with any regulatory requirement, ruling or legislation with the least impact to the business operations of the NLEX Corp. Further, the Toll Concession Agreements allow NLEX Corp to enforce the compensation mechanisms and/or applicable adjustments provided under each of the Toll Concession Agreement to compensate for any adverse impact arising from future regulatory requirements, rulings, and legislations.

Operational and physical risk factors may affect the toll business

Toll Revenue Collection

Substantially all of NLEX Corp's toll revenue is derived from the collection of tolls, the receipt of which is highly dependent upon the integrity of its toll collection system. The failure to control toll revenue leakage in the toll collection system could have a material adverse effect upon the business, financial condition, and results of operations of NLEX Corp.

Most of the toll revenues collected from the operations of NLEX and SCTEX are in cash, as opposed to through cashless electronic collection systems. Thus, the level of revenues derived from the collection of tolls may be reduced by leakage through toll evasion, fraud, or technical faults in the NLEX or SCTEX toll collection system. In order to secure tolls collected, all toll processes and operations are computerized and a global validation and security system are implemented. The systems and procedures for the operations were designed by a reputable international expert in the field.

The Company has established, and continues to update, its policies and procedures designed to prevent toll revenue leakage, including the prevention of toll evasion, user fraud, employee fraud and theft. NLEX Corp has likewise adopted a bonus and penalty regime under its Operation and Maintenance Agreement with TMC for any variance in the toll revenue collection. Further, NLEX Corp intends to continue promoting cashless electronic collection transactions through its service provider, Easytrip Services Corporation. Electronic transactions via the Easytrip Tag and RFID account for an average of 20% of daily transactions.

Traffic Risk

Revenues from the Company's toll road operations principally depend upon the number and type of motor vehicles using NLEX or SCTEX. Traffic volume is directly and indirectly affected by a number of factors, including the availability, quality, proximity, and cost of alternative roads, alternative modes of transportation, and Government economic and transportation policies. Consequently, a significant or sustained decline in the traffic volume for NLEX or SCTEX may adversely affect the Company's business, operations, and financial condition.

Traffic volume on NLEX or SCTEX is also influenced by traffic volumes on expressways, highways, and other roads which are part of the regional highway system and network. There can be no assurance that changes in this highway system and network, in particular in Metro Manila or the special economic zones of Subic and Clark, as the case may be, will not adversely affect traffic volume on NLEX or SCTEX. Additionally, substantial delays in the completion of any of the planned expressways, highways, and other roads that would offer access to or from NLEX, or the cancellation of plans to construct the same, could lead to a decrease in traffic volume.

Fuel supply shortages and increases in fuel prices may adversely affect traffic volumes on

both expressways. Fuel prices are inherently volatile and have been high in recent years. If the cost of fuel in the Philippines remains high or increases further, motorists in the Philippines may limit automobile usage or elect to use alternative means of transportation to offset high fuel costs. Furthermore, higher global oil prices and increased demand for fuel may lead to fuel supply shortages and fuel rationing in the Philippines. If fuel supply shortages or rationing occur in Luzon, motorists may be forced to drive less frequently, reducing traffic volumes on NLEX or SCTEX.

Traffic volumes on NLEX or SCTEX are likewise affected by competition from other routes and alternative modes of transportation. NLEX, for example, unlike the non-toll MacArthur Highway, requires motorists to pay a toll for every journey. For these motorists, the toll costs may outweigh the benefits of convenience or faster travel time. It is possible that the public may react adversely to any increase in toll tariffs in the future by avoiding or limiting their use of the project roads. In addition, there can be no assurance that existing alternative roads or modes of transport will not significantly improve their services or that other alternative roads charging lower toll rates, or otherwise provide more direct routes to locations served by NLEX or SCTEX, will not be built.

Nevertheless, NLEX has historically served as the main artery between Metro Manila and central and northern Luzon. NLEX has a stable service area which is characterized by the lack of comparable competing traffic routes and the resilience of the user profile. NLEX traffic volume has grown by a compounded annual rate of 5.4% since opening in February 2005 while SCTEX traffic volume has grown by 18.9% since NLEX Corp took over the operations and maintenance thereof in October 2015.

NLEX Corp continues to promote traffic growth on the NLEX and SCTEX by providing more entry and exit points along the expressways. Likewise, NLEX Corp continues to boost the value proposition of NLEX and SCTEX by implementing measures to enhance customer satisfaction, safety, and convenience.

Delay in Right-of-Way delivery may result in higher construction costs and delay in project completion.

The construction program of the toll roads depends on the ROW delivery schedule. Since certain construction costs are payable in regular intervals for the duration of the construction period or are set based on a specific construction timetable, a delay in the delivery of the ROW may result in higher construction costs.

NLEX Corp has been prudent in managing potential costs arising from any delay in ROW delivery by requiring a cost adjustment mechanism with its contractors. Further, NLEX Corp has been judicious in developing its construction program to ensure the early completion of the projects and thus, outweigh potential cost overruns.

The Company is involved in certain legal proceedings.

NLEX Corp is a party to various pending legal proceedings. Any adverse rulings or decisions in certain of these proceedings may have a material impact on NLEX Corp's business. (Please refer to the section entitled "Certain Legal Proceedings" in this Prospectus for a more detailed discussion.)

NLEX Corp endeavors to amicably settle the legal proceedings, if practicable. However, NLEX Corp intends to diligently pursue and exhaust all legal remedies available to it in the event of any adverse ruling or decision in any of these proceedings.

Risk relating to project cost and completion

The projects of NLEX Corp may not be completed or its costs may significantly increase. This may result in delays in the operation and expansion of its projects. Historically, the Company has always entered into turnkey contracts with reputable contractors where the risk on project costs and completion are transferred to the contractor. This arrangement protects NLEX Corp from shouldering expenses beyond the agreed project costs and manages the timetable of NLEX Corp's projects.

The Company's ability to obtain financing for its projects is subject to certain factors, many of which are outside the control of NLEX Corp.

The capital expenditures of NLEX Corp in the future are expected to be funded through a combination of internally generated funds and external financing. The continued access to debt and equity financing of the Company is subject to factors, many of which are outside of the control of NLEX Corp, including, political instability, economic downturn, social unrest, or changes in the Philippine regulatory environment. These factors could increase the cost of borrowing, decrease the price of its securities, or restrict the ability of the Company to obtain debt or equity financing. In addition, recent disruptions in global capital and credit markets may intensify or indefinitely continue. The Company is also subject to limited bank exposure to a single borrower or related group of borrowers, existing debt covenants and ability to service new debt.

The Company employs a system of financial prudence and good corporate governance to manage the risks relating to debt and equity financing. The Company believes that it can survive such events given its sustainable cash flows, strong support from its parent company, and its strengths and continued access to financing. For further discussions on these strengths, please refer to Strengths of NLEX Corp on page 99.

Risks relating to construction defects and other building-related claims

The Company may be held liable for defects in the construction of the tollways and toll-related structures. Claims made against the Company arising from such defects may be costly and could result in significant losses to NLEX Corp. Further, the Company may suffer a decline in traffic volume, receive adverse publicity, and be forced to invest significant resources in addressing such losses, both in terms of time and money.

There can be no assurance that the Company will not be held liable for damages, the cost of repairs, and/or the expense of litigation surrounding possible claims or that claims will not arise out of uninsurable events, or circumstances not covered by the Company's insurance and not subject to effective indemnification agreements with the Company's contractors.

Neither can there be any assurance that the contractors hired by the Company will be able to either correct any such defects or indemnify the Company for costs incurred by the Company to correct such defects. In the event a substantial number of claims arising from construction defects arises, this could have a material adverse effect on the Company's reputation and on its business, financial conditions, and results of operations.

While the Company has not experienced any major construction defect or building-related claims in its operations, the Company has existing warranties and insurances to cover the cost of any potential financial claim and restoration.

Risk relating to labor relations

Similar to other Philippine operating companies with a substantial number of employees, NLEX Corp is subject to various labor laws governing employee relationships which affect its operating costs. These laws include minimum wage requirements, mandatory health benefits, overtime compensation, and other wage and benefit requirements. These and significant changes in labor regulations, for example, in respect of hiring contractual employees, could materially affect NLEX Corp's business, financial condition, operating results or cash flow. In addition, a labor dispute involving some or all of its employees may harm the Company's reputation, disrupt operations and reduce revenues, and resolution of disputes may increase costs.

Risk relating to the TRAIN Law

The Tax Reform for Acceleration and Inclusion ("**TRAIN**") provides for a progressive increase of fuel prices from 2018 to 2020, which increase may affect traffic volumes. While the decrease in personal income tax under the TRAIN law was intended to mitigate the effects of the increase in fuel prices, there can be no assurance that the increase in fuel prices will not reduce traffic volume along the NLEX and SCTEX in the future. Any substantial decrease in the traffic volume along the NLEX and SCTEX could have a material adverse effect on the Company's business, financial conditions, and results of operations.

Further, while the TRAIN law, which is the first package of the Comprehensive Tax Reform Program ("**CTRP**") of the Duterte administration, brought about extensive changes to individual income taxation, it did not include changes in corporate income taxation. This is, instead, expected to be addressed in the second package of the CTRP, which was submitted to Congress on January 16, 2018. The second package reportedly aims to lower corporate income taxes while reducing fiscal incentives for corporations, such as income tax holidays, special rates, and custom duty exemptions. If passed into law, the fiscal incentives enjoyed by NLEX Corp may be affected.

The Company continues to monitor developments on the TRAIN law and its potential impact on its business.

RISK RELATING TO THE PHILIPPINES

Political instability in the Philippines may have a negative effect on the general economic conditions in the Philippines, which in turn could have a material adverse impact on the results of the operations and financial condition of NLEX Corp.

The Philippines has from time to time experienced political and military instability. In recent history, there has been political instability in the Philippines, including impeachment proceedings against two (2) former presidents and the chief justice of the Supreme Court of the Philippines, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by current and previous administrations. As of date of this Prospectus, there are ongoing criminal cases against a former Philippine President in relation to (i) a failed military operation in Mindanao and (ii) the alleged anomalous purchase of the Dengue vaccine, Dengvaxia, as part of the Government's nationwide vaccination programs. There can be no assurance that acts of election-related or other political violence will not occur in the future, and any such events could negatively impact the Philippine economy.

The Philippine Presidential elections were held in May 2016, and on June 30, 2016, President Rodrigo Duterte assumed the presidency with a mandate to advance his "Ten-Point

Socio-Economic Agenda” focusing on policy continuity, tax reform, infrastructure spending, and countryside development, among others. Although the Duterte administration has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups, there can be no assurance that the Duterte administration will continue to implement social and economic policies favored by the previous administration. Major deviation from the policies of the previous administration or a fundamental change of direction may lead to an increase in political or social uncertainty and instability. President Duterte’s unconventional methods may also raise risks of social and political unrest. An unstable political environment, whether due to the impeachment of government officials, imposition of emergency executive rule, martial law, or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the Company’s business, financial condition and results of operations.

In addition, the Company may be affected by political and social developments in the Philippines and changes in the political leadership and/or government policies in the Philippines. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that could impact Company’s business.

No assurance can be given that any changes in such regulations or policies by the Government from time to time or the future political environment in the Philippines will be stable or that current and future administrations will adopt economic policies conducive for sustaining economic growth. Political instability in future could reduce demand for retail and consumer goods, to NLEX Corp’s disadvantage (*i.e.*, lower demand in consumer goods could negatively affect the number of trips taken to deliver goods from point to point), or sudden changes in regulations and policies that affect the Company’s business operations, which could have a material adverse effect on the results of operations and financial position of the Company.

Acts of terrorism could destabilize the country and could have a material adverse effect on NLEX Corp’s business, financial position and results of operations.

The Philippines has also been subject to a number of terrorist attacks in the past several years. The Philippine army has been in conflict with the Abu Sayyaf organization, which has been alleged to have ties to the Al-Qaeda terrorist network and, along with certain other organizations, has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines.

Furthermore, the Government and the Armed Forces of the Philippines (“**AFP**”) have clashed with members of separatist groups seeking greater autonomy, including the Moro Islamic Liberation Front (“**MILF**”), the Moro National Liberation Front (“**MNLF**”), and the New People’s Army (“**NPA**”). In October 2011, 19 AFP troops were killed in a firefight with MILF members in the southern Philippines. In December 2011, five AFP soldiers were killed in a clash with NPA members. Beginning in September 2013, Government troops have been involved in violent and deadly clashes with a faction of the MNLF that has been accused of kidnappings and bombings in parts of Mindanao. There have been numerous bombing incidents in Mindanao and elsewhere in the Philippines, which have resulted in death and injury to the civilian population as well as military and security personnel.

In May 2017, after a joint operation of the AFP and the Philippine National Police (“**PNP**”) was launched in Marawi City to capture an alleged terrorist leader, prolonged fighting ensued between the AFP and PNP, on one hand, and a radical Islamist group called the Maute Group. The Maute Group is a group inspired by the bigger extremist militant group known as the Islamic State in Iraq and Syria (“**ISIS**”). Given such conflict, President Rodrigo Duterte declared martial law in Mindanao. Hostilities led to several casualties and substantial property damage. In October 2017, the Government announced that the leaders of the Maute Group have been killed.

These continued conflicts between the Government and separatist groups could lead to further injuries or deaths of civilians and members of the AFP, which could destabilize parts of the Philippines and adversely affect the Philippine economy. While acts of terrorism or violent crimes have primarily occurred in Mindanao, which is geographically distant from where NLEX Corp conducts business, there can be no assurance that the Philippines will not be subject to further acts of terrorism or violent crimes in the future, which could have a material adverse effect on the Company's business, financial condition, and results of operations.

Natural or other catastrophes, including severe weather conditions, may materially disrupt NLEX Corp's operations and result in losses not covered by its insurance.

The Philippines has experienced many major natural catastrophes over the years, including typhoons, droughts, floods, volcanic eruptions, and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Company's operations. These factors, which are not within the NLEX Corp's control, could potentially have significant effects on the Company's operations. While NLEX Corp has insurance in place to cover its assets, liabilities resulting from claims relating to the maintenance or operation of the NLEX or SCTEX, lost toll revenues or increased expenses resulting from damage to the NLEX or SCTEX, in amounts and with deductibles that the Company believes are in line with general industry practices in the Philippines, there are losses for which the Company cannot obtain insurance at a reasonable cost or at all. However, should an uninsured loss or a loss in excess of insured limits occur, the Company could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Company's business, financial position, and results of operations.

For example, the central Philippines experienced a severe typhoon, Typhoon Haiyan (Yolanda) in November 2013, which caused extensive damage and claimed thousands of lives. Typhoon Haiyan had a significant effect on the economics in the region impacted by the typhoon, which, among other things, led to an increase in inflation, a decrease in the pace of economic growth, and/or a reduction in consumer spending.

In relation to the foregoing, the Toll Concession Agreements affords relief to NLEX Corp in case of the occurrence of force majeure.

Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

The Philippines, China, and several Southeast Asian nations have been engaged in a series of long standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains its claim over the disputed territories and is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea ("**UNCLOS**"). Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. Actions taken by both sides have threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, a temporary suspension of tours to the Philippines by Chinese travel agencies, and the rejection by China of the Philippines' request for arbitral proceedings administered in accordance with the UNCLOS to resolve the disputes.

In 2016, the Permanent Court of Arbitration ruled in favor of the Philippines against China over territorial disputes in the West Philippine Sea. The arbitral tribunal unanimously ruled, among others, that (a) China has "no historical rights" to the resources within the sea areas falling within the "nine-dash line"; (b) Chinese reclamation activity in the West Philippine Sea has caused irreparable damage to the environment, obligating the Chinese government to stop further activities in the West Philippine Sea; and (c) China had violated the Philippines'

sovereign rights in its exclusive economic zone by interfering with Philippine fishing and petroleum exploration, constructing artificial islands, and failing to prevent Chinese fishermen from fishing in the zone. However, China has said it will not recognize the ruling. With no formal enforcement mechanism in place, the territorial dispute in the West Philippine Sea remains contentious and unresolved.

There had been other occurrences of territorial disputes with Malaysia and Taiwan. In March 2013, several hundred armed Filipino-Muslims illegally entered Malaysia in a bid to enforce an alleged historical claim on the territory. Clashes between the Filipino-Muslim individuals and the Malaysian armed forces resulted in casualties on both sides.

Taiwan imposed economic sanctions on the Philippines as a result of an incident in May 2013, when a Taiwanese fisherman was unintentionally killed by a Philippine coast guard ship that opened fire on his vessel while it was in a disputed exclusive economic zone between Taiwan and the Philippines. The sanctions were eventually lifted after a formal apology was issued by the Philippine government.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the Company's operations could be adversely affected as a result.

Management of risks related to the Philippines

The Company has been able to survive major economic and political crises brought about by domestic and international developments through the implementation of its core strategies, including least cost formulations, efficiencies improvement, market leadership, innovation, and regional diversification. Constant monitoring of market allows the Company to detect risk exposures and react to the external environment appropriately. Although there is no assurance that the Company will be able to fully overcome the adverse effects of any or all crises, it has in place a system of financial prudence and corporate governance that provides the foundation for its risk management initiatives.

RISK RELATING TO THE OFFER BONDS

Suitability Risk

Each potential investor in the Offer Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Offer Bonds, the merits and risks of investing in the Offer Bonds and the information contained in this Prospectus; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Offer Bonds and the impact the Offer Bonds will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Offer Bonds, including where the currency for principal or interest payments is different from the potential investor's currency; (iv) understand thoroughly the terms of the Offer Bonds and be familiar with the behavior of any relevant financial markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

Liquidity Risk

The Company plans to list the Offer Bonds in the PDEX to provide price transparency and liquidity to the Bondholders. As with other fixed income securities, the Offer Bonds could trade at prices higher or lower than the initial offering price due to prevailing interest rates, the operations of the Company, the overall market for debt securities, political and economic developments in the Philippines and other regions, among others. It is possible that a selling Bondholder would receive sales proceeds lower than his initial investment should a Bondholder decide to sell his Bonds prior to maturity.

In addition, there can be no assurance that an active secondary market for the Offer Bonds will develop or how the Offer Bonds will perform. The liquidity and the market prices for the Offer Bonds can be expected to vary with changes in market and economic conditions, the financial position and prospects of the Company and other factors that generally influence the market prices of securities. There is no assurance that the Offer Bonds may be disposed at prices, volumes or at times deemed appropriate by the Bondholders.

Credit Risk

The ability of the Issuer to make scheduled principal or interest payment on the Offer Bonds will depend on the Issuer's future performance and the Issuer's ability to generate cash, which to a certain extent is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in this "Risk Factors and Other Considerations" section, many of which are beyond the Issuer's control.

To mitigate this risk, the Issuer ensures it has a sufficient amount of cash to allow it to timely service the principal and interest payments of the Offer Bonds. The Issuer believes it will adequately meet its principal and interest payments under the Offer Bonds due to its strong market position and stable and predictable operating cash flows, and high liquidity.

Reinvestment Risk

The Company may redeem (in whole but not in part only) the outstanding Bonds before the relevant maturity date (see "Description of the Offer Bonds - Early Redemption Option"). In the event that the Company exercises this early redemption option, all Bonds will be redeemed and the Company would pay the amounts to which Bondholders would be entitled. Following such redemption and payment, there can be no assurance that investors in the redeemed

Bonds will be able to re-invest such amounts in securities that would offer a comparative or better yield or terms, at such time.

Pricing Risk

The Bond's market value moves (either up or down) depending on the change in interest rates prevailing in the market. The Offer Bonds when sold in the secondary market may be worth more if such interest rates decrease if the Offer Bonds have a higher interest rate relative to the market. Likewise, if the prevailing interest rates increase, the Offer Bonds may be worth less when sold in the secondary market. Therefore, an investor may sustain losses if he decides to sell.

Retention of Ratings Risk

There is no assurance that the rating of the Offer Bonds will be retained throughout the life of the Offer Bonds. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

Offer Bonds have no Preference under Article 2244(14) of the Civil Code

No other loan or other debt facility currently or to be entered into by the Issuer is notarized, such that no other loan or debt facility to which the Issuer is a party shall have preference of priority over the Offer Bonds as accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines, and all banks and lenders under any such loans or facilities have waived the right to the benefit of any such preference or priority. However, should any bank or bondholder hereinafter have a preference or priority over the Offer Bonds as a result of notarization, then the Issuer shall at the Issuer's option, either procure a waiver of the preference created by such notarization or equally and ratably extend such preference to the Offer Bonds.

RISK RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Certain statistics in this Prospectus relating to the Philippines, and the industries and markets in which the Company's businesses compete, including statistics relating to market size, are derived from various Government and private publications, and in particular, those produced by industry associations and research groups. This information has not been independently verified and may not be accurate, complete, up-to-date, or consistent with other information compiled within or outside the Philippines.

PHILIPPINE TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership, and disposition of the Offer Bonds. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Offer Bonds and no information is provided regarding the tax consequences of acquiring, owning, holding, or disposing of the Offer Bonds under applicable tax laws of other jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Offer Bonds in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus.

The tax position of a holder of the Offer Bonds may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a Bondholder.

PROSPECTIVE PURCHASERS OF THE OFFER BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP, AND DISPOSITION OF A BOND, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year and conducts trade or business in the Philippines is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine-sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and resident alien individuals from the Offer Bonds is thus subject to income tax, which is withheld at source, at the rate of 20%. Generally, interest on the Offer Bonds received by non-resident alien individuals engaged in trade or business in the Philippines is subject to a 20% withholding tax while that received by non-resident alien individuals not engaged in trade or business is taxed at the rate of 25%. Interest income received by domestic corporations and resident foreign corporations is taxed at the rate of 20% while interest income received by non-resident foreign corporations is taxed at 30%. The tax imposed on the interest is a final withholding tax which constitutes a final settlement of Philippine income tax liability with respect to such interest.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment. A Bondholder that wishes to avail of such reduced tax treaty rates must submit a duly accomplished Certificate of Residence for Tax Treaty Relief (CORTT) Form to the Issuer (as the withholding agent) as required under BIR Revenue Memorandum Order No. 8-2017 dated October 24, 2016.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five (5) years or less	5%
Maturity period is more than five (5) years	1%

In case the maturity period referred to above is shortened through pre-termination or otherwise redeemed by the Issuer pursuant to the Terms and Conditions, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Offer Bonds shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debentures and certificates of indebtedness issued by Philippine companies, such as the Offer Bonds, at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the issue price of such debt instruments.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred when the obligation or right arises from Philippine sources or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

No documentary stamp tax is imposed on the subsequent sale or disposition of the Offer Bonds, provided that such sale or disposition does not constitute a renewal or extension of the maturity of the Offer Bonds or carries with it a renewal or issuance of new instruments in the name of the transferee to replace the old ones.

TAXATION ON SALE OR OTHER DISPOSITION OF THE OFFER BONDS

Income Tax

The holder of the Offer Bonds will recognize gain or loss upon the sale or other disposition (including a redemption at maturity) of the Offer Bonds in an amount equal to the difference between the amount realized from such disposition and such holder's basis in the Offer Bonds. Such gain or loss is likely to be deemed a capital gain or loss assuming that the holder has held the Offer Bonds as capital assets.

Under the Tax Code, any gain realized from the sale, exchange or retirement of securities, debentures and other certificates of indebtedness with an original maturity date of more than five (5) years (as measured from the date of issuance of such securities, debentures or other certificates of indebtedness) shall not be subject to income tax. As the Offer Bonds have maturities of seven (7) years and ten (10) years, any gains realized by a holder on the trading of the Offer Bonds shall be exempt from income tax.

In case of an individual taxpayer, only 50% of the capital gain or loss is recognized upon the sale or exchange of a capital asset if it has been held for more than 12 months.

An exercise by a Bondholder of the Early Redemption Option as allowed under the terms and conditions of the Offer Bonds would each be considered a sale for purposes of such tax. However, given that the amount to be received by the Bondholder in each case is limited to the principal plus accrued but unpaid interest, there should be no income tax due on the call option or such redemption, provided that the Bondholder's acquisition cost is not lower than the par value of the Offer Bonds.

Value-added tax

Gross receipts arising from the sale of the Offer Bonds in the Philippines by Philippine-registered dealers in securities and lending investors shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Offer Bonds sold.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or non-Philippine resident, to his heirs of the Offer Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at the rate of 6%. A Bondholder shall be subject to donor's tax on the transfer of the Offer Bonds by gift at 6% if the total gifts made during the calendar year exceed ₱250,000 and regardless of whether the donee or beneficiary is a stranger.

The estate tax and the donor's tax, in respect of the Offer Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Offer Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Offer Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes. However, the transfer of the Offer Bonds made in the ordinary course of business (a transaction which is a bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

USE OF PROCEEDS

The Company expects that the net proceeds, without the Oversubscription Option, are estimated to be at least ₱3,946,724,102 after payment of fees, commissions and expenses relating to the issuance of the Offer Bonds. Assuming the Oversubscription Option is fully exercised, the Company expects that the net proceeds are estimated to be at least ₱5,924,903,313 after payment of fees, commissions and expenses relating to the issuance of the Offer Bonds.

Net proceeds from the Offer are estimated to be at least as follows:

For a ₱4.0 billion Issue Size		Total
		₱4,000,000,000
Documentary Stamp Tax	₱ 30,000,000	
SEC Filing Fee	1,678,125	
Trustee Fees	44,800	
Registry Account Opening Fee	150,000	
Listing and Maintenance Fees	250,000	
Legal and Professional Fees	8,105,263	
Underwriting Fees	10,582,909	
Ratings	1,440,000	
Listing and Maintenance Fees	474,800	
Printing and Other Expenses	550,000	
Total Expenses		53,275,898
	TOTAL	₱3,946,724,102

Assuming the Oversubscription Option is fully exercised, net proceeds from the Offer are estimated to be at least as follows:

For a ₱6.0 billion Issue Size		Total
		₱6,000,000,000
Documentary Stamp Tax	₱ 45,000,000	
SEC Filing Fee	2,183,125	
Trustee Fees	44,800	
Registry Account Opening	150,000	
Listing and Maintenance Fees	250,000	
Legal and Professional fees	9,157,895	
Underwriting Fees	15,846,067	
Ratings	1,440,000	
Listing and Maintenance Fees	474,800	
Printing and Other Expenses	550,000	
Total Expenses		75,096,687
	TOTAL	₱5,924,903,313

Aside from the foregoing one-time costs, the Issuer will pay the following annual expenses related to the Offer Bonds:

- a) Maintenance listing fee amounting to ₱150,000 per series payable to PDEX;
- b) Retainer fee of ₱48,000 payable to the Trustee;
- c) Paying Agency and Registrar Fee of ₱100,000 payable to the Registrar and Paying Agent; and
- d) Monitoring Fee of ₱280,000 payable to PhilRatings.

The Company intends to use the proceeds from the Offer, in order of priority, as follows: (a) to fund the capital expenditure requirements of the R-10 Section Project and (b) to fund other General Corporate Purposes of the Company.

The R-10 Section Project is a 2.6-km elevated toll road, which will extend the C-3 Road exit ramp of Segment 10 to R-10 Road near the Port Area, providing an alternative route to motorists who suffer from the worsening traffic congestion in the Port Area. The R-10 Section Project is estimated to cost ₱6.6 billion, and is scheduled to be completed within sixteen (16) months after commencement of construction. Construction is expected to commence within 2nd quarter of 2018. The proceeds of the Offer Bonds will fund a portion of the construction costs for the R-10 Section Project which the Company expects to incur over a period of sixteen (16) months from the commencement of construction, as follows:

	Allocation (₱)	Timing of Disbursement
With Oversubscription	4,149,903,313	Within sixteen (16) months from the commencement of construction of the R-10 Section Project
No Oversubscription	2,171,724,102	Within sixteen (16) months from the commencement of construction of the R-10 Section Project

The remaining balance of the construction costs will be funded using internally generated funds and/or external financing (which may include proceeds from subsequent tranches of the unissued portion of the Bonds under shelf registration).

The remaining portion of the proceeds of the Offer Bonds shall be used for General Corporate Purposes, which may include capital expenditures to enhance, upgrade and improve the tollway services and facilities in the NLEX and SCTEX.

The following capital expenditure projects are programmed in 2018 for the continuous enhancement of the Company's roadway and facilities:

2018 Capex Program	Estimated Cost (in million ₱)	Description
Design and engineering studies	100.0	Segment 8.2 and Phase 3 of NLEX Concession
NLEX Lane widening Phase 2	300.0	Commencement of pre-construction works for lane expansion of the 8-km Subic Freeport Expressway (SFEX)
Pre-construction works for Connector Road Project	300.0	Mainly to fast track procurement of contractor and preparations for construction of Section 1 up to España
Investment in NLEX	175.0	For additional equity investment to fund

Ventures Corp.		completion of toll service facility project
Operating equipment replacement and systems upgrade	100.0	Replacement and enhancement of toll collection, telecommunications and traffic management systems
Pavement resurfacing	250.0	Annual pavement resurfacing (heavy maintenance) involving 50.3 lane-kilometers in NLEX and 17.4 lane-kilometers in SCTEX
Bridge Retrofitting	100.0	Design and retrofitting of various bridges along NLEX and SCTEX – Candaba Viaduct, Sta. Rita, San Simon, Jadjad bridges
Access Lanes to Local Roads	250.0	Bocause, Plaridel and Tambubong Exits in NLEX
Toll Plaza Expansion	100.0	Angeles City, San Simon, Hacienda Luisita
Enhancement of Roadway Furniture	100.0	Fencing, guardrails, emergency call boxes in and other committed works in SCTEX
TOTAL	1,775.0	

In summary, the allocation of the proceeds of the Offer and the schedule of disbursements are as follows:

With Oversubscription

Use of Proceeds	Allocation (₱)	Timing of Disbursement
R10 Section Project	4,149,903,313	Within sixteen (16) months from the commencement of construction of the R-10 Section Project
General Corporate Purposes	1,775,000,000	Within one (1) year from Issue Date
Total	5,924,903,313	

No Oversubscription

Use of Proceeds	Allocation (₱)	Timing of Disbursement
R10 Section Project	2,171,724,102	Within sixteen (16) months from the commencement of construction of the R-10 Section Project
General Corporate Purposes	1,775,000,000	Within one (1) year from Issue Date
Total	3,946,724,102	

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on the Company's current plans and anticipated expenditures. In the event there is any change in the Company's current plans, including force majeure, market conditions and other circumstances, the Company will carefully evaluate the situation and may reallocate the proceeds for future projects or other uses, and/or hold such funds in investments, whichever is better for the Company's and its stockholders' interest taken as a whole. The Company's cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Company's management may find it necessary or advisable to alter its plans. In the event of any substantial deviation, adjustment, or reallocation in the planned use of proceeds, the Company shall inform the SEC and the Bondholders in writing at least thirty (30) days before such deviation, adjustment or reallocation is implemented.

Pending the above use of proceeds, the Company shall invest the net proceeds from the Offer Bonds in short-term liquid investments including but not limited to short-term government securities, bank deposits, and money market placements which are expected to earn at prevailing market rates. In the event such investments should incur losses, any shortfall will be financed from the Company's internally generated funds.

In the event that the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, or in case the Company is not able to raise the full amount of the Offer, the Company shall use internally generated funds and/or available bank lines to the extent the proceeds of the Offer are insufficient to fund the capital expenditures for the R-10 Section Project.

No amount of proceeds shall be used to reimburse any officer, director, employee, or stockholder for services rendered, assets previously transferred, money loaned or advanced, or otherwise. Except for the underwriting fees, issue management fees and expenses related to the Offer Bonds, no amount of the proceeds will be utilized to pay any outstanding financial obligation to the Underwriters.

DETERMINATION OF OFFER PRICE

The Offer Bonds shall be issued at 100% of principal amount or face value.

PLAN OF DISTRIBUTION

NLEX Corp plans to issue the Offer Bonds to institutional and retail investors through a general public offering to be conducted through the Issue Manager and Bookrunner and the Underwriters.

UNDERWRITERS

Each of BDO Capital, pursuant to an Underwriting Agreement with NLEX Corp, and FMIC, pursuant to a Sub-Underwriting Agreement with BDO Capital, has agreed to act as an underwriter for the Offer and as such, distribute and sell the Offer Bonds at the Offer Price.

Subject to the fulfillment of the conditions provided in the Underwriting Agreement, BDO Capital has committed to underwrite the Base Offer Bonds, particularly in the amount specified below, on a firm basis (the “**BDO Underwriting Commitment**”):

Joint Lead Underwriter	Underwriting Commitment
BDO Capital	₱4,000,000,000

Likewise, subject to the fulfillment of the conditions provided in the Sub-Underwriting Agreement, FMIC has committed to underwrite a portion of the BDO Underwriting Commitment in the amount specified below on a firm basis:

Joint Lead Underwriter	Underwriting Commitment
FMIC	₱1,000,000,000

In the event of an oversubscription, the Joint Lead Underwriters, in consultation with the Issuer, may increase (at its option) the size of the Offer by up to ₱2,000,000,000. The Joint Lead Underwriters shall have exclusive rights and priority to exercise the Oversubscription Option of up to ₱2,000,000,000.00. In the event that the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the unexercised portion shall be placed under shelf registration to be issued within the Shelf Period and, consequently, the Bonds under shelf registration will be automatically increased by such principal amount of the Oversubscription Option Bonds that will not be taken up or exercised.

BDO Capital shall remain solely responsible to the Issuer in respect of underwriting the Base Offer Bonds as set out above and under the Underwriting Agreement, while FMIC shall remain solely responsible to BDO Capital in respect of the underwriting commitment of FMIC as set out above and under the Sub-Underwriting Agreement. The Issuer shall not be bound by any of the terms and conditions of the Sub-Underwriting Agreement entered into by and between BDO Capital and FMIC.

There is no arrangement for the Joint Lead Underwriters to put back to the Issuer any unsold Offer Bonds.

The underwriting fees and any selling fees to be paid by the Issuer in relation to the Offer shall be equivalent to 0.25% of the gross proceeds of the Offer, which shall be grossed up for gross receipts tax of 5% or 7%, as applicable. This shall be inclusive of fees to be paid to the Underwriters and such other underwriters as may be appointed by a Joint Lead Underwriter under such terms and conditions not inconsistent with the Underwriting Agreement. The fees due to the Joint Lead Underwriter together with any applicable gross receipts tax or its equivalent less any applicable withholding tax arising in respect of such fee, shall be due and payable by the Issuer to the Joint Lead Underwriter immediately upon receipt of confirmation from the bank of the Issuer that cleared funds representing payments for all accepted Applications to Purchase have been credited to the account designated by the Issuer.

The Underwriting Agreement may be terminated or suspended by BDO Capital under certain circumstances prior to the issuance of the Offer Bonds and payment being made to the Company of the net proceeds of the Offer Bonds.

Each of the Underwriters is duly licensed by the SEC to engage in underwriting or distribution of the Offer Bonds. The Underwriters may, from time to time, engage in transactions with and perform services in the ordinary course of business for the Company and have no right to designate or nominate any member of the Board of Directors of the Company.

BDO Capital

BDO Capital was incorporated in the Philippines in December 1998. It is duly licensed by the SEC to operate as an investment house and was licensed by the SEC to engage in underwriting or distribution of securities to the public. As of December 31, 2017, it had ₱4.22 billion and ₱4.11 billion in consolidated resources and capital, respectively. It has an authorized capital stock of ₱1.1 billion, of which approximately ₱1.0 billion represents its paid-up capital.

As of March 31, 2018, BDO Unibank, Inc., the parent company of BDO Capital, directly owns 12.38% of the outstanding shares of NLEX Corp. The Trustee is the Trust and Investments Group of BDO Unibank, Inc.

FMIC

FMIC is a leading investment bank in the Philippines with over fifty years of service in the development of the country's capital markets. It is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the country. FMIC and its subsidiaries offer a wide range of services, from debt and equity underwriting to loan syndication, project finance, financial advisory, investment advisory, government securities and corporate debt trading, equity brokering, online trading, asset management, and research. FMIC has established itself as a leading bond house with key strengths in origination, structuring and execution.

FMIC is a related party to the Company through GT Capital Holdings, Inc. which has an effective ownership of 11.04% in NLEX Corp, through a 15.55% stake in Metro Pacific Investments Corporation. GT Capital Holdings, Inc. owns 35.82% of FMIC through Metrobank.

SALE AND DISTRIBUTION

The sale and distribution of the Offer Bonds shall be undertaken by the Issue Manager and Bookrunner and the Joint Lead Underwriters who shall sell and distribute the Offer Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Issue Manager and Bookrunner and the Joint Lead Underwriters from purchasing the Offer Bonds for their own respective accounts.

There are no persons to whom the Offer Bonds are allocated or designated. The Offer Bonds shall be offered to the public at large and without preference.

BDO Capital is authorized to organize a syndicate of participating underwriters or selling agents for the purpose of the Offer. However, as mentioned above, BDO Capital shall remain solely responsible to the Issuer in respect of the obligations of BDO Capital under the Underwriting Agreement, while FMIC shall remain solely responsible to BDO Capital in respect of the obligations of FMIC under the Sub-Underwriting Agreement. The Issuer shall not be bound by any of the terms and conditions of any agreement, including the Sub-Underwriting Agreement, entered into by the Issue Manager and Bookrunner and the Joint Lead Underwriters with other participating underwriters. The Company has no obligation to any member of such syndicate for the payment of any fee, underwriting or participating commissions.

TERM OF APPOINTMENT

The engagement of BDO Capital as a Joint Lead Underwriter shall subsist in accordance with the terms of the Underwriting Agreement, while the engagement of FMIC as a Joint Lead Underwriter shall subsist in accordance with the terms of the Sub-Underwriting Agreement. Nothing in the Underwriting Agreement or the Sub-Underwriting Agreement shall be deemed to create a partnership or joint venture between the Joint Lead Underwriters.

MANNER OF DISTRIBUTION

BDO Capital and the Issuer shall agree on the procedure for application, acceptance, or rejection of the Applications to Purchase, whether in whole or in part (the “**Allocation Plan**”). Consistent with bank procedures and the Allocation Plan, each of the Joint Lead Underwriters shall observe the policies and procedures regarding acceptance of Applications to Purchase, evaluation and assessment of such applications and supporting documentary requirements, allocations of the Offer Bonds to clients and acceptance of deposits of its potential investors.

OFFER PERIOD

The Offer Period shall commence at 9:00 AM of June 21, 2018 and end at 5:00 PM of June 27, 2018 or such other period as may be determined by NLEX Corp and BDO Capital, during which the Offer Bonds shall be offered to the public.

APPLICATION TO PURCHASE

All Applications to Purchase the Offer Bonds shall be evidenced by a duly completed and signed “**Application to Purchase**”, together with two (2) duly executed signature cards, which should be authenticated by the Corporate Secretary or any equivalent authorized officer in case of corporate and institutional investors. The Offer Price must be paid in full in Pesos upon the submission of the duly completed and signed Application to Purchase and signature cards together with the requisite attachments.

Payment for the Offer Bonds shall be made either by: (i) a personal or corporate check drawn against an account with an authorized bank of the *Bangko Sentral ng Pilipinas* (“**BSP**”) at any of its branches located in Metro Manila; or (ii) a manager’s or cashier’s check issued by an authorized bank. All checks should be made payable to the relevant Joint Lead Underwriter, and dated the same date as the Application to Purchase. The Applications to Purchase and the related payments will be received at any of the offices of the Underwriters. Applicants submitting their application to an Underwriter may also remit payment for their Bonds through the Real Time Gross Settlement (“**RTGS**”) facility of the BSP to the Underwriter to whom such

Application to Purchase was submitted or via direct debit to their deposit account maintained with such Underwriter. Cash payments shall not be accepted.

Should the applicant elect to pay through RTGS, the Application to Purchase should be accompanied by an instruction issued by the applicant to effect payment through RTGS in an amount equal to the total Offer Price of the Offer Bonds applied for, to be effected and fully funded not later than 5:00 p.m. of June 27, 2018.

Should the applicant elect to pay by a debit memo or instruction, the Application to Purchase should be accompanied by a debit memo or instruction issued by the applicant in an amount equal to the total Offer Price applied for in favor of the Joint Lead Underwriter to whom the Application to Purchase is submitted, to be effected no later than 5:00 p.m. of June 27, 2018.

Corporate and institutional purchasers must also submit copies of the documents listed below at the time of submission of the Application to Purchase and the relevant signature cards. Such copies must be SEC Certified True Copies or copies duly authenticated by the Corporate Secretary of the entity applying to be a Bondholder as being a faithful reproduction of the original:

- (a) SEC Certificate of Registration;
- (b) Articles of Incorporation;
- (c) By-laws;
- (d) General Information Sheet, or such other relevant organizational or charter documents; and
- (e) Duly notarized original Secretary's Certificate or a duly notarized original Certification issued by any equivalent officer confirming the resolution of the board of directors and/or committees or bodies authorizing the purchase of the Offer Bonds and duly designating the authorized signatory or signatories thereto.

Individual applicants must also submit a photocopy of any one of the following identification cards ("**ID**"): passport/driver's license, company ID, Social Security System/Government Service and Insurance System ID and/or Senior Citizen's ID or such other ID and documents as may be required by or acceptable to the selling bank.

An applicant who is exempt from or is not subject to withholding tax or who claims to be entitled to reduced tax treaty rates shall, in addition to the documents required to be submitted together with the Application to Purchase, be required to submit the following requirements to the relevant Issue Manager, Bookrunner and the Joint Lead Underwriters. The Issue Manager, Bookrunner and the Joint Lead Underwriters shall then forward the same to the Registrar and Paying Agent, subject to approval by the Company as after the same is evaluated as being sufficient in form and substance:

- (a) certified true copy of the original tax exemption certificate, ruling or opinion issued by the BIR on file with the Bondholder, as certified by its duly authorized officer;
- (b) For Bondholders that are residents of countries with which the Philippines has a tax treaty, in order to apply the pertinent preferential tax treaty rates on the interest payments due on the Offer Bonds, the non-resident Bondholder must submit the following documents prior to the payment of interest income by the Issuer:
 - (i) A duly accomplished Certificate of Residence (for Tax Treaty Relief) ("**CORTT**") form, as required by Revenue Memorandum Order ("**RMO**") No. 8-2017. For the first payment of interest on the Offer Bonds, the

non-resident Bondholder must submit a duly accomplished copy of Part I and Part II of the CORTT Form. For subsequent interest payments, only Part II of the CORTT Form is required to be submitted;

- (ii) A Special Power of Attorney executed by the individual-Bondholder or by a responsible official of the corporate or institutional Bondholder, as the case may be, authorizing the Issuer to file the CORTT form with Revenue District Office No. 39 and the International Tax Affairs Division of the BIR on their behalf; and
 - (iii) An authenticated original of the proof of tax residence (Certificate of Residence) of the Bondholder, issued by the relevant tax authority of the country of residence of the Bondholder.
- (c) An original of the duly notarized undertaking, in the prescribed form, declaring and warranting the Bondholder's tax-exempt status, undertaking to immediately notify the Company and the Registrar and Paying Agent of any suspension or revocation of its tax-exempt status and agreeing to indemnify and hold the Company, the Registrar and Paying Agent and the Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax; and
- (d) Such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities.

The Underwriters shall be responsible for accepting or rejecting any Application to Purchase or scaling down the amount of Offer Bonds applied for. The Application to Purchase, once accepted, shall constitute the duly executed purchase agreement covering the amount of Offer Bonds so accepted and shall be valid and binding on the Company and the applicant.

MINIMUM PURCHASE

A minimum purchase of Fifty Thousand Pesos (₱50,000) shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of Ten Thousand Pesos (₱10,000).

ALLOTMENT OF THE OFFER BONDS

If the Offer Bonds are insufficient to satisfy all Application to Purchase, the available Offer Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice and subject to the right of rejection of NLEX Corp.

ACCEPTANCE OF APPLICATIONS TO PURCHASE

NLEX Corp and the Underwriters reserve the right to accept or reject applications to subscribe in the Offer Bonds, and in case of oversubscription, allocate the Offer Bonds available to the applicants in a manner they deem appropriate. If any application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Underwriter.

SECONDARY MARKET

The Issuer may purchase the Offer Bonds at any time in the open market or by tender or by contract at any price without any obligation to make *pro-rata* purchases from all Bondholders. Offer Bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon

listing of the Offer Bonds on the PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

REFUNDS

In the event an Application to Purchase is rejected or the amount of Offer Bonds applied for is scaled down, the relevant Underwriter, upon receipt of the Allocation Report, shall notify the applicant concerned that his application has been rejected or that the amount of Offer Bonds applied for has been scaled down. Payments made by the applicants whose Applications to Purchase are rejected or scaled down will be returned to them no later than three (3) Business Days after the Issue Date by the relevant Underwriter to whom the Application to Purchase was submitted, in full (in case of a rejection) or in a proportionate sum corresponding to the amount of the Offer Bonds partially rejected (in case of a scale down), but in both instances without any interest whatsoever. Refunds shall be made through the issuance of a check payable to the order of the applicant and crossed "**Payee's Account Only**" and mailed or delivered, at the risk of the applicant, to the address specified in the Application to Purchase. The Issuer shall not be liable in any manner to the applicant for any refund corresponding to any rejected or scaled-down Application to Purchase which is not transmitted by the relevant Underwriter. In such case, the relevant Issue Manager and Bookrunner and the Joint Lead Underwriters shall be responsible directly to their respective applicants for the actual refund of the payment.

REGISTER OF BONDHOLDERS

The Offer Bonds shall be issued in scripless form and shall be registered in the scripless Register of Bondholders maintained by the Registrar. A Master Certificate of Indebtedness representing each series of the Offer Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

BDO Trust, the Trustee, is the Trust and Investments Group of BDO Unibank, Inc. BDO Unibank, Inc. is the parent company of BDO Capital, one of the Joint Lead Underwriters, and directly owns 12.38% of the outstanding shares of NLEX Corp.

Legal title to the Offer Bonds shall be shown in the Register of Bondholders to be maintained by the Registrar. The names and addresses of the Bondholders and the particulars of the Offer Bonds held by them and of all transfers of the Offer Bonds shall be entered into the Register of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Register of Bondholders.

DESCRIPTION OF THE OFFER BONDS

The following discussion does not purport to be a complete listing of all the rights, obligations, or privileges of the Offer Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and stockholders of NLEX Corp, the information contained in this Prospectus, the Trust Agreement, the Underwriting Agreement, the Registry and Paying Agency Agreement and other agreements relevant to the Offer and to perform their own independent investigation and analysis of the Issuer and the Offer Bonds. Prospective Bondholders must make their own appraisal of the Issuer and the Offer, and must make their own independent verification of the information contained herein and the other aforementioned documents and any other investigation they may deem appropriate for the purpose of determining whether to participate in each Offer. They must not rely solely on any statement or on the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis. Prospective Bondholders are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Offer Bonds.

The offer and issuance of the Offer Bonds under Shelf Registration, in one or more tranches, has been authorized by a resolution of the Board of Directors of the Company passed and approved on February 14, 2018. The Offer Bonds which will have an aggregate principal amount of ₱4,000,000,000 and an Oversubscription Option of up to ₱2,000,000,000 will be issued as the first tranche under the Shelf Registration. The Offer Bonds will be issued on the Issue Date, which is July 4, 2018 and will comprise of Series A Bonds and Series B Bonds.

The Offer Bonds shall be governed by a Trust Agreement dated June 19, 2018 between the Issuer and BDO Unibank, Inc. – Trust and Investments Group as Trustee. The Trustee is the trust group of BDO Unibank, Inc., which in turn is the parent company of BDO Capital, one of the Joint Lead Underwriters, and as of March 31, 2018, BDO Unibank, Inc. directly owns 12.38% of the outstanding shares of NLEX Corp.

The description of the terms and conditions of the Offer Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement, among other documents. A Registry and Paying Agency Agreement in relation to the Offer Bonds has been executed on June 19, 2018 between the Issuer and PDTC as Registrar and Paying Agent.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Trust Agreement and all the provisions of the Registry and Paying Agency Agreement applicable to them.

1. Form, Denomination and Title

(a) Form and Denomination

The Offer Bonds are in scripless form, and shall be issued in denominations of Fifty Thousand Pesos (₱50,000) each as a minimum and in multiples of Ten Thousand Pesos (₱10,000) thereafter and traded in denominations of Ten Thousand Pesos (₱10,000) in the secondary market.

(b) Title

Legal title to the Offer Bonds shall be shown in the Register of Bondholders maintained by the Registrar. A notice confirming the principal amount of the Offer Bonds purchased by each applicant in the Offer shall be issued by the Registrar to all

Bondholders following the Issue Date. Upon any assignment, title to the Offer Bonds shall pass by recording of the transfer from the transferor to the transferee in the electronic Register of Bondholders maintained by the Registrar. Settlement with respect to such transfer or change of title on the Offer Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

(c) Bond Rating

The Offer Bonds have been rated PRS Aaa by PhilRatings in March 8, 2018. According to PhilRatings, obligations rated PRS Aaa are of the highest quality with minimal credit risk. In coming up with the rating, PhilRatings considered the following factors: (i) sound liquidity and ample buffer in terms of operating margins; (ii) adequate capital structure; (iii) well-managed toll franchise; and (iv) resilient demand for toll services.

The rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as the Offer Bonds are outstanding. The rating may be changed at any time should PhilRatings determine that circumstances warrant a change.

2. Transfer of the Offer Bonds

(a) Register of Bondholders

The Issuer shall cause the Register of Bondholders to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Offer Bonds held by them and of all transfers of the Offer Bonds shall be entered into the Register of Bondholders, subject to the terms of the Registry and Paying Agency Agreement. As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Bondholder a written statement of registry holdings at least quarterly (at the cost of the Issuer), and a written advice confirming every receipt or transfer of the Offer Bonds that is effected in the Registrar's system (at the cost of the relevant Bondholder). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any and all requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder.

(b) Transfers; Tax Status

Subject to the provision of the Registry and Paying Agency Agreement, the relevant rules, conventions and guidelines of PDEX and PDTC, Bondholders may transfer their Offer Bonds at any time, regardless of tax status of the transferor *vis-à-vis* the transferee. Transfers across Tax Categories shall not be allowed except on Interest Payment Dates that fall on a Business Day, provided however that transfers from a tax-exempt Tax Category to a taxable Tax Category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name on PDEX, ensuring the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt entity shall be treated as being of the same Tax Category as its taxable counterparty for the interest period within which such transfer occurred. For purposes hereof, "Tax Categories" refer to the four (4) final withholding tax categories covering, particularly, tax-exempt entities, 20% tax-withheld entities, 25% tax-withheld entities, and 30% tax-withheld entities. This restriction shall be in force until a non-restricted trading and settlement environment for corporate

securities is implemented.

The Bondholders shall be responsible for monitoring and accurately reflecting their tax status in the Register of Bondholders. The payment report to be prepared by the Registrar and submitted to the Issuer in accordance with the Registry and Paying Agency Agreement, which shall be the basis of payments on the Offer Bonds on any Payment Date, shall reflect the tax status of the Bondholders as indicated in their accounts as of the Record Date.

(c) Secondary Trading of the Offer Bonds

The Issuer intends to list the Offer Bonds in PDEX for secondary market trading. The Offer Bonds will be traded in a minimum board lot size of ₱10,000 as a minimum, and in multiples of ₱10,000 in excess thereof for so long as any of the Offer Bonds are listed on PDEX. Secondary market trading in PDEX shall follow the applicable PDEX rules, conventions, and guidelines, including rules, conventions and guidelines governing trading and settlement between bondholders of different tax status, and shall be subject to the relevant fees of PDEX and PDTC, all of which shall be for the account of the Bondholders.

3. Ranking

The Offer Bonds constitute direct, unconditional, unsecured, unsubordinated Peso denominated obligations of the Issuer and shall rank *pari passu* and rateably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, other than obligations preferred under law.

4. Interest

(a) Interest Payment Dates

The Series A Bonds bear interest on its principal amount from and including Issue Date at the rate of 6.6407% *p.a.*, payable quarterly in arrears starting on October 4, 2018 as the first Interest Payment Date, and thereafter each of January 4, April 4, July 4 and October 4 of each year as the subsequent Interest Payment Date, or the subsequent Business Day, without adjustment, if such Interest Payment Date is not a Business Day, for as long as the Series A Bonds are outstanding.

The Series B Bonds bear interest on its principal amount from and including Issue Date at the rate of 6.9000% *p.a.*, payable quarterly starting on October 4, 2018 as the first Interest Payment Date, and thereafter each of January 4, April 4, July 4 and October 4 of each year as the subsequent Interest Payment Date, or the subsequent Business Day, without adjustment, if such Interest Payment Date is not a Business Day.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be two (2) Business Days prior to the relevant Interest Payment Date (the "**Record Date**"). Hence, the Record Date shall be the reckoning day in determining the Bondholders entitled to receive interest, principal or any other amount due under the Offer Bonds. No transfers of the Offer Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Date.

(b) Interest Accrual

Each Offer Bond shall accrue and bear interest from the Issue Date up to and including the relevant Maturity Date or any Early Redemption Option Date or date of early redemption other than an Early Redemption Option Date, as discussed in the section on “**Redemption and Purchase**” below, unless, upon due presentation, payment of the principal in respect of the Bond then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see “**Penalty Interest**” below) shall apply.

(c) Determination of Interest Amount

The interest shall be calculated on the basis of a 360-day year consisting of twelve (12) months of thirty (30) days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of thirty (30) days.

5. Redemption and Purchase

(a) Final Redemption

Unless previously redeemed, purchased and cancelled, the Offer Bonds shall be redeemed at par or 100% of face value on their respective Maturity Dates. However, if the relevant Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Issuer through the Paying Agent, without adjustment, on the succeeding Business Day.

(b) Early Redemption Option

The Issuer shall have the right, but not the obligation, to redeem in whole (and not in part), any series of the outstanding Offer Bonds before the relevant Maturity Dates (the “**Early Redemption Option**”) and on any of the relevant dates set forth below (each an “**Early Redemption Option Date**”). The amount payable to the Bondholders upon the exercise of the Early Redemption Option by the Issuer shall be calculated, based on the principal amount of Offer Bonds being redeemed, as the sum of:

- (i) accrued interest computed from the last Interest Payment Date up to the relevant Early Redemption Option Date; and
- (ii) the product of the principal amount of the Offer Bonds being redeemed and the early redemption price in accordance with the following schedule:

Early Redemption Option Date of Series A Bonds	Early Redemption Price
First Interest Payment Date immediately occurring after the fifth (5 th) anniversary of the Issue Date	101.00%
Sixth (6 th) anniversary of the Issue Date	100.50%

Early Redemption Option Date of Series B Bonds	Early Redemption Price
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Seventh (7 th) anniversary from Issue Date	102.00%
Eighth (8 th) anniversary from Issue Date	101.50%
Ninth (9 th) anniversary from Issue Date	101.00%

provided, that if the relevant Early Redemption Option Date falls on a day that is not a Business Day, then the payment of the early redemption price shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and optional redemption price to be paid.

The Issuer shall give the Trustee, the Registrar and the Paying Agent no less than thirty (30) nor more than sixty (60) days prior written notice of its intention to redeem any series of the Offer Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the relevant Offer Bonds at the Early Redemption Date stated in such notice.

(c) Redemption for Tax Reasons

If payments under any series of the Offer Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem any series of the Offer Bonds in whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' notice) at par plus accrued interest thereon.

(d) Purchase and Cancellation

The Issuer may purchase the Offer Bonds at any time in the open market or by tender or by contract at any price without any obligation to make pro-rata purchases from all Bondholders. Offer Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

(e) Change in Law or Circumstance

The following events shall be considered as changes in law or circumstances ("**Change in Law or Circumstance**") as it refers to the obligations of the Issuer and to the rights and interests of the Bondholders under the Trust Agreement and the Offer Bonds:

- (i) Any consent, license, authorization, registration or approval issued by a Governmental Authority or non-Governmental Authority now or hereafter necessary to enable NLEX Corp to comply with its obligations under the Trust Agreement or the Offer Bonds shall be modified in a manner which shall materially and adversely affect the ability of NLEX Corp to comply with such obligations, or shall be withdrawn or withheld.
- (ii) Any provision of the Trust Agreement or any of the related documents is or shall become, for any reason, invalid, illegal or unenforceable to

the extent that it shall become for any reason unlawful for NLEX Corp to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part, or any law shall be introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Agreement or any other related documents.

- (iii) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of NLEX Corp shall be revoked, canceled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of NLEX Corp.

Upon the occurrence of a Change in Law or Circumstance, the Issuer shall redeem the Offer Bonds in whole, but not in part, having given more than sixty (60) days nor less than thirty (30) days' written notice to the Trustee, the Registrar, and Paying Agent, at par or 100% face value plus accrued interest thereon.

- (f) Change in Control

Upon the occurrence of a Change in Control, Bondholders holding at least two-thirds (2/3) of the outstanding principal amount of the Offer Bonds may require the Issuer to redeem in whole, but not in part, the Offer Bonds, at par (or 100% of face value), which shall be paid together with the accrued interest thereon. Within fifteen (15) days following a Change in Control, the Issuer shall notify the Trustee, which shall, in turn, notify the Bondholders (i) that a Change in Control has occurred and that the Bondholders holding at least 2/3 of the outstanding principal amount of the Offer Bonds may require the Issuer to redeem all (but not some) of the Offer Bonds, and (ii) the date set by the Issuer for such redemption (which shall not be earlier than forty-five (45) days and no later than sixty (60) days from the date written notice is received by the Trustee). The decision of the Bondholders holding at least 2/3 of the outstanding principal amount of the Offer Bonds under this section shall be conclusive and binding upon all the Bondholders.

6. Payments

The principal of, interest and all other amounts payable on the Offer Bonds shall be paid by NLEX Corp to the Bondholders through the Paying Agent pursuant to the Registry and Paying Agency Agreement. On each Payment Date, on the basis of the payment report submitted by the Registrar to NLEX Corp, NLEX Corp shall transfer to the Paying Agent for deposit into the Payment Account such amount as may be required for the purpose of the payments due on the relevant Payment Date. Pursuant to PDTC Rules, the Paying Agent shall pay, or cause to be paid, on behalf of NLEX Corp on each Payment Date the total amounts due in respect of the Offer Bonds by crediting, net of taxes and fees, the Cash Settlement Account of the Bondholders. The Paying Agent shall generate and send to each Bondholder a credit advice of payments credited to their account. Payment by NLEX Corp to the Paying Agent via deposit into the Payment Account shall discharge NLEX Corp of any and all liability for the relevant payments due under the Offer Bonds.

The principal of, and interest on, and all other amounts payable on the Offer Bonds shall be payable in Philippine Pesos. NLEX Corp shall ensure that so long as any of the Offer Bonds remains outstanding, there shall at all times be a Paying Agent for purposes of the Offer Bonds. In the event the Paying Agent shall be unable or unwilling

to continue to act as such, NLEX Corp shall appoint a qualified financial institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

7. Payment of Additional Amounts - Taxation

Interest income on the Offer Bonds is subject to a final withholding tax at rates between 20% and 30%, depending on the tax status of the relevant Bondholder and subject to its claim of tax exemption or preferential withholding tax rates under relevant law, regulation or tax treaty. Except for such final withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided, however, that the Issuer shall not be liable for the following:

- (a) Income tax on any gain by a holder of the Offer Bonds realized from the sale, exchange or retirement of the said Offer Bonds;
- (b) The applicable final withholding tax on interest income earned on the Offer Bonds prescribed under the Tax Code, as amended and its implementing rules and regulations as may be in effect from time to time. Interest income on the Offer Bonds is subject to a final withholding tax at rates between 20% and 30%, depending on the tax status of the relevant Bondholder and subject to its claim of tax exemption or preferential withholding tax rates under relevant law, regulation or tax treaty. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to approval by the Issuer after the same is evaluated as being sufficient in form and substance:
 - (i) a certified true copy of the original tax exemption certificate, ruling or opinion issued by the BIR addressed to the Applicant confirming the exemption, and certified by an authorized officer of the Applicant as being a true copy of the original on file with the Applicant;
 - (ii) a duly notarized undertaking, in the prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases the Offer Bonds for its account, or (ii.b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Offer Bonds pursuant to its management of tax-exempt entities (*i.e.*, Employee Retirement Fund, etc.), declaring and warranting such entities' tax exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding of the required tax; and
- (c) For Bondholders that are residents of countries with which the Philippines has a tax treaty, in order to apply the pertinent preferential tax treaty rates on the

interest payments due on the Offer Bonds, the non-resident Bondholder must submit the following documents prior to the payment of interest income by the Issuer:

- (i) A duly accomplished Certificate of Residence (for Tax Treaty Relief) (“**CORTT**”) Form, as required by RMO No. 8-2017. For the first payment of interest on the Offer Bonds, the non-resident Bondholder must submit a duly accomplished copy of Part I and Part II of the CORTT Form. For subsequent interest payments, only Part II of the CORTT Form is required to be submitted;
- (ii) A Special Power of Attorney executed by the individual-Bondholder or by a responsible official of the corporate or institutional Bondholder, as the case may be, authorizing the Issuer to file the CORTT Form with Revenue District Office No. 39 and the International Tax Affairs Division of the BIR on their behalf;
- (iii) An authenticated original of the proof of tax residence (Certificate of Residence) of the Bondholder, issued by the relevant tax authority of the country of residence of the Bondholder; or
- (iv) Such other documents as may be required under existing, amended or new regulations of the BIR;

provided further that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar and Paying Agent;

- (d) Gross Receipts Tax under Section 121 (Tax on Banks and Non-Bank Financial Intermediaries Performing Quasi-Banking Functions) of the Tax Code;
- (e) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and
- (f) Value added tax under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 10963. Documentary stamp tax for the primary issue of the Offer Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer’s account.

8. Financial Covenants

Until redemption or payment in full of the aggregate outstanding principal amount of the Offer Bonds, the Issuer hereby covenants and agrees that, unless the Majority Bondholders shall otherwise consent in writing, it shall maintain:

- (a) Debt-to-Equity Ratio not exceeding 3.0 times and;
- (b) Maintenance DSCR of not less than 1.15 times.

For purposes of this section, the following defined terms shall have the respective meanings set forth below:

“Debt” means the sum of interest-bearing debt of the Issuer, as reflected in its financial statements.

“Debt-to-Equity Ratio” means Debt divided by total stockholders’ equity.

“Debt Service” means the sum of interest, principal, fees, financing costs (including hedging costs), and any grossing up or indemnities for taxes withheld which were paid by the Issuer during the relevant twelve (12)-month period.

“Cash Available for Debt Service” means the beginning cash balance, plus revenues collected by the Issuer, including all proceeds from any business interruption insurance, and loan proceeds and/or equity financing in respect of the construction of Phases 2 and 3 of the NLEX Project and other expansion projects during the relevant twelve (12)-month period less operating expenses, costs and fees paid to toll road operators and maintenance providers, taxes and duties, capital expenditures (including capital expenditure in respect of the construction of Phases 2 and 3 of the NLEX Project and other expansion projects that has been funded either through debt and/or equity) and amounts spent on heavy maintenance and repair (to the extent not included in the operating expenses) during such twelve (12)-month period; provided, that for the purpose of calculating **“Cash Available for Debt Service”**, beginning cash balance forming part of that term shall include the balance of cash less the amount of dividends payable at the beginning of the relevant twelve (12)-month period.

“Maintenance DSCR” means the Cash Available for Debt Service for the prior twelve (12)-month period divided by Debt Service for such prior twelve (12)-month period

The Trust Agreement provides for other positive and negative covenants of the Issuer.

9. Negative Pledge

Until redemption or payment in full of the aggregate outstanding principal amount of the Offer Bonds, NLEX Corp shall not, without the written consent of the Majority Bondholders, directly or indirectly, incur or suffer to exist any mortgage, pledge, lien, charge, encumbrance, hypothecation, set-off or preferential arrangement, security interest or claim of any kind or nature, howsoever and wherever created or arising and whether consensual or non-consensual (including any agreement to give any of the foregoing and any conditional sale or other title retention agreement), in each case to the extent securing payment or performance of an indebtedness prior to any general creditor of the Issuer (collectively, **“Liens”**) upon any of its assets and revenues, present and future, or enter into any loan facility agreement secured by or to be secured by a Lien upon any of its assets and revenues, present and future, unless it has made or will make effective provisions, satisfactory to the Majority Bondholders, in the Bondholder’s absolute discretion, whereby the Lien thereby created will secure, on an equal first ranking and ratable basis, any and all the obligations of the Issuer under the Offer Bonds and such other Debt which such Lien purports to secure; provided, that the foregoing restriction shall not apply to the following (the **“Permitted Liens”**):

- (a) Liens existing as of the Issue Date;
- (b) Liens granted to a bank or other institution solely in connection with the issuance of a bid bond, performance bond or letter of credit in the ordinary course of the Issuer’s or its Subsidiaries’ business, including in connection with the bidding for/or acquisition of assets or concessions by the Issuer or its Subsidiaries, and which shall include cover cash deposits, and letters of credit,

which Lien shall be released automatically when such bank or other institution is paid, cash covered or reimbursed for payments made under such bid bond, performance bond or letter of credit;

- (c) any netting or set-off arrangement entered into in the ordinary course of banking arrangements for the purpose of netting debit and credit balance;
- (d) Liens to meet any margin requirement in respect, or any netting or set-off arrangement in the ordinary course, of derivative transactions for hedging purposes;
- (e) Liens over the shares owned by the Issuer in a new investee company (as may be allowed under the Trust Agreement), where the Lien is created to secure an indebtedness obtained by such investee company for the purpose of financing a project of that investee company, where such financing is on a non-recourse basis against the Issuer;
- (f) any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any Lien referred to in paragraphs (a) to (e) inclusive, or of any indebtedness secured thereby; *provided*, that such extension, renewal or replacement is limited to all or any part of the same property that secured the Lien extended, renewed or replaced (plus any construction, repair or improvement on such property) and shall secure no larger amount of financial indebtedness than that existing at the time of such extension, renewal or replacement; and
- (g) Liens created with the prior written consent of the Majority Bondholders.

10. Events of Default

The Issuer shall be considered in default under the Offer Bonds and the Trust Agreement in case any of the following events (each an “**Event of Default**”) shall occur and is continuing:

- (a) the Issuer defaults in the payment when due of any amount payable under this Agreement, the Offer Bonds, or any other Transaction Document unless such failure arises solely as a result of an administrative or technical error or a Disruption Event and payment is made within three (3) Business Days after the date such payment is due;
- (b) the Issuer fails to perform, comply with, or violates any material provision, term, condition, covenant or obligation contained in the Transaction Documents (other than by reason of paragraph (a) above), and any such failure, non-compliance or violation is not remediable or, if remediable, continues unremedied for a period of thirty (30) days (or such longer curing period granted to the Issuer by the Majority Bondholders) from the date after written notice thereof shall have been given to the Issuer by the Trustee;
- (c) any representation or warranty which is made or deemed to be made by the Issuer or any of the Issuer’s directors or officers herein or otherwise in connection herewith, or in any certificate delivered by the Issuer hereunder or in connection herewith, shall prove to have been untrue, incorrect or misleading in any material respect as of the time it was made or deemed to have been made;

- (d) an event of default shall have occurred under any Material Agreement and shall not have been remedied as provided therein;
- (e) any Concession or Material Agreement is terminated, withdrawn or suspended, but in case of suspension, only where such suspension will have a Material Adverse Effect; provided, however, that the nullification by the Supreme Court of certain provisions of the NLEX STOA as reflected in its Decision dated October 19, 2010 and the ROP Letter to the extent that it is affected by such Decision shall not be considered an Event of Default;
- (f) the Issuer transfers, conveys, assigns, encumbers or creates any security interest over its rights and interests in the Material Agreements where such transfer, conveyance, assignment, encumbrance or creation of any security interest has a Material Adverse Effect;
- (g) any Indebtedness of the Issuer, whether singly or in the aggregate, in excess of Five Hundred Million Pesos (₱500,000,000.00) or its equivalent in other currencies is not paid on its due date or within any applicable grace period or is declared to be due and payable prior to its stated date of payment (except where liability for payment of that Indebtedness is being contested in good faith by appropriate means);
- (h) any act, deed or judicial or administrative proceedings in the nature of an expropriation, sequestration, confiscation, nationalization, intervention, acquisition, seizure, or condemnation of, or with respect to, the business and operations of the Issuer or its property or assets, shall be undertaken or instituted by any Governmental Authority, present or future, unless such act, deed or proceedings are otherwise contested in good faith by the Issuer or will not have a Material Adverse Effect;
- (i) a decree or order by a court or other Governmental Authority having jurisdiction over the premises is entered without the consent or application of the Issuer:
 - (i) adjudging the Issuer bankrupt or insolvent;
 - (ii) approving a petition seeking a suspension of payments by or a reorganization of the Issuer under any applicable bankruptcy, insolvency or reorganization law;
 - (iii) appointing a receiver, liquidator or trustee or assignee in bankruptcy or insolvency of the Issuer or of all or substantially all of the business or assets of the Issuer;
 - (iv) providing for the winding up or liquidation of the affairs of the Issuer;
 - (v) with a view to the rehabilitation, administration, liquidation, winding-up or dissolution of the Issuer; or
 - (vi) taking other action under Applicable Law which is similar to any of the events mentioned in paragraphs (i) to (v) above (inclusive);

Provided, that the issuance of any such decree or order shall not be an Event of Default if the same shall have been dismissed or stayed by injunction or otherwise within ninety (90) days from issuance thereof;

- (j) the Issuer:
 - (i) institutes voluntary proceedings to be adjudicated bankrupt or insolvent or consents to the filing of a bankruptcy or insolvency proceeding against it;

- (ii) files a petition seeking a suspension of payments by it or its reorganization under any applicable bankruptcy, insolvency or reorganization law or consents to the filing of any such petition;
 - (iii) seeks or consents to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its business or assets;
 - (iv) makes an assignment for the benefit of its creditors or admits in writing its inability to pay its debts generally as they become due;
 - (v) files a petition seeking the winding up or liquidation of its affairs or consents to the filing of any such petition;
 - (vi) takes any other step with a view to its rehabilitation, administration, liquidation, winding-up or dissolution or a suspension of payments by it; or
 - (vii) takes other action under Applicable Law which is similar to any of the events mentioned in paragraphs (i) to (vi) above (inclusive);
- (k) final and executory judgment(s) or order(s) are rendered by a court of competent jurisdiction against the Issuer or its properties or assets for the payment of money which will have a Material Adverse Effect and such judgment or order shall continue unsatisfied or undischarged after ninety (90) days;
- (l) it becomes unlawful for the Issuer to perform any of its obligations under the Transaction Documents;
- (m) the Issuer shall suspend or discontinue all or a substantial portion of its business operations, whether voluntarily or involuntarily, for a period of thirty (30) consecutive days;
- (n) any event or circumstance that will have a Material Adverse Effect has occurred;
- (o) any Governmental Approval now or hereafter necessary to enable the Issuer to comply with its obligations under any Material Agreement to which it is party is not issued when required or is revoked, cancelled, withdrawn or withheld, not renewed, modified or amended or otherwise ceases to remain in full force and effect and such cancellation, withdrawal withholding, non-renewal, modification or amendment has a Material Adverse Effect; provided, that if the same is capable of being remedied, it shall not be an Event of Default if remedied within ninety (90) days from occurrence thereof; and
- (q) any Material Agreement or any provision thereof is or becomes invalid, illegal or unenforceable and there is a Material Adverse Effect as a result thereof which has not been remedied within thirty (30) days of the occurrence thereof, provided, however, that the nullification by the Supreme Court of certain provisions of the NLEX STOA as reflected in its Decision dated October 19, 2010 and the ROP Letter to the extent that it is affected by such Decision shall not be considered an Event of Default.

11. Consequences of Default

Subject to the terms of the Trust Agreement, the Trustee shall, within ten (10) Business Days after receiving notice, or having knowledge of, the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it unless the same shall have been cured before the giving of such notice.

The written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in Metro Manila for two (2) consecutive days, further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain any information relating to such occurrence of an Event of Default at the principal office of the Trustee upon presentation of sufficient and acceptable identification.

If any one or more of the Events of Default shall have occurred and be continuing without the same being cured within the periods provided in the Trust Agreement and in the terms and conditions of the Offer Bonds, the Trustee may on its own, or, if upon the written direction of the Majority Bondholders, shall, by notice in writing delivered to the Issuer, with a copy furnished the Paying Agent, and Registrar, declare the principal of the Offer Bonds, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable.

All the unpaid obligations under the Offer Bonds, including accrued Interest, and all other amounts payable thereunder, shall be declared to be forthwith due and payable, whereupon all such amounts shall become and be forthwith due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Issuer.

12. Notice of Default

The Trustee shall, within ten (10) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it, unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default under item (a) of *Events of Default*, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in the Philippines for two (2) consecutive days, further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Offer Bonds at the principal office of the Trustee upon presentment of sufficient and acceptable identification.

13. Penalty Interest

In case any amount payable by the Issuer under the Offer Bonds, whether for principal, interest, fees due to Trustee or Registrar or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty interest on the defaulted amount(s) at the rate of 12% *per annum* (the “**Penalty Interest**”) from the time the amount falls due until it is fully paid.

14. Payment in the Event of Default

The Issuer covenants that upon the occurrence of any Event of Default, and provided that there has been a declaration of default and acceleration of payment of the Offer Bonds by the Majority Bondholders, then in any such case:

- (a) The Issuer will pay to the Paying Agent for the benefit of the relevant Bondholders the whole amount which shall then have become due and payable on such outstanding Bonds with interest at the rate borne by the Offer Bonds on the overdue principal and with Penalty Interest, where applicable, based on

the payment report prepared by the Registrar, on the payment date indicated in the declaration of default. The Issuer also undertakes that it shall give the Trustee written notice of its intention to make any payments under this Section; and

- (b) The Trustee, through the Issuer, shall have the right to require the Registrar and the Paying Agent, upon demand in writing, to do the following:
 - (i) to hold all sums, documents and records held by them in respect of the Offer Bonds on behalf of the Trustee; and/or
 - (ii) deliver all evidences of the Offer Bonds and all sums, documents and records held by them in respect of the Offer Bonds to the Trustee or as the Trustee shall direct in such demand; *provided*, that such demand shall be deemed not to apply to any documents or records which the Paying Agent or the Registrar is not allowed to release by any law or regulation; and/or
 - (iii) subject to the terms of the Registry and Paying Agency Agreement, apply any money received from the Issuer pursuant to this Section in the order of preference provided in the Section below.

15. Application of Payments

Any money collected by the Trustee under Section 10 of the Trust Agreement and any other funds held by it, subject to any other provision of the Trust Agreement relating to the disposition of such money and funds or to the Registry and Paying Agency Agreement, shall be applied by the Trustee in the order of preference as follows:

- (a) *First:* To the pro-rata payment to the Trustee, the Registrar and the Paying Agent of the reasonable and documented costs, expenses, fees, and other charges of collection, including reasonable compensation to them, their agents, attorneys, and all reasonable and documented expenses and liabilities incurred or disbursements made by them, without negligence or bad faith in carrying out their respective obligations under their respective agreements with the Issuer in connection with the Offer Bonds.
- (b) *Second:* to the payment of all outstanding interest, including any Penalty Interest, in the order of maturity of such interest.
- (c) *Third:* to the payment of the principal amount of the Offer Bonds then due and payable.
- (d) *Fourth:* the remainder, if any, shall be paid to the Issuer, its successors, or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

16. Prescription

Claims with respect to principal and interest or other sums payable hereunder shall prescribe unless made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

17. Remedies

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Agreement, subject to the discussion below on **“Ability to File Suit”**.

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Agreement to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

18. Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Offer Bonds; (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in the latter’s name; (iii) the Trustee for sixty (60) days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders under such Offer Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

19. Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee for exercising any trust or power conferred upon the Trustee, or the Majority Bondholders may decide for and in behalf of the relevant Bondholders, upon written request of the Issuer, to waive the application of the Events of Default under Section 9.1 of the Trust Agreement and its consequences, except the Events of Default specified in Sections 9.1(a), 9.1(h), 9.1(i), 9.1(j) and 9.1(k) of the Trust Agreement and their consequences. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all the Bondholders and upon all future holders and owners thereof irrespective of whether or not any notation of such waiver is made upon the certificate representing the Offer Bonds.

20. Trustee; Notices

All documents required to be submitted to the Trustee or the Issuer pursuant to the

Trust Agreement and the terms and conditions of the Offer Bonds and all other notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally, by facsimile transmission, or mailed (first class postage prepaid) or emailed to the parties at the addresses, facsimile numbers or email addresses indicated below.

(a) Notice to the Trustee

All documents required to be submitted to the Trustee pursuant to the Trust Agreement and this Prospectus and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee: BDO Unibank, Inc. – Trust and Investments Group

Address: 15th Floor South Tower, BDO Corporate Center
7899 Makati Avenue, Makati City

Attention: **Susan Marie J. Atienza**
First Vice President
Telephone: 878-4271
Facsimile: 878-4270
Email: atienza.s@bdo.com.ph

Lorenzo P. Luague
Assistant Vice President
Telephone: 856-9507 or 840-7000 local 32712
Facsimile: 878-4270
Email: lpl@bdo.com.ph

All such notices, requests and other communications will: (i) if delivered personally to the address as provided in this paragraph, be deemed given upon delivery; (ii) if delivered by facsimile transmission to the facsimile number as provided in this Section, be deemed given upon receipt; and (iii) if delivered by mail or email in the manner described above to the address as provided in this paragraph, be deemed given upon receipt and in case of email if received in readable form (in each case regardless of whether such notice, request or other communication is received by any other person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Each of the Trustee and the Issuer may from time to time change its address, facsimile number or other information for the purpose of notices hereunder by giving notice specifying such change to the other parties pursuant to the notice procedure under Section 16.1(a) of the Trust Agreement.

(b) Notice to the Bondholders

(i) Except where the Bond Agreements specifically require another party to send notice to the Bondholders, the Trustee shall be obligated to send any and all notices to the Bondholders as may be required or necessary under the Bond Agreements and the terms and conditions of the Offer Bonds, it being understood, however, that for purposes of fulfilling its obligations to deliver such notices, the Trustee shall be entitled to rely on the Register of Bondholders in determining the Bondholders entitled to notice and their respective contact details.

(ii) Notices to Bondholders shall be sent to their mailing address as set

forth in the Register of Bondholders. Except where a specific mode of notification is provided for in the Bond Agreements, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) ordinary mail; (iv) by one-time publication in a newspaper of general circulation in the Philippines; or (v) personal delivery to the address of record in the Register of Bondholders. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by ordinary mail; (iii) on date of publication, if notice is made by publication or (iv) on date of delivery, for personal delivery.

(c) **Binding and Conclusive Nature**

Except as provided in the Trust Agreement, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Agreement, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer and all Bondholders. No liability to the Issuer, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Agreement resulting from the Trustee's reliance on the foregoing.

21. Duties and Responsibilities of the Trustee

- (a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement. The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.
- (b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use such judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters, exercise in the management of their own affairs.
- (c) None of the provisions contained in this Prospectus shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.
- (d) The Trust Agreement provides for the other obligations of the Trustee.

22. Replacement of Trustee

- (a) The Trustee may resign at any time by giving the Issuer at least ninety (90) days prior written notice to that effect. Upon receipt of such notice of resignation, the Issuer shall immediately appoint a replacement trustee (the “**Replacement Trustee**”) by written instrument in duplicate, one (1) copy of which instrument shall be delivered to the resigning Trustee and one (1) copy to the Replacement Trustee. If no Replacement Trustee shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee or any Bondholder who has been a bona fide holder for at least six (6) months (the “**bona fide Bondholder**”) may petition any court of competent jurisdiction for the appointment of a Replacement Trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, appoint a Replacement Trustee.
- (b) In case at any time any of the following shall occur -
- (i) the Trustee shall fail to comply with the provisions of Section 11.1(a) of the Trust Agreement after written request therefor by the Issuer or by any Bondholder; or
 - (ii) the Trustee shall cease to be eligible in accordance with the provisions of the Trust Agreement or Applicable Law and shall fail to resign after written request therefor by the Issuer or by any Bondholder; or
 - (iii) the Trustee is guilty of fraud or gross negligence in the performance of any material obligation under the Trust Agreement; or
 - (iv) the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation,
- then the Issuer may within thirty (30) days therefrom remove the Trustee and appoint a Replacement Trustee, by written instrument in duplicate, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the Replacement Trustee. If the Issuer fails to remove the Trustee and appoint a Replacement Trustee, any Bondholder may, on behalf of himself and all other Bondholders, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a Replacement Trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a Replacement Trustee.
- (c) The Majority Bondholders may at any time remove for cause the Trustee and with the consent of the Issuer, appoint a Replacement Trustee by the delivery to the Trustee so removed, to the Replacement Trustee and to the Issuer of the evidence provided for in Section 4.1(a)(iv)(9) of the Trust Agreement of the action in that regard taken by the Majority Bondholders which removal shall take effect thirty (30) days from receipt of such notice by the Trustee; provided, that if no Replacement Trustee shall have been appointed within ninety (90) days from the Issuer’s receipt of the Trustee’s written notice of resignation under Section 12.1(a) of the Trust Agreement, the Majority Bondholders may

appoint a Replacement Trustee without the consent of the Issuer. This is without prejudice to whatever remedies may be available to the Majority Bondholders under the law or in equity.

- (d) Any resignation or removal of the Trustee (such Trustee so removed or which has resigned, an “**Outgoing Trustee**”) and appointment of a Replacement Trustee pursuant to any of the provisions of this Section shall become effective upon the earlier of (i) the lapse of ninety (90) days from the Issuer’s receipt of the Trustee’s written notice of resignation under Section 12.1(a) of the Trust Agreement, and (ii) the acceptance of appointment by the Replacement Trustee as provided in Section 12.2 of the Trust Agreement; provided, that until such Replacement Trustee is qualified and appointed, the Outgoing Trustee shall continue to discharge its duties and responsibilities.
- (e) Within ten (10) days from the effectiveness of the resignation or removal of the Outgoing Trustee and the appointment of the Replacement Trustee, the Outgoing Trustee shall transfer and turn over to the Replacement Trustee, and shall make an accounting of, all the assets, documents or instruments which are in the custody of the Outgoing Trustee pursuant to the Trust Agreement, if any.

23. Replacement Trustee

- (a) The Replacement Trustee must have the following qualifications:
 - (i) It is a financial institution duly organized, validly existing, in good standing under and by virtue of the laws of the Republic of the Philippines with full powers and authority to undertake its duties as trustee and duly authorized by the BSP to engage in trust and other fiduciary business;
 - (ii) It must be a third party that has no subsidiary/affiliate or any other relationship with the Issuer which would undermine its independence, including any conflict of interest under Section 11.1(c) of the Trust Agreement; and
 - (iii) It must have an adequate risk management and must be sufficiently capitalized as evidenced by its compliance with the risk based capital adequacy ratio prescribed under applicable BSP regulations.
- (b) The Replacement Trustee appointed as provided in Section 12.1 of the Trust Agreement shall execute, acknowledge and deliver to the Issuer and to the Outgoing Trustee an instrument accepting such appointment thereunder, and thereupon the resignation or removal of the Outgoing Trustee shall become effective and the Replacement Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trust hereunder with like effect as if originally named as trustee herein; but, nevertheless, on the written request of the Issuer or of the Replacement Trustee, the Outgoing Trustee shall execute and deliver any and all instruments in writing as may be necessary to fully vest in and confer to the Replacement Trustee all rights, powers and duties of the Outgoing Trustee under the Trust Agreement. Upon request of the Replacement Trustee, the Issuer shall likewise execute and deliver such instruments as may be necessary for the same purpose.

- (c) No Replacement Trustee shall accept appointment as provided in this Section unless at the time of acceptance such Replacement Trustee shall be qualified and eligible under the provisions of Section 12.2(a) of the Trust Agreement and has none of the conflicts of interest under Section 11.1 of the Trust Agreement.
- (d) Upon acceptance of appointment by the Replacement Trustee as provided in this Section, the Issuer shall notify the Bondholders in writing and/or by publication once in a newspaper of general circulation in Metro Manila, Philippines of the succession of such Replacement Trustee to the trust herein provided. If the Issuer fails to notify the Bondholders within ten (10) days after acceptance of appointment by the Replacement Trustee, the latter shall cause the Bondholders to be so notified at the expense of the Issuer.

24. Reports to the Bondholders

- (a) Only upon the existence of either (i) and (ii) below, the Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date until full payment of the Offer Bonds a brief report dated as of December 31 of the immediately preceding year with respect to:
 - (i) the property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report which shall be based on the report to be given by the Paying Agent to the Trustee; and
 - (ii) any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Offer Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.
- (b) The Trustee shall submit to the Bondholders a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least 10% of the aggregate outstanding principal amount of the Offer Bonds at such time.
- (c) Upon due notice to the Trustee, the following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:
 - (i) Trust Agreement
 - (ii) Articles of Incorporation and By-Laws of the Company
 - (iii) Registration Statement of the Company with respect to the Offer Bonds

25. Meetings of the Bondholders

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or on behalf of the Bondholders of any specified aggregate principal amount of the Offer Bonds under any other provisions of the Trust Agreement or under the law and such other matters related to the rights and interests

of the Bondholders under the Offer Bonds.

(a) Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or as the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Offer Bonds (or, as applicable, the relevant Series thereof) may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders (or, as applicable, the relevant Series thereof) not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. Each of such notices shall be published in a newspaper of general circulation as provided in the Trust Agreement. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

(b) Failure of the Trustee to Call a Meeting

In case at any time the Issuer or the holders of at least twenty five percent (25%) of the aggregate outstanding principal amount of the Offer Bonds (or, as applicable, the relevant Series thereof) shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Issuer or the Bondholders (or, as applicable, the relevant Series thereof) in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

(c) Quorum

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

(d) Procedure for Meetings

(i) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.

(ii) Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Offer Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present

at the meeting.

(e) Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one (1) or more Offer Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one vote for every Five Thousand Pesos (₱5,000) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

(f) Voting Requirement

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Agreement (please refer to the preceding discussion on "Quorum"). Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided in the Trust Agreement shall be binding upon all the Bondholders as if the votes were unanimous.

(g) Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Offer Bonds, the appointment of proxies by registered holders of the Offer Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

26. Amendments

The Issuer and the Trustee may, without notice to or the consent of the Bondholders or other parties, amend or waive any provisions of the Trust Agreement if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency provided in all cases that such amendment or waiver does not adversely affect the interests of the Bondholders and provided further that all Bondholders are notified of such amendment or waiver.

The Issuer and the Trustee may amend the Terms and Conditions of the Offer Bonds without notice to every Bondholder but with the written consent of the Majority Bondholders (including consents obtained in connection with a tender offer or exchange offer for the Offer Bonds). However, without the consent of each Bondholder affected thereby, an amendment may not:

- (1) reduce the amount of Bondholder that must consent to an amendment or waiver;
- (2) reduce the rate of or extend the time for payment of interest on any Offer Bond;

- (3) reduce the principal of or extend the Maturity Date of any Offer Bond;
- (4) impair the right of any Bondholder to receive payment of principal of and interest on such Bondholder's Offer Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;
- (5) reduce the amount payable upon the redemption or repurchase of any Offer Bond under its terms and conditions or change the time at which any Offer Bond may be redeemed;
- (6) make any Offer Bond payable in money other than that stated in the Offer Bond;
- (7) subordinate the Offer Bonds to any other obligation of the Issuer;
- (8) release any security interest that may have been granted in favor of the Bondholders;
- (9) amend or modify Clause 7 (Payments), Clause 8 (Taxation), or the Events of Default of the Terms and Conditions set as Annex A of the Trust Agreement or Section 10.7 (Waiver of Default by Bondholders) of the Trust Agreement; or
- (10) make any change or waiver of this Condition.

It shall not be necessary for the consent of the Bondholders under this Condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, the Issuer shall send a notice briefly describing such amendment to the Bondholders in the manner provided in the section entitled "Notices".

27. Evidence Supporting the Action of the Bondholders

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Offer Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

28. Non-Reliance

Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that he has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature with respect to its obligations under the Trust

Agreement, except for its gross negligence or wilful misconduct.

29. Waiver of Preference or Priority

Each Bondholder waives its right to the benefit of any preference or priority over the Offer Bonds accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines.

30. Governing Law

The Bond Agreements are governed by and are construed in accordance with Philippine law. Unless otherwise stipulated in other bond agreements, venue of any and all actions arising from or in connection with the issuance of the Offer Bonds shall be brought before the proper courts of Makati City to the exclusion of all other court.

INTERESTS OF NAMED EXPERTS

INDEPENDENT AUDITORS

SyCip Gores Velayo & Co. (“**SGV & Co.**” or the “**Auditor**”), independent auditors, audited the consolidated financial statements of NLEX Corp as at December 31, 2017, December 31, 2016 and December 31, 2015 and for the years ended December 31, 2017, December 31, 2016, and December 31, 2015, all included in this Prospectus. SGV & Co. has no shareholdings in NLEX Corp, or any right, whether legally enforceable or not, to nominate or to subscribe to the securities of NLEX Corp, in accordance with the professional standards on independence set by the Board of Accountancy and Professional Regulation Commission.

The named independent auditor has not acted and will not act as promoter, underwriter, voting trustee, officer or employee of NLEX Corp.

The aggregate fees billed by SGV & Co. are shown below (with comparative figures for 2016 and 2015):

	<i>(Amount in Pesos)</i>		
	2017	2016	2015
Audit and Audit Related Fees	7.0 Million	6.3 Million	5.8 Million

NLEX Corp has no disagreements with its independent auditors on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedures.

NLEX Corp’s Audit Committee has an existing policy to review and to pre-approve the audit and non-audit services rendered by NLEX Corp’s independent auditors. It does not allow NLEX Corp to engage the independent auditors for certain non-audit services expressly prohibited by SEC regulations to be performed by an independent auditor for its audit clients. This is to ensure that the independent auditors maintain the highest level of independence from NLEX Corp, both in fact and appearance.

The Audit Committee has reviewed the nature of non-audit services rendered by SGV & Co. and the corresponding fees and concluded that these are not significant to impair the independence of the auditors.

DESCRIPTION OF BUSINESS

COMPANY OVERVIEW

NLEX Corp (formerly known as Manila North Tollways Corporation) was incorporated in the Philippines on February 4, 1997 as the joint venture company of PNCC and MPT North. 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 tollroad projects. As of the date of this Prospectus, NLEX Corp holds the concession to for the Toll Projects, namely, the NLEX Project, the SCTEX, and the Connector Road Project.

NLEX Corp operates the NLEX and SCTEX through TMC as operations and maintenance service provider, TMC, under an OMA. TMC was incorporated in the Philippines and registered with the SEC on August 2, 2000, primarily to engage in and carry on the operations and maintenance of tollways, its facilities, interchanges and related works, or otherwise engage in the operation and maintenance of roads, highways, bridges, buildings, and structures of all kinds.



The following is a summary of the concessions held by NLEX Corp for the Toll Projects, each of which is covered by a separate concession agreement:

	NLEX Project	SCTEX	Connector Road Project
Concession Agreement	NLEX STOA	SCTEX Business Agreement and SCTEX STOA	Connector Road Concession Agreement
Grantor/Other Counterparty	Republic of the Philippines (acting by and through the TRB)/PNCC	Republic of the Philippines (acting by and through the TRB)/BCDA	Republic of the Philippines (acting by and through the DPWH)
Length	98 km	94 km	8.0 km
Description of Project; Phases/Segments	Phase 1 (Segments 1, 2, 3, 7) Phase 2 (Segments 8.1, 8.2, 9, and 10, including R-10 Section Project) Phase 3	Subic-Clark Clark-Tarlac	At least two interchanges and two toll plazas, starts at NLEX Segment 10 at C-3 Road, Caloocan City and connecting to South Luzon Expressway
Start of Operation/Take-Over	February 2005	October 2015	2021 (est.)
Concession Period	Until December 31, 2037	Until October 30, 2043	37 years from Notice to Proceed
Tolling System	Open system (per entry) Closed system (per km.)	Closed system (per km.)	Open system (per entry)

The NLEX Project

History of the NLEX Concession

The NLEX, formerly known as the North Diversion Road, was built in incremental steps. The initial portion from Balintawak to Tabang, Guiguinto, Bulacan was completed between 1967 to 1969 by Construction and Development Corporation of the Philippines (“**CDCP**”) as original franchisee. From 1974 to 1976, the expressway was extended northward up to Dau, Mabalacat, Pampanga. From 1986 to 1991, another section was completed, further extending northward from Dau to Sta. Ines, also in Mabalacat, Pampanga.

CDCP was granted a franchise to manage, operate, and maintain the North Diversion Road as a tolled expressway in 1977. CDCP was subsequently managed and operated by the National Government in 1983 and the corporate name of CDCP was changed to PNCC to reflect the Government’s majority equity interest rate in CDCP.

Since the road’s construction in the 1960s, the traffic volume on the expressway has grown significantly through the past decades. However, PNCC was unable to undertake the proper maintenance, refurbishment, and expansion of NLEX, which were necessary to accommodate the growing traffic volume. This resulted in traffic congestion along the mainline, long queuing times both at the entry and exit toll plazas on the expressway, and deteriorated road pavements.

In the early 1990s, when the Government and PNCC started seeking joint venture partners to provide technical, operational, and financial assistance to rehabilitate the toll expressways specified under its franchise, MPT North, the parent company of NLEX Corp, was among the

private companies that responded to the challenge of rehabilitating the rundown 30-year old North Diversion Road.

MPT North entered into a partnership with PNCC for the rehabilitation of the expressway along with Egis Group of France ("**Egis Group**"), one of the largest toll road operators in the world, as technical partner.

In August 1995, MPT North signed a joint venture agreement with PNCC whereby PNCC assigned its franchise rights to the joint venture company. In February 1997, MPT North, along with its partners PNCC and Egis Group, formed NLEX Corp as the joint venture company to exercise the concession rights for the NLEX Project.

The NLEX Concession

In June 1998, NLEX Corp was granted the concession for the NLEX Project as embodied in the NLEX STOA entered into by TRB, on behalf of the Republic of the Philippines, as Republic of the Philippines (acting by and through the TRB), PNCC as the franchisee, and NLEX Corp as the concessionaire. Under the NLEX STOA, the Government confirmed the assignment by PNCC of its usufruct rights, interest, and privileges over the existing franchise including all its extensions, linkages, stretches and diversions in favor of NLEX Corp. These concession rights authorize NLEX Corp to construct, finance, manage, operate, and maintain all the project roads covered by the NLEX Project and charge tolls thereon.

Phase 1 of the NLEX Project consists of four (4) Segments with an approximate length of 92 km, including the rehabilitated and expanded 84-km stretch from Balintawak, Quezon City to Mabalacat, Pampanga and the 8.5-km dual 2-lane Segment 7 from Hermosa, Bataan to Subic Freeport.

Phase 2 consists of four (4) Segments with an approximate length of 21 km, involving the construction of the greenfield northern Circumferential Road No. 5 ("**C-5**") which will connect the existing C-5 expressway from C.P. Garcia Avenue in the University of the Philippines, Diliman, Quezon City to the NLEX, and extend westward to the MacArthur Highway in Valenzuela City and turning south down to Circumferential Road No. 3 ("**C-3**") in Caloocan City. On July 17, 2007, the TRB approved the integration of the fourth segment, Segment 10, approximately 5 km, into Phase 2 as part of the C-5 Northern Link.

Phase 3 consists of three (3) Segments with an approximate length of 58 km from San Simon, Pampanga to Dinalupihan, Bataan connecting to Segment 7 in Subic Freeport.

The end of the concession period for the NLEX Project is December 31, 2037. At the end of the concession period, NLEX Corp will transfer the project roads back to the Government without cost, free from any liens and encumbrances, and in good operating condition.

The implementation status of the NLEX Project is described below.

Phase 1

Phase 1 which involves the reconstruction of 84 km of the existing carriageway, the construction of 138 additional lane km, four (4) new interchanges (Marilao, Angeles, Mexico and Dau), a major flyover (Novaliches), the upgrading and improvement of 10 existing interchanges, and the construction of three toll barriers, new buildings and operations facilities, was completed in 2005. The existing carriageway was widened from two lanes to four lanes in each direction from Balintawak, Quezon City to Barangay Buro, Bulacan and from two (2) lanes to three lanes from Barangay Buro, Bulacan to Barangay Sta. Rita, Bulacan.

NLEX Corp commenced construction in February 2003 and successfully completed Phase 1 on time and within the budget of ₱18 Billion or US\$371 Million. Following the issuance of the TOP by the Toll Regulatory Board granting NLEX Corp the right to collect tolls, NLEX Corp took over commercial operations on February 10, 2005.

In June 2012, NLEX Corp opened the Balagtas Interchange to connect the Plaridel Bypass Road Project of the DPWH and provide alternative access to the expressway for motorists travelling to and from the municipalities of Balagtas, Plaridel and Guiguinto in Bulacan.

NLEX Corp has continued to expand the capacity and enhance the safety features of Phase 1 with the addition of open-system exits, widening of lanes and expansion of toll plazas to cope with the growing traffic.

In March 2017, the Company completed the NLEX Widening Phase 1 Project which widened sections of NLEX Segment 2 from Sta. Rita to San Fernando and from Dau to Sta. Ines.

Phase 2

Phase 2 is a vital road infrastructure intended to decongest Metro Manila as it provides alternative east and west access to mainline expressway, bypassing EDSA and the Balintawak Toll Plaza. Phase 2 completes the open system of the NLEX.

NLEX Corp started implementing Phase 2 with Segment 8.1 – Mindanao Avenue Link, a 2.7-km, greenfield road which connects Mindanao Avenue in Quezon City to the mainline expressway just south of the Valenzuela Interchange and about 1.9-km north of Balintawak Toll Plaza. A major civil structure is the new cloverleaf-type interchange along the mainline expressway that will connect to both Segments 9 and 10. Segment 8.1 was opened to commercial traffic on June 5, 2010.

Segment 9 and Segment 10, also known as the Harbor Link Project is aimed at decongesting Metro Manila traffic by providing an alternative west access to the NLEX. It shortens travel distance between North Luzon and Caloocan, Malabon, Navotas, Valenzuela (“**CAMANAVA**”) area. It cuts travel time of motorists as it allows an average speed of 80 kph. The project is also seen to spur economic activity in the CAMANAVA area. The project will improve transport logistics, as it causes more efficient movement of trucks in and out of the port area.

Implementation of Segments 9 and 10 started in April 2013. The Segment 9 alignment runs from the mainline NLEX to MacArthur Highway, Valenzuela City and Segment 10 extends from the end-point of Segment 9 via a 5.6-km. fully-elevated toll road ending at C-3 Road in Caloocan City. Segment 9 was completed and started commercial operations in March 2015 while Segment 10 is estimated to be completed by the third quarter of 2018.

Segment 8.2 is the final section of Phase 2 on the NLEX Corp concession. Census and tagging of the heavily populated alignment is currently under way.

In April 2015, NLEX Corp submitted an implementation plan for the **R-10 Section Project** in response to the worsening traffic congestion along roads leading to the Manila Port area. The R-10 Section Project is a 2x2 elevated ramp to be built along the median of C-3 Road with an estimated project cost of ₱6.6 Billion. It will have three interchanges located at C-3 Road, Dagat-Dagatan Avenue leading to Malabon, and R-10 Section road.

In July 2017, the TRB issued the notice to proceed with the construction of R-10 Section. NLEX Corp has commenced pre-construction activities and is awaiting final resolution of the proposed investment recovery mechanism before proceeding with full-blown construction of R-10 Section.

Phase 3

NLEX Corp intends to commence studies on the viability of implementing Phase 3, taking into consideration the completion of the SCTEX which caters to the same service area as Phase 3 of the NLEX Project.

The SCTEX Concession

The SCTEX is a 94-km, 2x2 expressway stretching from Subic-Tipo until La Paz, Tarlac, connecting the special economic zones in Subic and Clark to Tarlac City. It was completed by the BCDA in 2008 using Official Development Assistance financing from the Japan Bank of International Cooperation.

In October 2009, BCDA conducted a competitive bidding for the selection of a private sector partner for the management, operation, and maintenance of SCTEX. NLEX Corp participated in the selection process and was eventually awarded the SCTEX concession in June 2010.

On February 26, 2015, NLEX Corp and BCDA entered into a Business Agreement (“**BA**”) covering the assignment by BCDA to NLEX Corp of its rights, interest and obligations under the BCDA TOA relating to the management, operation and maintenance of the SCTEX. The assignment includes the exclusive right to possess and use the SCTEX toll road and facilities and the right to collect toll. The term of the BA shall be from effective date (October 27, 2015) until October 30, 2043.

The SCTEX STOA, which was a supplement to and revision to the BCDA TOA, was entered, by and among the Government, acting through the TRB, BCDA, and NLEX Corp on May 22, 2015, to fully allow NLEX Corp to exercise its rights and interests under the BA.

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

In 2016, the SCTEX toll operations were fully integrated with NLEX’s toll operations after the completion of the NLEX-SCTEX integration project. 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. In 2017, the SCTEX recorded more than 54,566 average daily vehicle entries.

The 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 the NLEX Segment 10 at C-3 Road/5th Avenue in Caloocan City and ends at Polytechnic University of the Philippines, 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 of the Connector Road Project. On October 26, 2016, NLEX Corp received the Notice of Compliance from DPWH for meeting the conditions stated in the Notice of Award.

On November 23, 2016, NLEX Corp and DPWH signed the Connector Road Concession Agreement. The concession period for the Connector Road Project shall run from the commencement date and shall end on its thirty-seventh (37th) anniversary, unless otherwise extended or terminated in accordance with the Connector Road Concession Agreement. The concession period includes both the construction period and the operation period and shall in no event extended beyond the fiftieth (50th) anniversary of the operation period.

As of the date of this Prospectus, pre-construction activities are still on-going including the preparation for the ROW requirements for the project.

Material Permits and Licenses

Toll Operation Certificates and Toll Operation Permits

As of the date of this Prospectus, NLEX Corp holds a toll operation certificate (for Phase 1 of the NLEX Project) dated October 13, 2001 issued by the Republic of the Philippines (acting by and through the TRB). Under the said toll operation certificate, NLEX Corp has been granted the authority, right, privilege, and obligation to undertake the operation and maintenance of the toll road project covered by the NLEX Concession, commencing on the date of its issuance and expiring at the end of the franchise period. NLEX Corp likewise holds toll operation permits issued by the TRB authorizing the operation by NLEX Corp of Segments 8.1 and Segment 9 of the NLEX Project, and of the NLEX Widening Phase 1 Project.

On October 22, 2015, the Republic of the Philippines (acting by and through the TRB) also issued another toll operation certificate in favor of NLEX Corp granting the authority to operate and maintain the SCTEX.

Environmental Compliance Certificate

Under prevailing Philippine laws and regulation, any construction project that poses a potential environmental risk or impact is required to secure an Environmental Compliance Certificate from the Environmental Management Bureau of the Department of the Environment and Natural Resources. In compliance with this requirement, NLEX Corp has obtained the required Environmental Compliance Certificates for Segment 10 of the NLEX Project, R-10 Section project, and Connector Road Project.

Local Business Permits

NLEX Corp is required to obtain local business permits from local government units that exercise jurisdiction over the areas covered by its operations. As of the date of this Prospectus, NLEX Corp has secured local business permits for 2018 from the following local government units:

- (a) Valenzuela City;
- (b) Caloocan City;
- (c) Marilao, Bulacan
- (d) Meycauayan, Bulacan;
- (e) Balagtas, Bulacan;
- (f) Bocaue, Bulacan;
- (g) Pulilan, Bulacan;
- (h) Guiguinto, Bulacan;
- (i) San Simon, Bulacan;
- (j) Mexico, Pampanga;
- (k) San Fernando, Pampanga;
- (l) Angeles, Pampanga;

- (m) Hermosa, Bataan;
- (n) Dinalupihan, Bataan;
- (o) Floridablanca, Pampanga;
- (p) Porac, Pampanga;
- (q) Mabalacat, Pampanga;
- (r) Concepcion, Tarlac; and
- (s) Tarlac City, Tarlac.

Merger with Tollways Management Corporation

TMC provides toll collection, traffic, and security management, facilities and equipment maintenance, and roadway routine maintenance services. As of the date of this Prospectus, TMC is 60% owned by MPT North, 20% owned by Egis Road Operation S.A., and 20% owned by the Republic of the Philippines.

On October 19, 2016, the Board of Directors of NLEX Corp and TMC approved the proposed merger between NLEX Corp and TMC, with NLEX Corp as the surviving corporation (the “**Merger**”). On November 17, 2016, stockholders representing at least 2/3 of the outstanding capital stock of NLEX Corp confirmed and ratified the Merger. On December 15, 2016, stockholders owning at least 2/3 of the outstanding capital stock TMC confirmed and ratified the Merger.

The Merger is aimed at enhancing NLEX Corp’s ability to deliver public service to motorists through the combined resources of NLEX Corp and TMC. The consolidation of assets will likewise enhance the financial position of NLEX Corp as the surviving corporation, making it a stronger and more competitive concession company after the Merger, with a higher capacity to finance its expansion projects.

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.

As of date of this Prospectus, the Plan and Articles of Merger are being reviewed by the SEC. In the meantime, NLEX Corp and TMC have commenced a functional merger of the two companies, pursuant to which the operations of NLEX Corp and TMC were simplified, streamlined, and aligned to ensure efficient and effective performance of NLEX Corp’s obligations under the Toll Concession Agreements.

In the event that the Merger is not approved, NLEX Corp and TMC will remain as separate entities and the anticipated benefits of the Merger as discussed above may not be fully realized.

Principal Products and Services

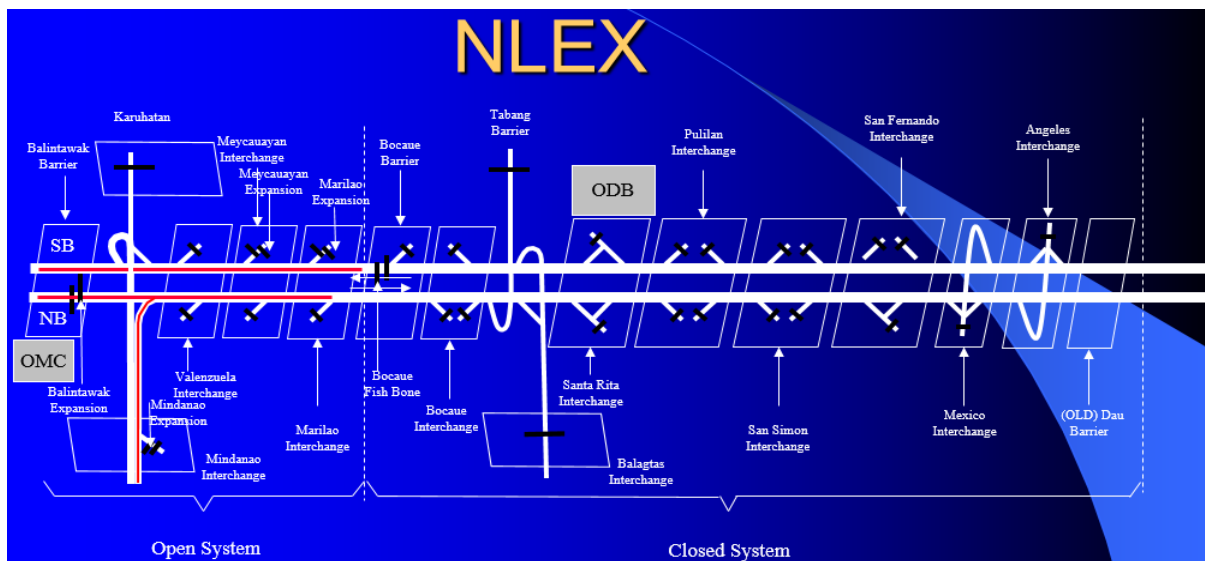
Toll fees from motorists passing the NLEX and SCTEX are the primary source of operating revenue of NLEX Corp. The NLEX has two sections: an “open system” section and a “closed system” section while the SCTEX is a purely closed-system expressway.

The open system section, located in the urban zone of NLEX, covers the 19.6-km portion from Balintawak, Quezon City to north of Marilao Interchange in Bulacan (Sta. 24) and includes

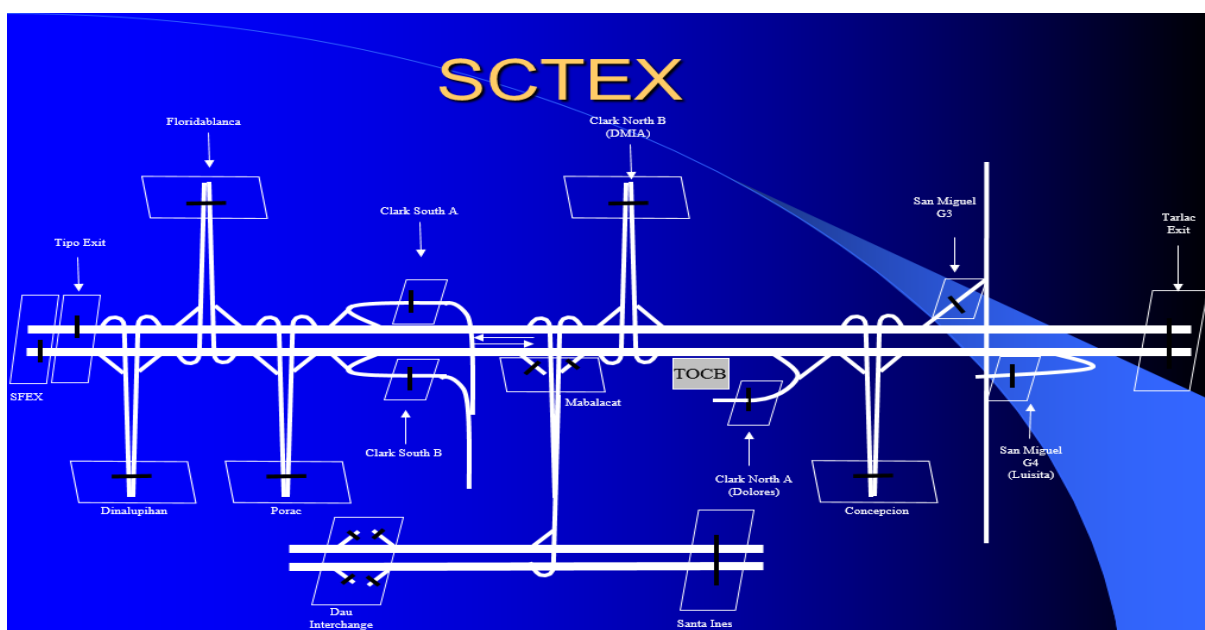
Segments 8.1 and 9 from Mindanao Avenue to Karuhatan, Valenzuela City. In the open system, a flat rate is charged upon entry based on the class of vehicle irrespective of the distance travelled.

The closed system comprises the 71-km northern section of the NLEX, extending from north of Marilao Interchange (Sta. 24) to Sta. Ines, Pampanga all the way to the 94-km SCTEX until the 8-km Subic-Tipo Road. In the closed system, toll fees are charged per kilometer and calculated according to the distance traveled on the closed toll section and the class of vehicle. The closed system is appropriate for the northern portion of the NLEX, where density of traffic is lower and traveling distances are longer, than in the urban zone.

An illustration of the NLEX open and closed system sections is shown below.



Likewise, an illustration of the SCTEX system is shown below:



Vehicles entering the NLEX and SCTEX are categorized in one of three classes for purposes of computing appropriate toll fees:

- Class 1 includes light vehicles, such as cars, jeepneys, and vans;
- Class 2 includes buses, two-axle trucks, and Class 1 vehicles higher than seven (7) feet or with more than two axles; and
- Class 3 includes heavy vehicles, like trucks with three or more axles.

Class 1, Class 2, and Class 3 vehicles account for approximately 56%, 25%, 19%, respectively, of total toll revenues for NLEX and SCTEX for the year 2017. NLEX revenues accounted for 84% of total NLEX Corp toll revenues in 2017, while SCTEX revenues accounted for 16% of total NLEX Corp toll revenues in 2017.

There are no toll revenue sharing arrangements between the Company and the relevant grantor under the Toll Concession Agreements. Accordingly, all toll revenues from the Toll Projects are owned by NLEX and are recognized by NLEX as part of its gross revenues. However, NLEX pays certain amounts as consideration for the grant or assignment by the grantor or the concession holder, as the case may be of the concession rights or the right-of-way, as follows:

Toll Project	Amount
NLEX Project	6% of gross toll revenue for the NLEX Project, except for Segment 7 which is subject to a rate of 2%
SCTEX Project	50% of the audited gross toll revenue to BCDA
Connector Road	Scheduled payments to DPWH computed at the rate of 4% per annum applied to the agreed valuation of such portion of the basic right of way

NLEX Toll Rates

The following table shows the current toll rates (VAT-exclusive) for the NLEX as of the date of this Prospectus:

TOLL RATES (NLEX)	Existing
OPEN SYSTEM	
Rate per class (₱/entry)	
Class 1	40.62
Class 2	101.54
Class 3	121.85
CLOSED SYSTEM	
Rate per class (₱/km)	
Class 1	2.63
Class 2	6.57
Class 3	7.89

Toll rates are adjusted based on changes in consumer price index and an escalation factor set out in the NLEX STOA. Subject to the required TRB approval, a toll rate adjustment is scheduled every two (2) calendar years (*see separate section on Toll Rate Adjustment Mechanism*).

NLEX Corp has implemented three toll rate adjustments (2005, 2008 and 2011). With its toll rates scheduled for regular periodic adjustment in 2013, 2015, and 2017, NLEX Corp filed the following petitions with the TRB on the dates set forth below:

Date of Filing of Petition	Effective Date of Toll Rate Adjustment	Status
September 2012	January 1, 2013	Pending
September 2014	January 1, 2015	Pending
September 2016	January 1, 2017	Pending

As of the date of this Prospectus, the foregoing applications for NLEX periodic toll rate adjustments are pending approval by the TRB.

As far as NLEX Corp is aware, the TRB has not acted on similar petitions for periodic toll rate adjustments of other toll road operators.

SCTEX Toll Rates

On October 27, 2015, NLEX Corp was granted the right and obligation to manage, operate, and maintain the SCTEX. Under the SCTEX STOA, 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 following table shows the current toll rates for the SCTEX exclusive of value-added tax (“VAT”) as of the date of this Prospectus.

TOLL RATES (SCTEX)	Existing
CLOSED SYSTEM	
Rate per class (P/km)	
Class 1	2.67
Class 2	5.35
Class 3	8.02

Since the takeover of the operations of SCTEX by NLEX Corp on October 27, 2015, NLEX Corp has filed the following petition for the SCTEX.

Date of Filing of Petition	Effective Date of Toll Rate Adjustment	Status
September 2016	January 1, 2017	Pending

The SCTEX toll rate adjustment for the year 2017 is still pending approval by the TRB.

As far as NLEX Corp is aware, the TRB has not acted on similar petitions for periodic toll rate adjustments of other toll road operators.

Toll Adjustment Mechanism

Periodic toll adjustments are determined in accordance with the formula provided under the relevant Toll Concession Agreement and subject to approval by the TRB.

NLEX

The ATR, which sets the ceiling toll rate that NLEX Corp can charge motorists on the NLEX, is based on a formula in the NLEX STOA, and may be adjusted every two years. On June 5, 2008, the TRB approved the amendment of the ATR formula to remove the foreign exchange factor. The revised ATR formula contains two major components, the inflation factor and the minimum base escalator.

On January 1, 2011, NLEX Corp started implementing the approved periodic toll rate adjustment based on the revised ATR formula.

Periodic Toll Adjustment

Under the relevant law (*i.e.*, P.D. 1894), the procedure to be followed for any toll rate adjustment is as follows: (i) on or before September 30 of each relevant year, NLEX Corp shall submit to the TRB a report/statement on the then current application of the formula; (ii) NLEX Corp shall then cause the publication of the adjustment once in a newspaper of general circulation not later than November 30 of said year; and (iii) an adjustment to the ATR becomes enforceable and collectible by NLEX Corp effective on January 1 of the immediately succeeding year.

Public hearings are conducted when an interested expressway user files a petition for review with the TRB within a period of 90 days after the date of publication of the adjusted ATR. Under the law, the pendency of such petition does not suspend nor prevent the enforcement and collection of the adjusted ATR. Any decision of the TRB may be appealed to the Office of the President of the Philippines, and thereafter, to the appellate courts.

In June 2008, TRB approved the amendment in the periodic toll rate formula whereby the foreign exchange adjustment factor is removed. The resulting Authorized Toll Rate Formula (“**ATR#1**”) is as follows:

$$ATR_p = ATR_{p-1} \times [(PCPI_p \div PCPI_{p-1}) \times (1 + F_c)^P]$$

Where

ATR_p	Authorized Toll Rate for year p
ATR_{p-1}	Authorized Toll Rate for year p-1
$PCPI_p$	Philippine Consumer Price for the month prior to filing the request for adjustment in year p (or the last index available at that time)
$PCPI_{p-1}$	Philippine Consumer Price Index for the month prior to filing the request for adjustment in year p-1 (or the last index available at that time)
F_c	One and one fourth of a percent (1.25%)
P	Number of years elapsed from year p-1 to year p, with the fraction determined as actual days elapsed divided by 365 days

The adjusted ATR for any period is calculated by multiplying the current ATR by an adjustment factor that is determined primarily by the Philippine inflation and the minimum base escalator of 1.25% per annum.

This ATR#1 was applied in the toll rate adjustments starting July 1, 2008 until December 31, 2013. For the toll rate adjustment effective January 1, 2015, the second ATR formula (“ATR#2”) was applied as follows:

ATR formula #2:

$$ATR_p = ATR_{p-1} \times \{ 1 + [(PCPI_p \div PCPI_{p-1}) - 1] \times 50\% \}$$

The main difference is the reduction on the pass-on factor from 100% to 50% and the omission of the minimum base escalator of 1.25%. ATR#2 will be effective once the effectivity of ATR#1 lapses.

In April 2015, TRB approved the following recovery scheme for the Harbor Link Project (Segments 9 and 10):

- 1) Following the completion of Segment 9, MNTC shall be authorized to adopt the 2008 TRB-approved ATR formula (ATR#1) for the entire Manila North Expressway Project for five (5) years from date of actual implementation of the ATR formula (*i.e.*, to govern the succeeding toll rate adjustment process coinciding with the toll rate adjustments due from 2017 to 2021).
- 2) Upon commercial operation of Segment 10, MNTC shall be authorized to continue implementing ATR#1 for ten (10) years from commercial operation of Segment 10 or from actual implementation of the said ATR formula (*i.e.*, to govern the succeeding toll rate adjustment process coinciding with the toll rate adjustments due from 2017-2026), whichever comes later.
- 3) Approval of the additional ₱6.00 (VAT-exclusive) adjustment to the open system toll rate upon completion of Segment 10 subject to review and revalidation of actual versus approved construction costs. The actual collection of the additional ₱6.00 adjustment shall be subject to compliance with the usual legal requirements consistent with the TRB Rules of Procedure, other relevant laws and jurisprudence.

In 2014, the TRB published its 2013 Revised Rules of Procedure (2013 TRB Rules), which sets out the procedure for applying for toll rate adjustments. While there are differences between the procedures set out in the relevant law (*i.e.*, P.D. 1894) and the 2013 TRB Rules, the crux of the procedure remains to be due process being afforded to all parties concerned prior to any approval and implementation of a toll rate adjustment.

Interim Toll Adjustment

NLEX Project

In addition to the periodic adjustment described above, NLEX Corp may request for an interim adjustment of the ATR under the following circumstances:

- When the rolling average over two months of the Philippine consumer price index has varied by 15.0% compared to the level of this index at the time of the last periodic adjustment; or
- As a result of force majeure or Material Adverse Grantor Action, both as defined in the NLEX STOA.

Any interim adjustment as provided herein shall be considered as an advance to NLEX Corp to be set off against future toll rate periodic adjustment, except where such adjustment is due

to force majeure or Material Adverse Grantor Action.

The procedure for an interim adjustment of the ATR is as follows: (i) NLEX Corp shall submit to TRB any proposal for an interim adjustment in the ATR with supporting calculations which shall be verified and approved by the TRB; (ii) NLEX Corp shall cause the publication of any increase in the ATR no later than November 30 of the year in which it is calculated; and (iii) any adjustment shall be enforceable and collected by NLEX Corp on January 1 of the immediately succeeding year. Any interim adjustment shall be considered as an advance to NLEX Corp to be set off against future toll rate periodic adjustment, except where such adjustment is due to force majeure or Material Adverse Grantor Action.

SCTEX

Periodic Toll Rate Adjustment

Based on the SCTEX STOA, NLEX Corp is allowed to file an application for periodic toll rate adjustment effective January 1 of every calendar year with the TRB. The adjusted authorized toll rate shall be calculated using the following formula:

$$ATR = [\{ ITR \times (1 + K)^t \} + AF]$$

Where:

ATR	Authorized Toll Rate
ITR	Initial Toll Rate
K	Minimum Base Escalator (equal to 6.0%)
t	Number of years elapsed from April 28, 2008 (the start of SCTEX commercial operations) up to effectivity date of the ATR with the fraction determined as actual days elapsed divided by 365 days.
AF	Adjustment Factor

The adjustment factor (AF) is computed as follows:

$$AF = \left[\sum_{i=1}^n \frac{\Delta DS_i}{V_i \times L} \right] + \left[\sum_{i=1}^n \frac{\Delta OM_i}{V_i \times L} \right]$$

Where:

ΔDS_i	Nominal change in BCDA's JICA debt service obligation in relation to SCTEX for the period/s covered by the adjustments brought about by foreign exchange fluctuations
ΔOM_i	Nominal change in Operation & Maintenance Cost for the period/s covered by the adjustment brought about by inflation
V_i	Projected annual traffic volumes in the succeeding years up to the next adjustment
L	Length of the expressway

Connector Road

Based on the Connector Road Concession Agreement the initial base toll rate (VAT-exclusive) for the Connector Road shall be as follows:

TOLL RATES (Connector Road)	Initial Toll Rate
CLOSED SYSTEM Rate per class (₱/km)	
Class 1	Php87.00
Class 2	217.50
Class 3	304.50

The Initial Base Toll Rates are based on December 31, 2014 prices and are VAT-exclusive. These shall be subject to Philippine CPI indexation on the date of filing of the application of the Toll Operation Permit (if applicable) or the Toll Operation Certificate, in accordance with the following parametric formula.

$$TR_n = TR_i \times (CPI_n / CPI_i)$$

Where:

TR _n	Opening Base Toll Rate to be charged to the motorists upon the issuance of Toll Operation Permit (if applicable) or the Toll Operation Certificate
TR _i	Initial Base Toll Rate
CP1 _n	The latest headline Consumer Price Index, issued by the Philippine Statistics Authority, available on the month prior to the filing with TRB of application for Toll Operation Permit or Toll Operation Certificate, as the case may be.
CP1 _i	The headline Consumer Price Index,

Periodic Toll Rate Adjustment

Upon compliance with the applicable rules and regulations as issued or may be issued by the TRB, and subject to written approval of adjustment from the TRB, NLEX Corp may adjust the Base Toll Rate every two years in accordance with the following formula, and to collect from the Connector Road users the adjusted Toll Fee:

$$TR_n = TR_o \times [(CPI_n / CPI_o)] \times (100\% + MBE)^p$$

Where:

TR _n	New Base Toll Rate as adjusted
TR _o	Base Toll Rate adopted following the most recent extraordinary Toll adjustment granted occurring after the last periodic adjustment; provided that if no extraordinary Toll adjustment was granted, TR _o = TR _{n-1} where: TR _{n-1} = Base Toll Rate as of the last ((n – 1)th) periodic adjustment or the Opening Base Toll Rate in the case of the first periodic adjustment after start of commercial operation
CPI _n	The latest headline Consumer Price Index, issued by the Philippine Statistics Authority, available on the month the application for Toll adjustment was lodged with the TRB.
CPI _o	The headline Consumer Price Index, issued by the Philippines Statistics Authority, for the month corresponding to the month when the most recent

	extraordinary Toll adjustment was implemented; provided that if no extraordinary Toll adjustment was granted, $CPI_o = CPI_{n-1}$ where: CPI _{n-1} = Headline Consumer Price Index, issued by the Philippine Statistics Authority and used by the Concessionaire in its application for the last toll rate adjustment that was approved and implemented
MBE	Minimum Base Escalator (MBE) equivalent to one and one fourth of a percent (1.25%)
n	index for the points of periodic adjustment where n = 1 for the first periodic adjustment, n = 2 for the second periodic adjustment, n = 3 for the third periodic adjustment, and so on.
p	Number of years elapsed from the effectivity date of the current Base Toll Rate up to the effectivity date of the New Base Toll Rate, with the fraction determined as actual days elapsed divided by 365 days.

The new Toll Fee shall be computed by increasing the New Base Toll Rate (in its unrounded value) with the applicable value-added tax on the New Base Toll Rate (unrounded value), before rounding off the resulting amount to its nearest peso.

Toll Collection System

Toll fees are collected either in cash, through manual toll fee payment, or by the electronic toll collection system (“**ETC**”). The operational features of the NLEX are now comparable with the best in the world, with electronic and manual toll collection systems across a combined “Open and Closed” toll system. The average transaction time for a cash payment is 8 to 12 seconds and 2 to 4 seconds for ETC.

Under the ETC, motorists have the option to use the “Easytrip”, an on-board unit or transponder, which communicates wirelessly with the toll lane equipment. With an Easytrip Tag, a user is able to drive through a toll plaza without stopping, and toll fees are deducted automatically from the user’s account through the transponder. The Easytrip is available to all vehicle classes. The Easytrip transactions accounted for 19.7% of the total toll transactions of NLEX Corp for the year 2017. NLEX Corp also provides other forms of ETC products for select groups of motorists.

The NLEX toll collection system and procedures are designed to minimize system leakage. All toll collection processes and operations are computerized and a global validation and security system is being implemented in order to control leakage and fraud. The system tracks and confirms toll collections at multiple levels: (i) at the toll booth; (ii) the plaza computer system at each toll plaza; and (iii) a central toll computer system.

Non-toll Business

NLEX Corp is authorized to engage in non-toll business under the Toll Concession Agreements. Such authority includes, among others, the right to collect non-toll revenues from non-toll user related services and advertisements installed within the ROW granted under the relevant Toll Concession Agreements and is subject to such conditions as may be provided under the relevant Toll Concession Agreement, for example: (a) under the NLEX STOA, the Republic of the Philippines (acting by and through the TRB) has the exclusive right to issue permits for the installation of non-toll user related advertising billboards and signage; (b) under the SCTEX STOA, NLEX Corp may establish and operate non-toll user related facilities, subject to the approval of the Republic of the Philippines (acting by and through the TRB); and (c) under Connector Road Concession Agreement, NLEX Corp has the right to charge and collect fees for non-toll user related facilities.

Advertisements along the Expressway

NLEX Corp does not earn from all advertisements visible along the NLEX and SCTEX. Revenues obtained by NLEX Corp from advertisements are limited to such advertisements installed within the ROW. Billboards and advertisements installed outside of the ROW granted under the relevant Toll Concession Agreements are neither owned nor operated by NLEX Corp.

NLEX Ventures Corporation

NLEX Corp generates non-toll revenues mainly through (i) access and service fees paid by toll service facilities (“TSFs”) along the NLEX; and (ii) lease of facilities and structures along the NLEX to advertisers. NLEX Corp is currently monitoring the operations of several TSFs along the NLEX that provide facilities catering to motorists’ convenience.

On September 23, 2015, NVC was formed as a wholly owned subsidiary of NLEX Corp, primarily 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.

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 the NLEX.

In compliance with the continuing requirement under the law, NVC has secured its local business permit for 2018.

Traffic Performance

The NLEX is a mature toll road that has a robust traffic volume base, being the main gateway to central and northern Luzon from Metro Manila. Demand for NLEX has been stable as majority of the motorists continue to use the expressway despite factors such as higher petroleum prices, higher toll rates and unfavorable weather conditions, among others. Since taking over the expressway in year 2005, NLEX traffic grew by a compounded annual rate of 5.4% a year.

The SCTEX, on the other hand, is still in the ramp up stage of traffic growth. Since NLEX Corp took over in October 2015, traffic volume has grown by a compounded annual rate of 18.9%.

To cope with the steady growth in traffic volume, NLEX Corp continuously strives to improve the quality of its roads and the level of tollway services for the safety and convenience of its motorists. It also ensures that the eight rest stops in NLEX and two rest stops in SCTEX cater to the convenience and needs of its motorists.

The increasing economic activities in the service area are expected to lead to higher demand for the NLEX soon. The completion of new road projects in northern Philippines, the developments in Clark, and the rise of new economic centers in northern Philippines are expected to further boost the volume of traffic in NLEX and SCTEX.

	2014	2015	2016	2017
NLEX – CLOSED SYSTEM (IN AVERAGE DAILY VEHICLE-KMs)				
CLASS 1	2,508,747	2,915,089	3,200,963	3,492,478
CLASS 2	617,780	644,087	682,471	709,209
CLASS 3	379,306	399,452	442,375	462,687

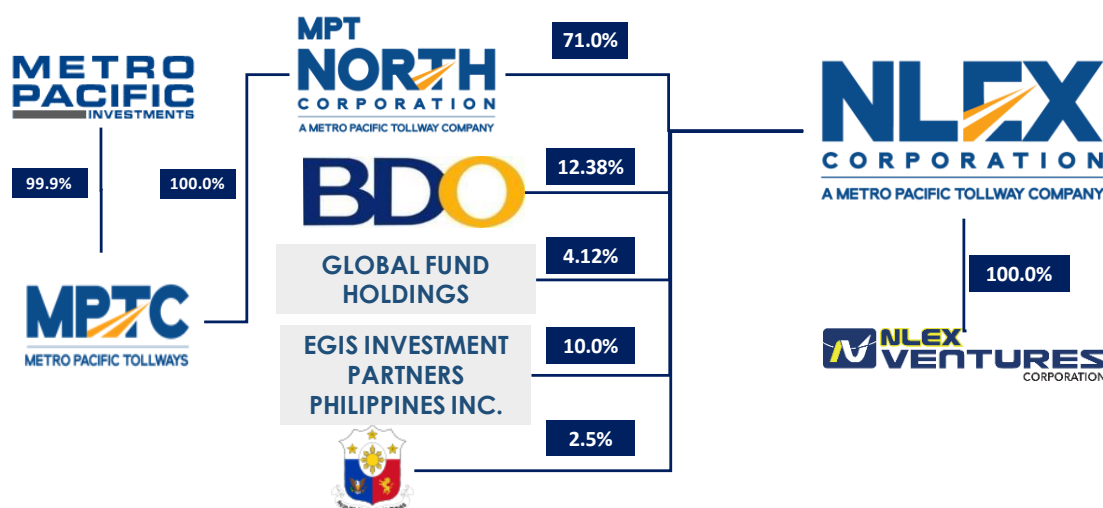
TOTAL	3,505,833	3,958,628	4,325,809	4,664,374
NLEX – OPEN SYSTEM (IN AVERAGE DAILY VEHICLE ENTRIES)				
CLASS 1	108,298	121,501	130,516	140,395
CLASS 2	23,314	24,385	25,655	26,862
CLASS 3	12,600	13,383	14,724	15,737
TOTAL	144,211	159,268	170,895	182,994

	2015	2016	2017
SCTEX - CLOSED (IN AVERAGE DAILY VEHICLE-KMs)			
CLASS 1	980,574	1,092,945	1,330,160
CLASS 2	130,165	154,495	176,518
CLASS 3	72,200	83,648	107,739
Grand Total	1,182,939	1,331,088	1,614,417

CORPORATE STRUCTURE

NLEX Corp is majority owned by MPT North, a whole-owned subsidiary of MPTC. As of December 31, 2017, MPIC owned 99.9% of the outstanding shares of MPTC.

As of the date of this Prospectus, NLEX has one subsidiary, NVC.



Metro Pacific Tollways North Corporation

MPT North is the primary holding company for the toll road assets of MPTC north of Metro Manila. MPT North is a fully owned subsidiary of MPTC.

MPTC is the primary holding company for the toll road assets of MPIC, which owns 99.9% of MPTC. MPTC holds a 75.60% effective interest in NLEX Corp. MPTC also consolidates Cavite Infrastructure Corporation, which holds operation and maintenance rights for the Manila-Cavite Toll Expressway.

MPTC is currently the leading toll road developer and operator in the country, with more than 206 kilometers of toll roads under its management, representing 52% of operating toll roads in the Philippines. Through its subsidiary companies, it holds major toll road concessions in the Philippines namely: the NLEX Project, Connector Road Project, SCTEX Project, the Cavite Laguna Expressway Project, a closed-system tolled expressway connecting Manila-Cavite Expressway and the SLEX, and the Cebu-Cordova Link Expressway, an 8-km tolled bridge connecting Cebu City to the Municipality of Cordova in Cebu.

MPTC's geographical coverage has recently expanded into the ASEAN region via investments in Vietnam, Thailand, and Indonesia.

In January 2015, MPTC entered into an equity investment and financing transaction with Ho Chi Minh City Infrastructure Investment Joint Stock Company ("CII") that will result in MPTC holding about 45% of CII B&R through a combination of purchase of CII B&R secondary shares from CII, and subscription to VND-denominated bonds to be issued by CII, which are exchangeable into secondary shares in CII B&R. MPTC also owns 29.5% of Don Muang Tollway Public Company Ltd. (Thailand).

In 2017, MPTC completed the acquisition of 49.5% of PT Nusantara Infrastructure Tbk, an infrastructure company based in Indonesia.

BDO Unibank, Inc.

BDO Unibank, Inc. ("**BDO**") is a full-service universal bank in the Philippines. It has the ability to provide a complete array of industry-leading products and services including lending (corporate, middle market, small and medium enterprises, and consumer), deposit-taking, foreign exchange, brokering, trust and investments, credit cards, corporate cash management and remittances in the Philippines. Through its local subsidiaries, BDO offers leasing and financing, investment banking, private banking, bancassurance, insurance brokerage and stock brokerage services.

BDO's institutional strengths and value-added products and services hold the key to its successful business relationships with customers. On the front line, its branches remain at the vanguard of setting high standards as a sales and service-oriented, customer-focused force. BDO has one of the largest distribution networks, with more than 1,177 operating branches and over 3,900 ATMs nationwide.

BDO is a member of the SM Group, one of the country's largest and most successful conglomerates with businesses spanning between retail, mall operations, property development (e.g., residential, commercial, resorts/hotel), and financial services. Although part of a family conglomerate, BDO's day-to-day operations are handled by a team of professional managers and bank officers.

GlobalFund Holdings, Inc.

GlobalFund Holdings, Inc. ("**GF**") is a private equity investment company that manages funds within and outside the Philippines. Its objective is to take a long term, minority stake, in industries with high quality businesses and strong market position. GF and its affiliated companies currently have equity investments in various industries such as finance, manufacturing, transportation, and property development.

Egis Investment Partners Philippines Inc.,

EIPPI is a subsidiary of the Egis Projects S.A., a developer of infrastructure and services and is the investment and development arm of Group Egis of France.

Through Egis Projects S.A.'s wholly-owned subsidiary, Egis Road Operation, S.A., it manages 26 toll operation and maintenance projects in 16 countries with respect to more than 2,000 km of toll roads and 44 km of tunnels used daily by 1.4 million vehicles, and serviced by 6,400 total staff.

Egis Projects S.A., a leading engineering group, has a strong presence both globally and in

Asia with over 12,000 employees worldwide. It is primarily owned by Caisse des Dépôts, a leading global financial institution with over 30,000 employees worldwide.

Republic of the Philippines

The Republic of the Philippines has a 2.5% share in NLEX Corp. The ROP acts through the Department of Finance with respect to the ROP's shares in NLEX Corp.

COMPETITIVE STRENGTHS

Proven Track Record in Toll Road Development and Management

NLEX Corp has hurdled the major risks associated with toll road development and management such as construction risk and financing risk.

NLEX Corp successfully managed the design, rehabilitation, and construction of the NLEX, covering both the civil works and operating equipment aspects, within the prescribed period and below the provided budget, in partnership with world-class contractors and technical advisors, all under close watch by its international project finance lenders and advisors. After construction, the NLEX was transformed from a rundown expressway into a modern expressway equipped with state-of-the-art toll collection, telecommunications, and traffic management systems.

To finance the rehabilitation of the NLEX Phase 1, a complex project financing package involving a diverse group of financial institutions—multilateral agencies, export credit agencies and foreign commercial banks—was put in place under a limited-recourse project finance structure backed by the sponsors' equity. The US\$384 million project finance deal merited the Asia-Pacific Transport Deal of the Year 2001 award and was hailed as a "considerable benchmark for transport financing in Asia" by Project Finance Magazine in February 2002.

NLEX Corp also has solid experience in managing regulatory risk, having implemented the initial and subsequent periodic toll rate adjustments as scheduled. In addition to the successful execution of the opening toll rate adjustment in February 2005, the difficult issue of revising the toll rate formula by removing the foreign exchange adjustment factor was also negotiated with TRB around May 2007. In June 2008, TRB granted NLEX Corp's request to amend the toll rate adjustment formula by removing the foreign exchange component. In October 2008, TRB approved NLEX Corp's request to integrate the commercial operation of NLEX Phase 1 and Segment 8.1 of NLEX Phase 2, which effectively extended the concession period of the NLEX Concession from 2030 to 2037 and incentivized NLEX Corp stockholders to invest in Segment 8.1.

Over the years, NLEX Corp has maintained the tollway equipment of NLEX in excellent working condition, having gained expertise in the design, procurement, and installation of maintenance of tollway equipment through its partnership with Egis Group. This expertise was harnessed in ensuring the smooth take-over of SCTEX management and operations in October 2015.

Franchise over High-Growth Service Areas

The NLEX serves as the main gateway to central and northern Luzon from Metro Manila, the capital city of the Philippines with a population of over 15 million. The entry points northbound from Metro Manila are Caloocan City and Quezon City, which have large commercial, residential and industrial bases. The road cuts through the fertile agricultural areas of Bulacan and Pampanga, towards the large cities of San Fernando and Angeles City, each with population of over 1.5 million.

The NLEX service area (between Metro Manila and central Luzon) accounts for a significant proportion of the economic base of the country. In 2016, the National Capital Region had the largest share of the country's total output with a 38.1% share of the Gross Regional Domestic Product, slightly higher than the 37.9% recorded in 2015. It was followed by CALABARZON with a share of 14.8% and Central Luzon with 9.0%.

Gross Regional Domestic Product, 2015 and 2016
Percent Distribution, in Percent
(at constant 2000 prices)

REGION / YEAR		2015	2016
PHILIPPINES		100.0	100.0
NCR	METRO MANILA	37.9	38.1
CAR	CORDILLERA	1.8	1.7
I	ILOCOS	3.1	3.1
II	CAGAYAN VALLEY	1.8	1.7
III	CENTRAL LUZON	8.9	9
IVA	CALABARZON	15.5	14.8
IVB	MIMAROPA	1.5	1.5
V	BICOL	2.1	2.1
-	OTHER REGIONS	27.4	28.0

Source: National Statistical Coordination Board

NLEX Corp believes that the NLEX had been a catalyst to the rapid development of the central Luzon region. With improved access brought about by the rehabilitated NLEX, the central Luzon region posted consistently high growth rates compared to other regions. The Gross Regional Domestic Product of the central Luzon region grew by 9.5% in 2016, outpacing the growth rates of both the Philippines and the National Capital Region.

Gross Regional Domestic Product (Luzon), 2015 and 2016
Growth Rates, in Percent
(at constant 2000 prices)

REGION		2014-15	2015-16
PHILIPPINES		6.1	6.9
NCR	METRO MANILA	6.7	7.5
CAR	CORDILLERA	4.0	2.1
I	ILOCOS	5.4	8.4
II	CAGAYAN VALLEY	4.1	3.3
III	CENTRAL LUZON	5.6	9.5
IVA	CALABARZON	5.8	4.8
IVB	MIMAROPA	2.0	2.7

V	BICOL	8.9	5.7
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Source: National Statistical Coordination Board

NLEX Corp believes that the growth of the service area will continue, with the recent opening of the Clark International Airport, the continuing development of the Subic Bay, Clark and Cagayan Special Economic Zones, the widespread commercial and residential developments in Bulacan and Pampanga, as well as the development of tourist destinations in northern Philippines.

Stable Traffic Base of the NLEX

The NLEX is the only viable route to central and northern Luzon. With its long track record as a toll road and proven essentiality to the service area vis-à-vis the alternative road (*i.e.*, MacArthur Highway), traffic volume has been very stable over the years.

The only alternative road is the MacArthur Highway, where traffic is mostly made up of slow-moving public transport vehicles like jeepneys, tricycles, and buses. This road is oftentimes very congested as it runs along dense town centers. As a result, travel time is longer and unpredictable.

The SCTEX, on the other hand, links two vital logistics hubs in Luzon: the Subic Bay Freeport and Clark. In addition, the SCTEX is also the major gateway for motorists heading to and from northern Luzon.

In over ten years of commercial operations, NLEX Corp has established the benefits of using the NLEX: lower vehicle operating costs, faster travel time, and convenience, further boosting the value-for-money proposition of NLEX Corp to motorists. Even in periods of economic downturn and oil price crises, the NLEX retained its traffic base and did not suffer any significant reduction in traffic volume.

Despite the stability of traffic volume along the NLEX, NLEX Corp ensures that the level of satisfaction is high by conducting a year-round customer satisfaction survey and implementing programs to address customers' needs. Programs aimed at specific segments of the market such as bus companies, truck operators, and jeepney operators are also in place.

Reputable and Respected Stockholders

NLEX Corp is backed by stockholders that are leaders in their respective fields of business.

MPTC is the primary holding company for the toll road assets of MPIC, a leading diversified infrastructure holding and management company in the Philippines, with investments in power distribution, water, toll roads, and healthcare facilities.

Through its subsidiaries, MPTC is currently the leading toll road operator in the country, with more than 206 km of toll roads under its management, representing 52% of the Philippine toll road network. With three other operating toll roads in the Asean region, MPTC's toll roads serve an aggregate of 979,000 vehicle-entries per day.

BDO is currently the biggest bank in the Philippines in terms of total resources, capital, customer loans, total deposits, and assets under management. BDO is part of the SM Group of Companies.

EGIS is an international group offering engineering, project structuring and operations services. NLEX Corp gained expertise in the design, procurement, and installation of

maintenance of tollway equipment mainly through its partnership with Egis Group. The software backbone of NLEX operations was also provided by Egis Group.

Experienced Management Team

NLEX Corp has a competent and experienced management team that has a proven track record in toll road development and management. Currently, NLEX Corp has a total headcount of 194 employees, comprising of 100 regular, 10 probationary, 83 project-based and one contractual. The company also anticipates to integrate an estimated 1,200 employees of TMC upon the approval and finalization of the Merger.

The NLEX Corp management team is composed of highly respected executives with diverse backgrounds in toll operations project financing, public relations and service, and the technical, commercial and legal aspects of toll road construction and operations. The team has in-depth knowledge of the business and regulatory environment, and has developed positive relationships with key industry players, government regulators, media, non-governmental organizations, and communities within the vicinity of NLEX and SCTEX.

With over multiple years of combined experience in toll road development, construction, and management, the skill set of NLEX Corp and TMC management serves as the foundation for the continued success of the business.

KEY STRATEGIES

NLEX Corp's vision is to be at all times the leader in the tollways industry, providing the ultimate expressway experience in the region and remaining at the forefront of innovation and service driven by its greatly valued and highly engaged people. NLEX Corp strives to fulfill its mission of enabling mobility and accessibility through world class expressways and transforming the region's landscape.

The following are the strategies that NLEX Corp employs as it pursues its vision and mission: (a) strengthening the operating performance of its toll road network; (b) completing the implementation of its concession projects; and (c) developing a pipeline of future projects.

Strengthen the operating performance of its toll road network

NLEX Corp will continue to perform its fundamental responsibility to its customers at the highest standards. By maintaining the high quality and reliability of its toll roads and tollway services and leveraging on new technology for continuous improvement of customer service and operational processes, NLEX Corp ensures that key performance indicators are achieved, such as reduced transaction time in toll plazas and minimized incident response lead times, making travel time more predictable and further enhancing the safety and value proposition of NLEX and SCTEX. These initiatives ensure the continuous flow of satisfied motorists to NLEX and SCTEX.

NLEX Corp believes that corporate social responsibility ("CSR") entails a combination of the delivery of excellent service through the development of programs supporting NLEX Corp's core business and the promotion of the people's welfare and well-being. The Company's CSR programs respond to the community's specific needs and are designed to bring about a better quality of life for the communities around NLEX and SCTEX.

Complete the implementation of its concession projects

NLEX Corp aims to pursue the full implementation of its NLEX concession by continuing to study the market and technical and financial feasibility of the remaining segments of the NLEX

Concession, namely Segment 8.2, which will complete the C-5 ring road of the NLEX open system, and Phase 3 of the concession which was originally intended to connect the Clark and Subic Special Economic Zones.

In the same manner, NLEX seeks to pursue the full implementation of the Connector Road Project and to continue to exert efforts to assist and coordinate with the Government for the acquisition of ROW for the Connector Road Project. The Connector Road Project is estimated to be completed within twenty-four (24) month from complete delivery of the basic ROW.

Develop a pipeline of future projects

NLEX Corp will explore opportunities to expand the NLEX Corp footprint either by acquiring existing concessions or obtaining rights to new concessions for toll road projects, especially those that will connect to the NLEX and/or SCTEX. NLEX Corp believes that any new connection to the NLEX-SCTEX network will generate additional travel demand as well as cost savings in terms of economies of scale.

TRANSACTIONS WITH RELATED PARTIES

Operation and Management

TMC operates and maintains the NLEX and SCTEX pursuant to the Operation and Maintenance Agreement dated July 6, 2001 between NLEX Corp and TMC. TMC is 60% owned by MPT North, 20% owned by Egis Road Operation S.A. and 20% owned by the Republic of the Philippines.

TMC's services range from toll collection, traffic and security management, facilities and equipment maintenance, and roadway routine maintenance. TMC oversees the day-to-day operations of the NLEX and SCTEX, including securing toll collection, depositing of funds to NLEX Corp's accounts, facilitating smooth and uninterrupted flow of traffic, carrying out of routine maintenance, and ensuring effective and safe response to emergency situations.

In exchange for performing its duties, TMC receives a fee based on a base fee plus a variable fee if the volume of transactions exceeds the base assumption.

On February 24, 2017, and in light of the then proposed merger between NLEX Corp and TMC, NLEX Corp and TMC agreed to the new base fee amounting to Php1,136.8 million (exclusive of VAT) for NLEX Phase 1, Segment 7, Dau Interchange, Segment 8.1, Balagtas Interchange, Bocaue Interchange Northbound Exit and Segment 9 effective on February 9, 2017.

MPTC and MPT North perform managerial and financial advisory services for NLEX Corp in line with a management agreement.

NLEX Corp has also partnered with Easytrip Services Corporation ("**ESC**") as service provider for the management of electronic toll collection accounts, which allows cashless transactions in NLEX and SCTEX via enrollment in accounts supported by either Easytrip tags or RFID stickers. MPTC legally and/or beneficially owns, directly and indirectly, a total of 66% of ESC.

Fees for Assignment of Franchise

In consideration of the assignment by PNCC of its usufructuary rights, interests, and privileges under its franchise, PNCC is entitled to receive payment equivalent to 6% of the toll revenue from the NLEX, except for Segment 7 which is subject to a rate of 2%. This entitlement shall be subordinated to operating expenses and the requirements of the financing agreements and shall be paid subject to availability of funds. NLEX Corp remits such payment to PNCC in accordance with the applicable guidelines issued by the TRB in 2012.

Operating Equipment and Software Supply and Maintenance

As technical partner for operations and maintenance technology, NLEX Corp relies on EGIS and its subsidiary companies, mainly Egis Projects Philippines Inc., for the design and supply of certain operating equipment and spare parts as well as software maintenance.

Co-Branding Opportunities

NLEX Corp enters into partnerships with affiliate companies like PLDT, Inc. and Digital Telecommunications Philippines, Inc. for the provision of telecommunications and advertising facilities along the NLEX.

DESCRIPTION OF PROPERTIES

Description and Location of Principal Properties

As of the date of this Prospectus, NLEX Corp's principal properties are the buildings and facilities along the NLEX that were constructed for purposes of performing the management, operations, and maintenance obligations of the Company under the NLEX STOA.

The corporate headquarters of the Company is located at the NLEX Compound, Balintawak, Caloocan City where the Operations Management Center ("**OMC**") is also located. The OMC is where the main hub of automated operations, namely the central toll computer system ("**CTCS**") and the traffic control room ("**TCR**"), are installed and where TMC has its corporate headquarters.

The main maintenance and traffic management center is the Sta. Rita District Building located at Sta. Rita, Guiguinto, Bulacan. NLEX Corp also has a field office along Subic-Tipo Road for the management of Segment 7.

Other key facilities for operations are located around the toll plazas along the NLEX, namely: the toll supervision buildings located beside major toll plazas, the mini-buildings beside smaller toll plazas, customer service centers mainly for motorists' assistance and Easytrip account reloading.

Technical shelter buildings are stand-alone small structures along the stretch of the NLEX which contain electrical and telecommunications equipment.

Location	NLEX Corp Property
NLEX Compound, Balintawak, Caloocan City	Main Office Buildings: 1. Head Office - Main Building 2. Head Office - Annex Building 3. Operations Management Center (OMC) 4. OMC Wellness Hub Building
Sta. Rita, Guiguinto, Bulacan	Sta. Rita Operations District Building
Toll Plaza Locations	
1. Balintawak (Barrier), Caloocan City	24 Payment Lanes + 1 Toll Supervision Building, 1 Customer Service Center, 1 Electrical Service Center
2. Mindanao Avenue, Valenzuela City	8 Payment Lanes, 1 Customer Service Center, 1 Mini Building, 1 Electrical Service Center
3. Karuhatan, Valenzuela City	7 Payment Lanes, 1 Mini Building, 1 Electrical Service Center
4. Paso de Blas, Valenzuela City	7 Payment Lanes, 1 Toll Supervision Building, 1 Customer Service Center, 1 Mini Building, 1 Electrical Service Center
5. Meycauayan, Bulacan	8 Payment Lanes, 1 Toll Supervision Building, 1 Point of Sale Building, 1 Mini Building, 1 Electrical Service Center
6. Marilao, Bulacan	6 Payment Lanes, 2 Mini Building, 1 Point of Sale Building, 2 Electrical Service Center
7. Bocaue, Bulacan	12 Payment Lanes + 1 Spare Lane, 3 Entry 2 Mini Buildings, 1 Electrical Service Center
8. Bocaue (Barrier), Bulacan	19 Payment Lanes + 3 Spare Lane, 1 Toll Supervision Building, 1 Electrical Service Center

Location	NLEX Corp Property
9. Bocaue (Barrier Expansion), Bulacan	8 Payment Lanes
10. Balagtas, Bulacan	9 Entry Lanes, 1 Toll Supervision Building, 1 Electrical Service Center
11. Tabang, Bulacan	6 Payment Lanes + 2 Spare Lane, 4 Entry Lanes, 1 Toll Supervision Building, 1 Electrical Service Center
12. Santa Rita, Bulacan	8 Payment Lanes + 2 Spare Lane, 5 Entry Lanes, 1 Toll Supervision Building, 1 Mini Building, 2 Electrical Service Center
13. Pulilan, Bulacan	6 Payment Lanes, 4 Entry Lanes, 1 Toll Supervision Building, 1 Mini Building, 1 Electrical Service Center
14. San Simon, Pampanga	6 Payment Lanes, 4 Entry Lanes + 2 Spare Lane, 1 Toll Supervision Building, 1 Mini Building, 1 Electrical Service Center
15. San Fernando, Pampanga	10 Payment Lanes + 8 Entry Lanes, 1 Toll Supervision Building, 1 Mini Building, 2 Electrical Service Center
16. Sindalan/Mexico, Pampanga	2 Payment Lanes + 2 Entry Lanes, 1 Mini Building, 1 Electrical Service Center
17. Angeles City, Pampanga	5 Payment Lanes + 3 Entry Lanes, 1 Mini Building, 1 Electrical Service Center
18. Dau, Pampanga	4 Payment Lanes + 4 Entry Lanes, 1 Mini Building, 1 Electrical Service Center
19. Subic Freeport Expressway, Hermosa, Bataan	3 Entry Lanes, 1 Standard Field Office
20. Sta. Ines, Pampanga	3 Payment Lanes + 3 Entry Lanes, 1 Mini Building, 1 Electrical Service Center
Technical Shelter Buildings (Various locations)	23 Technical Shelter Buildings

NLEX Corp also owns 44 units of transportation equipment, mainly service vehicles used for day-to-day operations.

In SCTEX, BCDA retains the ownership of the properties, buildings, and facilities which the Company manages and operates pursuant to the SCTEX Business Agreement.

There are no mortgages, liens, or encumbrance over the properties described above, other than liens arising by operation of law. These are all maintained in good working condition and will be handed over to the Government with no consideration at the end of the concession period for the NLEX Project.

NLEX Corp does not own the parcels of land over which the NLEX has been built, as these are owned by the Government. The entire NLEX roadway, including interchanges, entry/exit ramps, service roads, bridges, pedestrian and vehicular overpasses, farm crossings, and viaducts are properties of public dominion and are owned by the Government. The NLEX roadway is maintained in good working condition through periodic resurfacing of the pavement. The NLEX bridges, the biggest of which is the Candaba viaduct, are likewise regularly maintained to keep it structurally sound. These will also be handed over to the Government at no consideration at the end of the concession period for the NLEX Project.

In 2016, NVC acquired parcels of land located in Valenzuela City amounting to approximately 8,112 square meters. NVC is currently developing these properties for commercial use and for lease with business proponents.

Properties to be Acquired

NVC may still acquire certain properties in line with its plan to develop one or more toll service facilities along the NLEX. The source of financing for the planned acquisition will may be from internal cashflow, loans, or capital.

CERTAIN LEGAL PROCEEDINGS

Some of the following legal proceedings involving NLEX Corp were the subject of news reports and therefore generated public interest, but management is nevertheless of the opinion that an adverse judgment rendered in respect of these legal proceedings shall not materially and adversely affect NLEX Corp's ability to conduct its business in the ordinary course.

Petitions for Toll Rate Adjustment

As of the date of this Prospectus, NLEX Corp has filed the following petitions for toll rate adjustments with the TRB:

Date of Filing	Nature of Petition	Status as of March 1, 2017
June 19, 2012 (original) June 28, 2012 (amended) September 27, 2012 (supplemented)	Periodic toll rate adjustment for adjustment of toll rates for the NLEX, effective January 1, 2013	Pending
September 30, 2014	Periodic toll rate adjustment for adjustment of toll rates for the NLEX, effective January 1, 2015	Pending
September 30, 2016	Periodic toll rate adjustment for adjustment of toll rates for the NLEX, effective January 1, 2017	Pending
September 29, 2016	Periodic toll rate adjustment for adjustment of toll rates for the SCTEX, effective January 1, 2017	Pending

In view of the unjustified failure of the ROP/TRB to act on the petitions for toll rate adjustments filed in 2012 and 2014, NLEX commenced arbitration proceedings on April 4, 2016 claiming compensation. The arbitration proceedings remain pending as of the date of this Prospectus.

Garlitos, Jr. v. Bases Conversion and Development Authority, Manila North Tollways Corporation and the Executive Secretary, Supreme Court (G.R. No. 217001)

Atty. Onofre G. Garlitos, Jr. (Petitioner) filed with the Supreme Court 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 Project, and (b) an order be issued (i) annulling the bidding procedure, direct negotiations, and the price challenge conducted by the BCDA, the SCTEX concession agreement, SCTEX business and operating agreement, and all subsequent amendments and modifications thereto and (ii) compelling the BCDA to rebid the SCTEX Project.

On September 16, 2015, 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 Office of the Solicitor General, also filed their respective Comment

praying that the Petition be denied due course and dismissed for lack of merit. The case remains pending as of date of this Prospectus.

Real Property Tax Issues

On July 15, 2008 and April 15, 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 the tax declarations and/or assessment 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 commercial property, subject to real property tax, which NLEX Corp argues is property of the public dominion and exempt from real property tax. The LBAA petitions are pending.

On September 19, 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. Upon receipt of the letter, the Provincial Treasurer of Bulacan has respected the directive from the DOF-BLGF to hold the enforcement of any collection remedies in abeyance. The Provincial Treasurer of Bulacan nevertheless issued a notice of realty tax delinquencies dated January 5, 2017 with respect to the years 2006 to 2017, stating that the Province of Bulacan may apply remedies provided under the law for the collection of delinquent taxes.

NLEX VENTURES CORPORATION

The Company is not aware of any material legal proceedings to which its subsidiary, NVC, is a party or of which any of the properties of NVC is subject.

MARKET PRICE AND DIVIDENDS ON NLEX CORP'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

NLEX Corp has an authorized capital stock of ₱4,000,000,000.00 comprised of 40,000,000 common shares with par value of ₱100 per common share. As of the date of this Prospectus, 17,760,000 common shares of NLEX Corp's authorized capital stock are issued and outstanding. The common shares of NLEX Corp are not traded in any market, nor are they subject to outstanding warrants to purchase, or securities convertible into common shares of NLEX Corp.

Holders

As of March 31, 2018, NLEX Corp has 19 stockholders, 14 of whom are individuals with at least one (1) share each. The following sets out the shareholdings of the 19 stockholders and the approximate percentages of their respective shareholdings to NLEX Corp's total outstanding common stocks:

Name of Stockholder	Class of Securities	Number of Shares	% of Outstanding Shares
Metro Pacific Tollways North Corporation	Common	12,609,591	71.00%
BDO Unibank, Inc.	Common	2,197,800	12.38%
Egis Investment Partners Philippines Inc.,	Common	1,775,999	10.00%
Globalfund Holdings, Inc.	Common	732,598	4.12%
Republic of the Philippines	Common	443,998	2.50%
Manuel V. Pangilinan	Common	1	0.00%
Jose Ma. K. Lim	Common	1	0.00%
Christopher Daniel C. Lizo	Common	1	0.00%
Rodrigo E. Franco	Common	1	0.00%
J. Luigi L. Bautista	Common	1	0.00%
Raul L. Ignacio	Common	1	0.00%
Roberto V. Bontia	Common	1	0.00%
Jean-Claude Neumann	Common	1	0.00%
Jose T. Sio	Common	1	0.00%
Frederic C. Dybuncio	Common	1	0.00%
Antonette C. Tionko	Common	1	0.00%
Arlyn Sicangco – Villanueva	Common	1	0.00%
Elpidio C. Jamora, Jr.	Common	1	0.00%
Liberato P. Laus	Common	1	0.00%
TOTAL		17,760,000	100%

Dividend Policy

Under Philippine law, dividends may be declared out of a corporation's unrestricted retained earnings which shall be payable in cash, in property, or in stock to all stockholders based on outstanding stock held by them. The approval of the board of directors is generally sufficient to approve the distribution of dividends, except in the case of stock dividends which requires the approval of the stockholders representing not less than two-thirds (2/3) of the outstanding capital stock at a regular or special meeting duly called for the purpose. Dividends may be declared at the discretion of the board of directors and will depend upon the future results of operations and general financial condition, capital requirements, the Company's ability to receive dividends and other distributions and payments from its Subsidiary, legal, regulatory and contractual restrictions, loan obligations and other factors the Board of Directors may deem relevant.

Historical Dividends

NLEX Corp's Board of Directors has approved the declaration and payment of the following dividends to the stockholders in the past three (3) years, as follows:

2017

Date of Approval	Date of Record	Type of Dividend	Amount (₱)	Dividend per Share (₱)
July 20, 2017	August 3, 2017	Cash	₱1,760,000,000	₱99.09
December 18, 2017	January 2, 2018	Cash	₱1,840,000,000	₱103.60

2016

Date of Approval	Date of Record	Type of Dividend	Amount (₱)	Dividend per Share (₱)
July 8, 2016	July 19, 2016	Cash	₱1,250,000,000	₱70.38
December 15, 2016	December 25, 2016	Cash	₱1,350,000,000	₱76.01

2015

Date of Approval	Date of Record	Type of Dividend	Amount (₱)	Dividend per Share (₱)
July 23, 2015	July 13, 2015	Cash	₱1,000,000,000	₱56.31
December 17, 2015	December 28, 2015	Cash	₱1,422,576,000	₱80.10

The ability of the Company to declare dividends is subject to compliance with the following:

Pro-Forma DSCR*– Dividend/Other Distributions	NLEX Corp shall not declare or pay any dividends or make any other distributions to its common or preferred stockholders if the Pro-forma DSCR is less than 1.30 times.
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**Debt service for purposes of the Pro-Forma DSCR is forward looking.*

Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

Other than the promissory notes issued in connection with NLEX Corp's loan agreements, NLEX Corp has not sold unregistered or exempt securities, nor has it issued securities constituting an exempt transaction within the past three (3) years.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and the related notes as at December 31, 2017, December 31, 2016 and December 31, 2015 and for the years ended December 31, 2017, December 31, 2016 and December 31, 2015 included elsewhere in this Prospectus. This discussion contains 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.

Selected Financial Data

In ₱, Millions	For the year 2017	For the year 2016	Increase (Decrease)	
	(Audited)	(Audited)	Amount	%
Operating revenues	₱11,760	₱10,696	₱1,064	10
Cost of services	(4,554)	(4,393)	161	4
General and administrative expenses	(845)	(726)	119	16
Interest expense and other finance costs – net of interest income of ₱51 million in 2017 and ₱62 million in 2016	(472)	(381)	91	24
Foreign exchange gain (loss) - net	1	-	1	100
Other income	66	11	55	500
Provision for income tax	(1,312)	(1,120)	192	17
Net income	₱4,644	₱4,087	₱557	14
Net income margin	39%	38%		

Statement of Financial Position

In ₱, Millions	December 2017	December 2016	Increase (Decrease)	
	(Audited)	(Audited)	Amount	%
Cash and cash equivalents	₱2,715	₱390	₱2,325	596
Total assets	40,146	35,289	4,857	14
Total liabilities	29,490	25,677	3,813	15
Total equity	10,656	9,612	1,044	11

Results of Operations

The table below shows the consolidated revenues, expenses, other income (expenses), income (loss) before income tax, and net income (loss) of NLEX Corp for the years ended December 31, 2017 and December 31, 2016.

Statement of Income Data

In ₱ Millions	For the year 2017	For the year 2016	Increase (Decrease)	
	(Audited)	(Audited)	Amount	%
Operating revenues	₱11,760	₱10,696	₱1,064	10
Cost of services	(4,554)	(4,393)	161	4
General and administrative expenses	(845)	(726)	119	16
Interest expense and other finance costs – net of interest income of ₱51 million in 2017 and ₱62 million in 2016	(472)	(381)	91	24
Foreign exchange gain (loss) – net	1	-	1	100
Other income	66	11	55	500

In ₱ Millions	For the year 2017	For the year 2016	Increase (Decrease)	
	(Audited)	(Audited)	Amount	%
Provision for income tax	(1,312)	(1,120)	192	17
Net income	₱4,644	₱4,087	₱557	14
Net income margin	39%	38%		

December 31, 2017 Compared to December 31, 2016

Revenues

The following table shows the breakdown of revenues for the period ended December 31, 2017 and 2016 by revenue source:

In ₱Millions	For the year 2017 (Audited)		For the year 2016 (Audited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Toll fees – net	₱11,586	99	₱10,539	99	₱1,047	10
Income from advertising	98	1	106	1	(8)	(8)
Income from toll service facilities	42	0	36	0	6	17
Income from utility facilities	3	0	8	0	(5)	(63)
Rental income	4	0	4	0	0	0
Service	27	0	3	0	24	800
Total revenues	₱11,760	100	₱10,696	100	₱1,064	10

As of December 31, 2017, toll revenues reached ₱11.6 billion, 10% or ₱1.1 billion higher compared to the prior year due to higher traffic volume in NLEX and SCTEX as NLEX traffic during the period reached 237,046 average daily entries, 8% higher than in 2016 while traffic for the SCTEX reached 54,566 daily vehicle entries, 21% higher than in 2016. NLEX contributed 84% of toll revenues, while SCTEX contributed 16% of toll revenues in 2017.

In addition to toll revenues, the Company also generated revenues arising from advertising, toll services and utility facilities and rental and service income amounting to ₱174.4 million and ₱157.4 million for the years ended December 31, 2017 and 2016, respectively.

Cost of Services

The Company's cost of services consists mainly of fees to the O&M service provider and concession fees to BCDA and PNCC, which altogether account for around 66% of the total cost of toll operations.

Cost of services increased to ₱4.6 billion, 4% or ₱161.5 million higher than in 2016. The moderate increase in costs is largely due to higher concession and PNCC fees as a fixed percentage of toll revenues.

The table below details of the costs of services for the years ended December 31, 2017 and 2016.

In ₱ Millions	For the year 2017 (Audited)		For the year 2016 (Audited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Operator's fee	₱1,529	34	₱2,001	46	(₱472)	(24)
Concession fee	932	20	791	18	141	18
Amortization of service concession asset	763	17	615	14	148	24
PNCC fee	572	12	528	12	44	8
Provision for heavy maintenance	215	5	114	3	101	89
Repairs and maintenance	210	5	77	1	133	173
Outside services	81	2	73	2	8	11
Insurance	76	2	78	1	(2)	(3)
Salaries and employee benefits	47	1	51	1	(4)	(8)
Toll collection and medical services	27	-	26	1	1	4
Depreciation of property and equipment	17	-	5	-	12	240
Others	85	2	34	1	51	150
Total cost of services	₱4,554	100	₱4,393	100	₱161	4

Operator's fee for the year reached ₱1.5 billion, a decrease of ₱472.5 million or 24% lower than in 2016 primarily due to the lower O&M fees effective February 2017, which reduction was driven by efficiencies arising from the functional merger with TMC.

Likewise, concession fees amounting to ₱931.6 million relate to fees paid to BCDA as SCTEX developer. This represents 50% of the total toll revenues reported in SCTEX.

PNCC fees increased by 8% to ₱571.5 million from ₱527.7 million during the same period last year, due to the favorable toll revenue growth in NLEX during the period.

Provision for heavy maintenance was higher by 89% or ₱101.5 million due to scheduled periodic maintenance in several sections of NLEX. Insurance premiums relating to service concession assets decreased to ₱76.4 million, lower by 3% or ₱1.7 million, while amortization of service concession assets grew by 24% or ₱147.7 million due to the recognition of depreciation expense for the newly widened sections in Segments 2 and 3 of NLEX, SCTEX pavement rehabilitation, the newly completed toll plazas opened during the year, and the increase in traffic volume.

Other costs comprise of expenses related to real property taxes, cost of marketing and advertising collaterals, light, water, communications and depreciation expense of advertising equipment and structures installed in the NLEX and SCTEX.

Upon the effectivity of the Merger, NLEX Corp shall no longer incur O&M fees as an expense but shall be directly liable for the cost and expense of maintaining and operating the NLEX and SCTEX.

General and Administrative Expenses

The following table shows the breakdown of general and administrative expenses for the years ended December 31, 2017 and December 31, 2016:

In ₱ Millions	For the year 2017 (Audited)		For the year 2016 (Audited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Advertising and marketing expenses	₱225	27	₱135	19	₱90	67
Salaries and employee benefits	224	27	191	26	33	17
Professional fees	81	10	93	13	(12)	(13)
Taxes and licenses	74	9	63	9	11	17
Management fees	73	9	73	10	-	-
Representation and travel	34	4	31	4	3	10
Depreciation of property and equipment	34	4	25	3	9	36
Provisions	31	3	30	4	1	3
Outside services	14	1	22	3	(8)	(36)
Others	55	6	63	9	(8)	(13)
Total G&A expense	₱845	100	₱726	100	₱119	16

General and administrative expenses amounted to ₱845.5 million, 16% or ₱119.3 million higher than in 2016. This was due to higher advertising and marketing expenses which increased by ₱89.8 million and higher salaries and employee benefits by ₱33.4 million.

The increase in G&A expense items were neutralized by lower professional fees which decreased by ₱11.8 million or 13% from last year.

Interest and Financing Costs

Interest expense and other finance costs (net of interest income) amounted to ₱472.0 million, 24% or ₱91.2 million higher than last year. The higher interest expense was due to higher loan balance in 2017, and the recognition of the interest expense associated with Phase 1 of the NLEX Lane Widening Project in 2017.

In addition, borrowing costs associated with existing expansion projects have been capitalized. Total borrowing costs capitalized amounted to ₱653.8 million and ₱653.7 million for the years ended December 31, 2017 and 2016, respectively.

The table below shows the breakdown of interest expense and other finance costs for the years ended December 31, 2017 and 2016:

In ₱ Millions	For the year 2017 (Audited)		For the year 2016 (Audited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Interest and Financing Costs:						
Interest expense	₱470	91	₱405	92	₱65	16
Provision for heavy maintenance	16	3	13	3	3	23
Amortization of debt issue costs	22	4	20	5	2	10
Deferred lease income	-	-	-	-	-	-
Commitment fee	12	2	-	-	12	100
Lenders' fees	3	1	4	1	(1)	(25)
Bank charges	-	-	1	-	(1)	(100)
Total interest and financing costs	523	100	443	100	80	18
Interest Income:						

In ₱ Millions	For the year 2017		For the year 2016		Increase (Decrease)	
	(Audited)		(Audited)			
	Amount	%	Amount	%	Amount	%
Cash and cash equivalent	(9)	18	(21)	34	(12)	(57)
AFS financial assets and others	(42)	82	(40)	65	2	5
Others	-	-	(1)	1	(1)	(100)
Total interest income	(51)	100	(62)	100	(11)	(18)
Net interest expense	₱472		₱381		₱91	24

Net Income

For the year 2017, total consolidated net income reached ₱4,644.2 million, 14% or ₱557.1 million higher than the ₱4,087.1 million posted in 2016 mainly due to robust traffic growth in NLEX and SCTEX.

December 31, 2016 Compared to December 31, 2015

Revenues

The following table shows the breakdown of revenues for the period ended December 31, 2016 and December 31, 2015 by revenue source:

In ₱ Millions	For the year 2016	For the year 2015	Increase (Decrease)	
	(Audited)	(Audited)	Amount	%
Operating revenues	₱10,696	₱8,603	₱2,093	24
Cost of services	(4,393)	(3,421)	972	28
General and administrative expenses	(726)	(709)	17	2
Interest expense and other finance costs – net of interest income of ₱62 million in 2016 and ₱73 million in 2015	(381)	(549)	(168)	(31)
Foreign exchange gain (loss)	-	8	(8)	(100)
Other income	11	6	5	83
Provision for income tax	(1,120)	(945)	175	19
Net income	₱4,087	₱2,993	₱1,094	37
Net income margin	38%	35%		

The Company's operating revenues for the years ended December 31, 2016 and 2015 were derived mainly from toll fees of NLEX and SCTEX. The Company also generated other income from advertising materials and structures as well as toll service facilities along NLEX.

As of December 31, 2016, toll revenues reached ₱10.5 billion, 25% or ₱2.1 billion higher compared to the prior year due to higher traffic volume in NLEX and SCTEX and first full-year toll revenue contribution from SCTEX operations amounting to ₱1.6 billion. Average daily traffic in NLEX during the period hit 220,010 average daily entries, 9% higher than in 2015 while traffic for SCTEX reached 45,026 daily vehicle entries, 17% higher than in 2015.

In addition to toll revenues, the Company also generated revenues from advertising, toll services and utility facilities and rental and service income amounting to ₱157.4 million and ₱150.1 million for the years ended December 31, 2016 and 2015, respectively.

Cost of Services

Operator's fee accounted for more than 50% of the Company's cost of services for the years 2016 and 2015. Other cost of services and toll road repairs and maintenance costs for the period ended December 31, 2016 and December 31, 2015 are detailed in the table below:

In ₱, Millions	For the year 2016		For the year 2015		Increase/(Decrease)	
	Amount	%	Amount	%	Amount	%
Operator's fee	₱2,001	46	₱1,742	51	₱259	15
Concession fee	791	18	132	4	659	499
Amortization of service concession assets	615	14	575	17	40	7
PNCC fee	528	12	482	14	46	10
Provision for heavy maintenance	114	3	151	4	(37)	(25)
Insurance	78	1	53	2	25	47
Repairs and maintenance	77	1	108	3	(31)	(29)
Outside services	73	2	64	2	9	14
Salaries	51	1	53	2	(2)	(4)
Toll collection & medical services	26	1	18	-	8	44
Depreciation	5	-	9	-	(4)	(44)
Others	34	1	34	1	-	-
Total cost of services	₱4,393	100%	₱3,421	100	₱972	28

Operator's fee in 2016 reached ₱2.0 billion, an increase of ₱259.8 million or 15% higher than 2015 figures, due to the addition of full-year SCTEX related costs.

Likewise, concession fee amounting to ₱791.5 million relates to fees paid to BCDA for SCTEX. This represents 50% of the total toll revenues reported in SCTEX.

PNCC fees increased by 10% to ₱527.7 million from ₱482.1 million in 2015, due to the favorable toll revenue growth in NLEX during the said period.

Provision for heavy maintenance is down by 25% or ₱36.8 million due to the accelerated implementation of pavement repairs in 2015. Insurance premiums relating to service concession assets increased to ₱78.1 million, higher by 47% or ₱25.1 million mainly due to the insurance premium attributed to SCTEX. Amortization of service concession assets grew by 7% or ₱40.0 million due to the additions to service concession assets capitalized during the year.

Other costs comprise of expenses related to real property taxes, cost of marketing and advertising collaterals, light, water, communications and depreciation expense of advertising equipment and structures installed in NLEX and SCTEX.

General and Administrative Expenses

General and administrative expenses amounted to ₱726.2 million, 2% or ₱17.2 million higher than in 2015. This was due to higher professional fees which increased by ₱54.5 million and higher provisions for arbitration expenses and doubtful accounts.

The increase in G&A expense items were neutralized by lower advertising expenses which

decreased by ₱84.9 million or 39% from the 2015 figures.

In ₱, Millions	For the year 2016		For the year 2015		Increase/(Decrease)	
	Amount	%	Amount	%	Amount	%
Advertising and marketing expenses	₱135	19	₱220	31	(₱85)	(39)
Salaries and employee benefits	191	26	184	26	7	4
Professional fees	93	13	39	6	54	138
Management fees	73	10	73	10	-	-
Taxes and licenses	63	9	57	8	6	11
Representation and travel	31	4	28	4	3	11
Provisions	30	4	5	1	25	500
Depreciation of property and equipment	25	3	29	4	(4)	(14)
Outside services	22	3	23	3	(1)	(4)
Others	63	9	51	7	12	24
Total G&A expense	₱726	100	₱709	100	₱17	2

Interest and Financing Costs

Interest expense and other finance costs (net of interest income) amounted to ₱380.8 million, 31% or ₱168.6 million lower than in 2015. The lower interest expense was mainly due to the prepayment of some loans during the fourth quarter of 2015. In addition, borrowing costs associated with existing expansion projects were capitalized. Total borrowing costs capitalized amounted to ₱653.7 million and ₱383.0 million for the years ended December 31, 2016 and 2015, respectively.

The table below shows the breakdown of interest expense and other finance costs for the years ended December 31, 2016 and 2015:

In ₱ Millions	For the year 2016		For the year 2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Interest and Financing Costs:						
Interest expense	₱405	91	₱546	88	(₱141)	(26)
Provision for heavy maintenance	13	3	12	2	1	8
Amortization of debt issue costs	20	5	29	4	(9)	(31)
Deferred lease income	-	-	-	-	-	-
Loan prepayment fees	-	-	30	5	(30)	(100)
Lenders' fees	4	1	4	1	-	-
Bank charges	1	-	1	-	-	-
Total interest and financing costs	443	100	622	100	(179)	(29)
Interest Income:						
Cash and cash equivalent	(21)	34	(19)	26	2	11
AFS financial assets and others	(40)	65	(54)	74	(14)	(26)
Others	(1)	1	-	-	1	100
Total interest income	(62)	100	(73)	100	(11)	(15)
Net interest expense	₱381		₱549		(₱168)	(31)

Net Income

In 2016, total consolidated net income reached ₱4.1 billion, 37% or ₱1.1 billion higher than the ₱3.0 billion posted in 2015 last year mainly due to robust traffic growth in the NLEX and the impact of the full-year operations of SCTEX.

Balance Sheet

December 31, 2017 Compared to December 31, 2016

The table below shows the balance sheet highlights for period ending December 31, 2017 and December 31, 2016.

In ₱, Millions	December 2017	December 2016	Increase (Decrease)	
	(Audited)	(Audited)	Amount	%
Cash and cash equivalents	₱2,715	₱390	₱2,325	596
Total assets	40,146	35,289	4,857	14
Total liabilities	29,490	25,677	3,813	15
Total equity	10,656	9,612	1,044	11

Assets

Cash and cash equivalents increased to ₱2.7 billion as of December 31, 2017, significantly higher compared to the ₱389.9 million at year-end 2016. The higher cash balance is mainly attributed to higher internally generated funds from operations and the loan drawdown made during the last quarter of 2017.

Receivables increased by ₱121.8 million or 21% to ₱715.0 million from ₱593.2 million last year mainly due to the increase in trade receivables, claims from third parties on damage to properties and advertising sales.

Inventories reached ₱112.6 million, up by 23% or ₱21.4 million during the period due to purchases of spares to maintain the minimum stock level requirement for toll collection, electrical and mechanical equipment.

Advances to contractors and other non-current assets reached ₱224.4 million in 2017 down from ₱1,209.3 million as of December 31, 2016 due to the completion of expansion projects like road widening, construction of new toll plazas and interchanges during the said year.

Other current assets amounted to ₱908.4 million, 30% or ₱207.7 million higher than the same period last year mainly due to the reclassification of reserve amount in escrow amounting to ₱321.0 million previously classified under "Other non-current assets" account.

Service concession assets increased to ₱33.7 billion from ₱30.7 billion due to the completion of Phase 1 of NLEX Lane Widening Project, major toll plaza expansions, widening of interchanges, pre-construction activities for Segment 8.2 and R-10 Section Project, on-going construction of Segment 10 and the upgrade of the roadway and facilities of SCTEX.

Liabilities and Stockholder's Equity

As of December 31, 2017, accounts payable reached ₱3.3 billion from ₱3.2 billion last year, 3% or ₱93.6 million higher due to the increase in trade payables such as PNCC fees, concession fees, contractors and consultants and regular purchases of goods and services

during the period.

Income tax payable increased to ₱329.4 million from ₱303.5 million due to higher revenues generated during the calendar year ending December 31, 2017.

Long-term debt, net of current portion, reached ₱16.1 billion as of December 31, 2017, down by ₱2.4 billion or 13% compared to the ₱18.5 billion as of December 31, 2016. The decrease was attributed to the reclassification of the portion of long-term debt to current liabilities under “Current portion of long-term debt” account which is due to mature in March and April 2018 amounting to ₱4.0 billion. An additional loan drawdown was made amounting to ₱2.0 billion from the PNB facility primarily to finance the various expansion projects such as Phase 1 of the NLEX Lane Widening Project, toll plazas and interchanges.

As of December 31, 2017, retained earnings amounted to ₱5.2 billion, 27% or ₱1.1 billion higher compared to the ₱4.1 billion as of December 31, 2016.

Key Financial Indicators

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

		December 2017	December 2016
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.46	0.46
Debt-to-equity (DE) ratio	$\frac{\text{Interest Bearing Liabilities}}{\text{Stockholders' Equity}}$	1.92	1.96
Net profit margin	$\frac{\text{Net income}}{\text{Revenues}}$	39%	38%
Return on assets	$\frac{\text{Net income}}{\text{Average Total Assets}}$	12%	12%
Return on stockholders' equity	$\frac{\text{Net income}}{\text{Average Stockholders' Equity}}$	45.8%	46%

As of December 31, 2017, the current ratio was maintained at 0.46x due to the reclassification of maturing loans to current liabilities amounting to ₱4.0 billion and dividend payable of ₱1.8 billion, which offset the higher cash position in 2017. As of April 6, 2018, NLEX Corp had available short-term loan lines amounting to ₱13.5 billion from various local banks to cover the current portion of long-term debt.

NLEX Corp had available-for-sale investments classified as non-current assets amounting to ₱1.20 Billion as of December 31, 2017. This is comprised of investments in treasury bonds issued by the Republic of the Philippines, treasury notes and corporate bonds which the Company may liquidate, as necessary.

Debt-to-Equity Ratio slightly improved to 1.92x as of December 31, 2017 from 1.96x as of December 31, 2016 due to higher net income during the year.

Net profit margin increased to 39.5% from 38.2% primarily due to higher net income driven by

higher traffic in NLEX and SCTEX in 2017 supported by synergies generated from the integration of the two expressways and the functional merger with TMC.

On the back of higher earnings, return on assets was maintained at 12.3% at year-end and return on equity at 45.8%.

The following table shows the estimated Debt-to-Equity ratio of NLEX Corporation, pre and post-completion of the Offer:

	POST-DRAWDOWN*	PRE-DRAWDOWN (April 18, 2018)
D:E Ratio	1.75	1.54

**with full exercise of oversubscription option*

December 31, 2016 compared to December 31, 2015

Balance Sheet

In Millions	December 2016	December 2015	Increase (Decrease)	
	(Audited)	(Audited)	Amount	%
Cash and cash equivalents	390	2,669	(2,279)	(85)
Total assets	35,289	30,885	4,404	14
Total liabilities	25,677	22,751	2,926	13
Total equity	9,612	8,134	1,478	18

Assets

Cash and cash equivalents were reduced to ₱389.9 million as of December 31, 2016, significantly lower compared to the ₱2.7 billion as of December 31, 2015. The lower cash balance is mainly attributed to the on-going construction of Segment 10, the Phase 1 of NLEX Lane Widening Project, income tax payment, dividend payment of ₱4.0 billion, payment of interest amounting to ₱427.1 million and repayment of principal of ₱1.0 billion.

Receivables increased by ₱29.1 million or 5% to ₱593.2 million from ₱564.1 million as of December 31, 2015 due mainly to the increase in sales of advertising materials.

Inventories reached ₱91.2 million, up by 28% or ₱19.8 million during the period due to purchases of spares to maintain the minimum stock level requirement for toll collection, electrical and mechanical equipment.

The increase in advances to contractors and consultants to ₱298.6 million in 2016 from ₱101.2 million as of December 31, 2015 was due to the on-going expansion and enhancement projects of the Company.

Other current assets amounted to ₱700.7 million, 6% or ₱41.7 million higher than in 2015 mainly due to the amortization of deferred input value added tax arising from the acquisition of the SCTEX concession.

Service concession assets increased to ₱30.7 billion from ₱22.8 billion due to various additions to the NLEX concession asset (mainly, Segment 10), the additions to the SCTEX concession asset arising from the ongoing pavement rehabilitation and facilities upgrade, and

the new recognition of intangible asset related to the Connector Road Project that was signed in November 2016.

Liabilities and Stockholder's Equity

Accounts payable increased by ₱854.6 million or 39% to ₱3.2 billion from ₱2.3 billion due to increase in trade payables such as PNCC revenue share, concession fees, contractors and consultants and regular purchases of goods and services during the period.

Income tax payable increased to ₱303.5 million from ₱258.7 million due to higher revenues generated during the calendar year ending December 31, 2016.

Long-term debt, net of current portion, reached ₱18.5 billion as of December 31, 2016, higher by ₱1.7 billion or 10% compared to the ₱16.8 billion as of December 31, 2015. The increase was attributed to the additional loan drawdown amounting to ₱2.0 billion from the Union Bank loan facility primarily to finance the construction of the NLEX widening and Segment 10 projects.

As of December 31, 2016, retained earnings amounted to ₱4.1 billion, 58% or ₱1.5 billion higher compared to the ₱2.6 billion as of December 31, 2015.

Key Financial Indicators

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

		December 2016	December 2015
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.46	1.04
Debt-to-equity (DE) ratio	$\frac{\text{Interest Bearing Liabilities}}{\text{Stockholders' Equity}}$	1.96	2.19
Net profit margin	$\frac{\text{Net income}}{\text{Revenues}}$	38.2%	34.8%
Return on assets	$\frac{\text{Net income}}{\text{Average Total Assets}}$	12.4%	10.0%
Return on stockholders' equity	$\frac{\text{Net income}}{\text{Average Stockholders' Equity}}$	46.1%	38%

As of December 31, 2016, the current ratio decreased to 0.46x from 1.04x due to lower cash balance for the period.

Debt-to-Equity Ratio improved to 1.96x as of December 31, 2016 from 2.19x as of December 31, 2015 due to the slight decrease in loan balance arising from principal repayment and higher net income during the period.

Net profit margin increased to 38.2% from 34.8% primarily due to higher net income driven by higher traffic in NLEX and SCTEX in 2016, and the synergies generated from the integration of the two expressways.

Higher earnings boosted return on assets to 12.4% and return on equity to 46% at year-end 2016.

Cash Flows

The following table shows the company's cash flows for the period ended December 31, 2017 and 2016:

Cash Flows	December 2017 (Audited)	December 2016 (Audited)
Cash, beginning balance	390	2,669
Net cash provided by (used in) operating activities	6,632	5,867
Net cash provided by (used in) investing activities	(3,649)	(4,658)
Net cash used in financing activities	(658)	(3,488)
Effect of exchange rate changes	-	-
Net increase (decrease) in cash	2,325	(2,279)
Cash, ending balance	2,715	390

As of December 31, 2017, cash and cash equivalents stood at ₱2,715.2 million, 596% higher or ₱2,325.3 million higher than in 2016 mainly due to the undisbursed fund for the dividends payable as of December 31, 2017 amounting to ₱1.8 billion.

Cash Flows from Operating Activities

The cash flows from operating activities, mainly toll revenues were used primarily for income taxes paid amounting to ₱1.3 billion, increase in accounts receivables of ₱116.2 million and decrease in accounts payable amounting to ₱89.0 million.

Cash Flows from Investing Activities

The cash flows used in investing activities are primarily related to the on-going construction of Segment 10 Harbor Link project, NLEX widening, SCTEX pavement and road structures modernization projects and pre-construction costs related to the Segment 8.2 and C3 to R-10 Section Project. As of December 31, 2017, additions to service concession assets amounted to ₱3,573.5 million.

Cash Flows from Financing Activities

Net cash flows used in financing activities as of December 31, 2017 includes payment of cash dividends amounting to ₱1,760.0 million, interest on loans worth ₱482.0 million and loan principal payment of ₱402.1 million.

Cash Flows

The following table shows the NLEX Corp's cash flows for the period ended December 31, 2016 and 2015:

Cash Flows	December 2016 (Audited)	December 2015 (Audited)
Cash, beginning balance	2,669	2,954
Net cash provided by (used in) operating activities	5,867	4,147
Net cash provided by (used in) investing activities	(4,658)	(2,726)
Net cash used in financing activities	(3,488)	(1,708)
Effect of exchange rate changes	-	2

Net increase (decrease) in cash	(2,279)	(285)
Cash, ending balance	390	2,669

As of December 31, 2016, cash and cash equivalents stood at ₱390.0 million, 85% lower or ₱2,279 million lower than in 2015 mainly due to the placement of excess cash in various short-term investment instruments.

Cash Flows from Operating Activities

The cash flows from operating activities which include toll revenues were driven by movements in the following accounts namely - advances to contractors and consultants of ₱197.4 million, spare parts and supplies inventories of ₱20.0 million, corporate income tax during the year amounting to ₱1,108.0 million and project insurance and other current assets amounting to ₱58.8 million

Cash Flows from Investing Activities

The cash flows used in investing activities mostly consist of payments for the construction of Segment 10 project, NLEX widening, the SCTEX pavement rehabilitation and the NLEX-SCTEX integration projects. As of December 31, 2016, additions to service concession assets amounted to ₱6,031.2 million.

Cash Flows from Financing Activities

Net cash flows used in financing activities as of December 31, 2016 includes payment of cash dividends amounting to ₱4,022.6 million, interest on loans worth ₱427.1 million and loan principal payment of ₱1,012.1 million.

MANAGEMENT AND CERTAIN SECURITY HOLDERS

BOARD OF DIRECTORS

The Board is principally responsible for the Company's overall direction and governance. The Company's Articles of Incorporation provide for thirteen (13) members of the Board, who shall be elected by the stockholders. Each director holds office for one (1) year and until their successors are elected and qualified in accordance with the By-Laws.

As of March 31, 2018, the following are the current members of the Board of Directors of the Company:

Name	Age	Citizenship	Year Position was Assumed
Manuel V. Pangilinan	71	Filipino	2008
Jose Ma. K. Lim	65	Filipino	2008
Rodrigo E. Franco	59	Filipino	2008
Christopher Daniel C. Lizo	45	Filipino	2008
Raul L. Ignacio	58	Filipino	2016
Jose Luigi L. Bautista	59	Filipino	2016
Robert V. Bontia	51	Filipino	2016
Atty. Antonette C. Tionko	50	Filipino	2017
Jean-Claude Neumann	65	French	2005
Jose T. Sio	78	Filipino	2010
Frederic C. DyBuncio	57	Filipino	2014
Dr. Arlyn Sicangco-Villanueva	61	Filipino	2014
Liberato P. Laus	67	Filipino	2016

The following is a brief description of the business experiences of each of our directors for at least the past five (5) years:

Manuel V. Pangilinan

Mr. Manuel V. Pangilinan has served as Chairman of the Board of NLEX Corp since 2008 and is the chairman of the Compensation and Remuneration Committee of NLEX Corp. He serves as President and CEO of PLDT, Inc. He serves as either Chairman or Director of the following companies: Manila Electric Company, Smart Communications, Inc. (Smart), Metro Pacific Investments Corporation (MPIC), Landco Pacific Corporation, Philex Mining Corporation, Associated Broadcasting Corp., Medical Doctors, Inc. (Makati Medical Center), Colinas Verdes, Inc. (Cardinal Santos Medical Center), Asian Hospital, Inc. (Asian Hospital), Central Luzon Doctor's Hospital, De Los Santos Medical Center, Manila Doctors Hospital, Jesus Delgado Memorial Hospital, Marikina Valley Medical Center, Sacred Heart of Malolos (Bulacan), Davao Doctors Incorporated, Riverside Medical Center Incorporated (Bacolod), West Metro Medical Center Hospital (Zamboanga), and Megaclinic. He also serves as the Vice Chairman of Roxas Holdings, Inc.

Mr. Pangilinan founded First Pacific Company Limited in 1981 and served as Managing Director until 1999. He was appointed as Executive Chairman until June 2003, when he was named Chief Executive Officer and Managing Director. He also holds the position of President Commissioner of P.T. Indofood Sukses Makmur Tbk, the largest food company in Indonesia.

Outside the First Pacific Group, Mr. Pangilinan is also Chairman of the Board of Trustees of San Beda College, PLDT-Smart Foundation, Inc., the Philippine Business for Social Progress, Philippine Disaster Recovery Foundation, Inc. and the Hong Kong Bayanihan Trust, a non-

stock, non-profit foundation which provides vocational, social and cultural activities for Hong Kong's foreign domestic helpers, the Vice Chairman of the Foundation for Crime Prevention, a private sector group organized to assist the government with crime prevention, and a member of the Board of Trustees of Caritas Manila and Radio Veritas-Global Broadcasting Systems, Inc. He is also Co-Chairman of the newly organized US-Philippine Business Society, a non-profit society which seeks to broaden the relationship between the United States and the Philippines in the areas of trade, investment, education, foreign and security policies and culture. He also served as a member of the Board of Overseers of the Wharton School, University of Pennsylvania. In February 2007, he was named the President of the Samahang Basketbol ng Pilipinas, a national sports association for basketball, and effective January 2009, he assumed the chairmanship of the Amateur Boxing Association of the Philippines, the governing body of amateur boxers in the country. In 2011, he was appointed a member of the ASEAN Business Advisory Council by the Office of the President of the Philippines. He was a former Commissioner of the Pasig River Rehabilitation Commission and a former Governor of the Philippine Stock Exchange.

Mr. Pangilinan graduated *cum laude* from the Ateneo de Manila University, with a Bachelor of Arts degree in Economics. He received his Master's degree in Business Administration from Wharton School of Finance and Commerce, University of Pennsylvania.

Jose Ma. K. Lim

Mr. Jose Ma. K. Lim has served as a Director since 2008 and is the chairman of the Executive and Nomination Committees of NLEX Corp. He serves as the President and Chief Executive Officer of MPIC (since 2006) and as a Director in the following MPIC Subsidiary and affiliate companies: Beacon Electric Asset Holdings Inc.; Manila Electric Company; Metro Pacific Tollways Corporation; Tollways Management Corporation; Maynilad Water Services, Inc.; Light Rail Manila Corporation; AF Payments Inc; MetroPac Water Investments Inc.; Indra Philippines; Global Business Power Inc.; Medical Doctors, Inc. (owner and operator of Makati Medical Center); Cardinal Santos Medical Center (Colinas Verdes Hospital Managers Corporation); Asian Hospital: Our Lady of Lourdes Hospital; Manila Doctors Hospital Inc; He is also a Director of the Ateneo Graduate School of Business and a Trustee of the Asian Institute of Management. Mr. Lim serves as Chairman of Indra Philippines.

In 1995, Mr Lim joined Fort Bonifacio Development Corporation (FBDC) as Treasury Vice President and eventually was appointed Chief Finance Officer in 2000.

In 2001, Mr. Lim assumed the position of Group Vice President and Chief Finance Officer of FBDC's parent company, Metro Pacific Corporation on a concurrent basis. He was then elected President & CEO of MPC in June 2003. In 2006, MPC was reorganized into Metro Pacific Investments Corporation (MPIC), where he continues to serve as President & CEO.

He is a founding member of the Shareholders Association of the Philippines and is an active member of various business organizations.

He was awarded by the Corporate Governance Asia as the Best CEO for Investors Relations for five (5) consecutive years from 2012-2016.

Mr. Lim graduated from the Ateneo de Manila University, with a Bachelor of Arts degree in Philosophy. He received his MBA degree in 1978 from the Asian Institute of Management.

Rodrigo E. Franco

Mr. Franco started his toll road career in 2003 when he assumed responsibility for managing the NLEX project finance facilities from multilateral and commercial banking sources. As the CFO of the NLEX Corp, the concession company for the NLEX Project, he was also involved in identifying and mitigating risk exposure of the Company, managing relationship with the stockholders and other stakeholders, and developing solutions for finance-related issues. In 2009, he eventually became the President and CEO of NLEX Corp and led the Company in eventually securing the SCTEX concession. In 2016, he was appointed concurrent President & CEO of MPT North, the toll road holding company of MPIC. He now leads MPIC's Tollways team which has become a premier private sector infrastructure developer in the country.

Before joining NLEX Corp in April 2003, Mr. Franco spent 20 years with JPMorgan Chase Bank. He was Vice President for Investment Banking when he left the Manila branch of JPMorgan Chase by the end of 2002. While in JPMorgan Chase, he assisted several Philippine companies raise funds from the international loan and capital markets, and had been involved in originating and executing several mergers and acquisitions, equity capital markets and loan and bond restructuring transactions.

Mr. Franco is a graduate of the Ateneo de Manila University with a degree in Management Engineering and a Master's in Business Administration. He is also an alumnus of Philippine Science High School.

Christopher Daniel C. Lizo

Mr. Christopher Daniel C. Lizo is the Chief Operating Officer and Chief Finance Officer of MP CALA Holdings, Inc. and concurrently serves as Treasurer and Director of MPTC, NLEX Corp, TMC, and Cavite Infrastructure Corp. He served as Chief Finance Officer of NLEX Corp from 2008 to 2016.

He has 18 years of vast experience in finance and accounting for having worked with the Metro Pacific Group. As Treasury manager in 2000, Mr. Lizo successfully handled the retirement of its seven-year debt reduction program that geared the Company into reorganization and recapitalization. After MPIC was established in 2006, Mr. Lizo was appointed as Controller and Vice President for Treasury of MPIC to oversee its strategic business and financial planning process. In addition, he also handled the administration, finance, credit and risk management, budget and accounting departments of the Company. Mr. Lizo became a Director of MPTC in 2007.

Mr. Lizo is a BSC Accounting graduate of De La Salle University, batch 1993 and a Certified Public Accountant. He finished the Executive Management Course in University of Wharton last October 2015.

Jean-Claude Neumann

Mr. Jean-Claude Neumann has served as Director and Second Vice Chairman of the Company since 2005. He also serves as a member of the Executive and Audit Committees of NLEX Corp. He is currently the President and Managing Director of Egis Projects Philippines, Inc., the local subsidiary of Egis Projects S.A.

Mr. Neumann has occupied various positions as Project Director of several motorway operating systems projects in Asia and Europe. He served more than ten years with the defense giant, Thomson-CSF, managing complex integrated defense systems projects, culminating with the position of Project Director for a defense missile project worth EUR 400 million.

Mr. Neumann is an Electronics Engineer from Ecole Supérieure d'Electricité, Paris and has a Master's Degree in Business Administration from INSEAD. He also holds a Master's Degree in Mathematics from the University of Lyon.

Jose T. Sio

Mr. Jose T. Sio has served as Director of NLEX Corp since 2010 and is a member of the Company's Executive and Audit Committees. He is a member of the Board of Directors of the following companies listed in the Philippine Stock Exchange (PSE): (i) China Banking Corporation; (ii) Belle Corporation; (iii) Atlas Consolidated Mining and Development Corporation; and Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corporation. Mr. Sio also serves as Director of the following companies not listed in the PSE: (i) OCLP (Ortigas) Holdings, Inc.; (ii) Carmen Copper Corporation; (iii) CityMall Commercial Centers Inc.; and (iv) First Asia Realty Development Corporation.

Mr. Sio was a Senior Partner of SyCip Gorres Velayo & Co. (SGV). He was voted as CFO of the Year in 2009 by the Financial Executives of the Philippines (FINEX). He was also awarded as Best CFO (Philippines) in various years by Hong Kong-based business publications such as Alpha Southeast Asia, Corporate Governance Asia, Finance Asia and The Asset.

Mr. Sio is a Certified Public Accountant and holds a Bachelor of Science degree in Commerce, major in Accounting, from the University of San Agustin. He obtained his Master's degree in Business Administration from New York University, U.S.A.

Frederic C. DyBuncio

Mr. Frederic C. DyBuncio has served as Director of the Company since February 2014. He serves as President, Chief Executive Officer, and Director of Belle Corporation and its subsidiary Premium Leisure Corp. He is the Vice Chairman and Director of Atlas Consolidated Mining and Development Corporation. Concurrently, he is the Executive Vice President of SM Investments Corporation. Prior to holding the post, he was a career banker who spent over 20 years with JPMorgan Chase and its predecessor institutions.

Mr. DyBuncio graduated from Ateneo de Manila University with a Bachelor of Science degree in Business Management and finished a Master's degree in Business Administration program at Asian Institute of Management.

Raul L. Ignacio

Mr. Raul L. Ignacio currently serves as Director and Senior Vice President of NLEX Corp.

Mr. Ignacio has more than 30 years of experience in engineering, construction, and maintenance of roads and bridges. He joined NLEX Corp in November 1998 as Head of Project Controls. His accomplishments over his 15 years with NLEX Corp include the timely completion of the rehabilitation of NLEX and the high standards of the operations and maintenance of NLEX. Over the years, his role has expanded to cover the operations and maintenance of NLEX, including the implementation of the heavy maintenance of NLEX, and the planning, design and construction of various projects of NLEX Corp.

Mr. Ignacio graduated from the University of the Philippines in 1981 with a Bachelor of Science Degree in Civil Engineering.

J Luigi L. Bautista

Mr. Bautista is the President of MP CALA Holdings, Inc. (MPCHI). He has served as Director of NLEX Corp since February 2016, concurrent to his position of President of Cavitec Infrastructure Corporation and Senior Vice President for Technical Operations of Metro Pacific Tollways Development Corporation. He previously served as NLEX Corp Senior Vice President for Program Management of NLEX Corp and as Assistant Vice President for Contracts Administration and the Chief-of-Staff under the Office of the President/General Manager for First Philippine Infrastructure Development Corporation. In 2017, Mr. Bautista was appointed as part of NLEX Corp's Audit Committee.

He has more than 20 years' experience in the development, construction and modernization of the NLEX Project. His areas of expertise are in developing and constructing tollroad infrastructure projects, as well as in overseeing their operation and maintenance.

Mr. Bautista is among the top 20 successful examinees of the Professional Regulations Commission in 1981. He is a member of the Philippine Institute of Civil Engineers.

Mr. Bautista has a certificate in strategic business economics having completed his post-graduate studies in Masters in Business Economics at the University of Asia and Pacific (formerly the Center for Research and Communication) in Pasig City. He has earned several units in Masters in Construction Management at the Polytechnic University of the Philippines and Masters in Business Administration at the Ateneo de Manila University.

Roberto V. Bontia

Mr. Roberto V. Bontia is the President and CEO of Tollways Management Corporation (TMC) and has served as Director of NLEX Corp since November 2016. He joined TMC in 2005, shortly after the start of NLEX's commercial operations. He previously held the position of Senior Vice President and headed the Toll Operations Division and Corporate Communications of TMC.

Mr. Bontia has 14 years of experience working for the Nestle Group on various positions in the technical division covering industrial performance, manufacturing operations, and supply chain management. He had assignments in the Philippines, Switzerland, United States, Australia, and Mexico. Mr. Bontia also worked as a Technical Staff Consultant in the Change Management Services Division of SGV Consulting, specializing in organization/human resource management studies and operations improvement program.

Mr. Bontia obtained his Bachelor of Science in Industrial Engineering Degree at the University of the Philippines in 1988.

Antonette C. Tionko

Atty. Tionko is currently the Undersecretary for the Revenue Operations Group and Corporate Affairs Group of the Department of Finance of the Philippines. She is also the alternate/representative of the Secretary of Finance to various government-owned or controlled corporations. Atty. Tionko has been serving as Director and Vice-Chairman of NLEX Corp since 2017.

Arlyn Sicangco-Villanueva

Dr. Villanueva has served as an Independent Director of the Company since February 2014 and is the chairman of the Audit Committee of NLEX Corp. She is also a member of the Compensation and Remuneration Committee of NLEX Corp. She is a Certified Public

Accountant and is currently a member of the Professional Regulatory Commission's Board of Accountancy and a partner of Sicangco Menor Villanueva & Co., CPAs.

Dr. Villanueva is a fellow of the Institute of Corporate Directors since 2014. She obtained her Accounting degree from Holy Angel University in 1977. She obtained her Master's Degree in Business Management from the Ateneo Graduate School of Business in 1982 and her Doctorate Degree in Business Administration from the De La Salle Graduate School of Business in 2003, graduating "With Distinction". In 2011, she completed the Advance Management Program at the Harvard Business School (HBS AMP181); and in 2014, completed the one-year course on Challenges of Leadership at the INSEAD Business School at its Fontainebleau, France campus.

Liberato P. Laus

Mr. Laus has served as an Independent Director of the Company since October 2016. He is currently the Chairman of Laus Group of Companies, Chairman Emeritus of Pampanga Chamber of Commerce and Industry Inc., Chairman of San Fernando Heritage Foundation, Inc., independent director of Bank of Florida, Inc., Board of Trustee of San Beda Alumni Foundation, Inc., and Board of Trustee of Don Bosco Academy Pampanga.

Mr. Laus graduated from San Beda College in Manila with a degree in Bachelor of Science in Commerce, Major in Management.

Independent Directors of the Board

The Company's Board of Directors shall have at least two independent directors or such number of independent directors that constitutes twenty percent (20%) of the members of the Board, whichever is lesser, but in no case less than two. The independent directors shall have at least one (1) share of the stock of the Company in their respective names, are college graduates and possess integrity, probity and assiduousness. They are persons who, apart from their fees as directors of the Company, are independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with their exercise of independent judgment in carrying out their responsibilities as directors of the Company.

Specifically, the independent directors: (i) are not directors or officers or substantial stockholders of the Company or its related companies or any of its substantial stockholders (other than as independent directors of any of the foregoing); (ii) are not relatives of any director, officer or substantial stockholders of the Company, or any of its related companies or any of its substantial stockholders; (iii) are not acting as nominees or representatives of a substantial stockholders of the Company, or any of its related companies or any of its substantial stockholders; (iv) have not been employed in any executive capacity by the Company, or any of its related companies or by any of its substantial stockholders within the last two (2) years; (v) are not retained as professional advisers by the Company, any of its related companies or any of its substantial stockholders within the last two (2) years, either personally or through their firms; (vi) have not engaged and do not engage in any transaction with the Company or with any of its related companies or with any of its substantial stockholders, whether by themselves or with other persons or through a firm of which they are partners or companies of which they are directors or substantial stockholders, other than transactions which are conducted at arm's length and are immaterial; and (vii) do not own more than two (2) percent of the shares of the Company and/or its related companies or any of its substantial stockholders. The independent directors do not possess any of the disqualifications enumerated under Section II (5) of the Code of Corporate Governance and Section II (D) of SEC Memorandum Circular No. 16, Series of 2002.

EXECUTIVE / CORPORATE OFFICERS

The name, age, citizenship and position of the executive officers and all other officers of NLEX Corp as at March 31, 2018 are as follows:

Name	Age	Citizenship	Position	Year Position was Assumed
Manuel V. Pangilinan*	71	Filipino	Chairman of the Board	2008
Antonette C. Tionko*	50	Filipino	1 st Vice Chairman of the Board	2017
Jean-Claude Neumann*	65	French	2 nd Vice Chairman of the Board	2005
Rodrigo E. Franco*	59	Filipino	President and CEO	2010
Christopher Daniel C. Lizo*	45	Filipino	Treasurer	2008
Mona Lissa O. Sanson	45	Filipino	Vice President and Chief Audit Executive	2017
Joseph J. Marigomen	53	Filipino	Vice President for Legal Services and Compliance Officer	2017
Romulo S. Quimbo, Jr.	62	Filipino	Senior Vice President for Communication and Stakeholder Management	2013
Raul L. Ignacio*	58	Filipino	Senior Vice President for Tollways Development and Engineering	2015
Maria Theresa O. Wells	50	Filipino	Senior Vice President and Chief Financial Officer	2016
Nemesio G. Castillo	59	Filipino	Vice President for Construction Management Services	2011
Baby Lea M. Wong	52	Filipino	Senior Vice President for Human Resources and Administration	2016
Alex Erlito S. Fider	64	Filipino	Corporate Secretary	2008

* *Member of the Board*

Mona Lissa O. Sanson

Ms. Sanson is an accredited Certified Public Accountant in Commerce and Industry and a Certified Management Accountant (Institute of Certified Management Accountant of Australia), with over 20 years of extensive experience in finance, treasury, accounting, budgeting, taxation, internal and external auditing, serves as the Chief Audit Executive of the NLEX Corp

since February 2017. Prior to this appointment, Ms. Sanson has served as the Controller of Tollways Management Corporation since 2010 and as Assistant Vice President for Finance in 2013. In addition, she also acted as facilitator for in-house training programs on basic and advanced lessons in Microsoft Excel for more than five years being a certified Microsoft Office Specialist.

An alumna of SGV & Co., member practice of Ernst & Young Global Limited, she holds a degree in Bachelor of Science in Business Administration, Major in Accounting, *cum laude*, from the Philippine School of Business Administration in Quezon City. She also completed the Leadership and Management Development Program of the Ateneo de Manila Graduate School of Business, Center for Continuing Education in 2011. In 2016, she finished the Management Development Program in the Asian Institute of Management School of Executive Education and was awarded with Superior Performance for topping her class.

Joseph J. Marigomen

Atty. Joseph J. Marigomen is the Vice President for Legal Services and Compliance Officer of NLEX Corp. Concurrent to this position, he is also the General Counsel and Chief Legal Officer of MPT North. Atty. Marigomen obtained his law degree and undergraduate degree from the University of the Philippines. He became a member of the Philippine Bar in 1996. Prior to joining the Company in 2015, he was a Senior Partner at Puno and Puno Law Offices where he spent 17 years of practice in various fields of law including energy, privatization, dispute resolution, family law, mining, infrastructure (roads and tollways, engineering, procurement and construction), labor and employment, real estate, environment, social license, legal advocacy and election law.

Romulo S. Quimbo, Jr.

Mr. Romulo S. Quimbo Jr. is concurrently the head of Communication and Stakeholder Management of Metro Pacific Tollways Group and of NLEX Corp.

Atty. Quimbo has been involved in private sector infrastructure projects in the Philippines in the power, tollroad, telecommunications, airport terminal and cement terminal sectors for more than 20 years. Prior to joining the Company in 2000, he spent nine years as a member of the project machinery/infrastructure team of a global Japanese trading house which implemented several project finance transactions. He also has substantial public sector experience having worked for government agencies in planning and implementing multilateral/Official Development Assistance infrastructure projects. Upon joining the Company, he organized an in-house legal team focusing on the management of legal documentation for the project financing agreements, the construction contracts, the ROW expropriation cases and regulatory approvals relevant to the operations of the Company.

Maria Theresa O. Wells

Ms. Maria Theresa O. Wells was appointed as the Chief Finance Officer of NLEX Corp in January 2016. Prior to this, she has been the Vice President for Treasury & Comptrollership of the Company since December 2005. She has more than 20 years of experience in various fields of financial management, ranging from project finance, treasury management, loan administration and restructuring, comptrollership and procurement. Prior to joining NLEX Corp, she was assistant to the Chief Finance Officer of a publicly-listed holding company where she handled various finance-related assignments, including full-time secondment to project companies and acquisitions. Prior to taking her post-graduate degree, she started her career with the management consultancy services division of SGV & Co. Ms. Wells received her Master's in Business Management degree from the Asian Institute of Management in 1995 and her undergraduate degree from the University of the Philippines at Los Baños in 1987.

Nemesio G. Castillo

Mr. Nemesio G. Castillo serves as the Vice President for Project Management Department of NLEX Corp. Mr. Castillo has more than 30 years of experience in the field of construction, particularly on project management, claims and contracts, procurement, planning and scheduling, cost engineering and quality control. His projects involved development of industrial parks and construction of shopping malls, banks, townhouses, residential houses, offices, power plants, water treatment plants and fertilizer plants. He was also involved in the feasibility study of a wharf facility. He was responsible for the successful completion of Segments 8.1 and 9 of the NLEX in June 2010 and March 2015, the management of the ongoing construction of Segment 10 Harbor Link Project, detailed engineering and design of Connector Road Project and Segment 8.2 Project and other expansion projects of the Company.

Baby Lea M. Wong

Ms. Lea Wong is the Senior Vice President for Human Resources and Administration of NLEX Corp. She has over 25 years of professional experience in human resource management gained from various industries. She has a strong human resource generalist background with knowledge of advanced human resource theory and practice and hands-on experience in all aspects of human resources such as organization effectiveness, compensation design and administration, staffing, employee relations, and training and development. She is part of the pioneer group in TMC that recruited and trained around 800 people in less than eight months. This led to the successful take-over of the operations and maintenance of NLEX from PNCC in February 2005.

Alex Erlito S. Fider

Atty. Alex Erlito S. Fider is the Corporate Secretary of NLEX Corp since 2008. He serves as the Corporate Secretary of MPTDC, MPTC, TMC, Smart Communications, Inc. and Maynilad, and as Director of Roxas Holdings, Inc.

Atty. Fider is a senior partner of Picazo Buyco Tan Fider Santos Law Offices. He was admitted to the Philippine Bar in 1985 and has been in the practice of law since 1985. His legal experience spans over 32 years of involvement in corporate transactions and projects that involved legal counseling on Philippine law, including legal advice on the appropriate transaction structure, crafting of documents, legal diligence audit and managing corporate legal work in corporate acquisitions and investments, joint ventures, privatizations, corporate finance, divestments and restructuring.

Atty. Fider is actively involved in the Financial Executives Institute of the Philippines and Institute of Corporate Directors, of which he is a Fellow.

Atty. Fider obtained his Bachelor of Arts degree in Economics and Bachelor of Laws from the University of the Philippines.

SIGNIFICANT EMPLOYEES

While all employees are expected to make a significant contribution to the Company, there is no employee, not an executive officer, expected to make a significant contribution to the business of the Company on his own.

FAMILY RELATIONSHIPS

None of the directors/independent directors and executive officers of the Company or persons nominated to such positions has any family relationships up to the fourth civil degree either by consanguinity or affinity.

INVOLVEMENT OF DIRECTORS AND OFFICERS IN CERTAIN LEGAL PROCEEDINGS

The Company is not aware, and none of the directors/independent directors and executive officers or persons nominated for election to such positions has informed the Company, of any of the following events that occurred during the past five years:

- (a) any bankruptcy petition filed by or against any business of which a director/independent director or executive officer or person nominated to become a director/independent director or executive officer was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time;
- (b) any conviction by final judgment in a criminal proceeding, domestic or foreign, or any criminal proceeding, domestic or foreign, pending against any director/independent director or executive officer or person nominated to become a director/independent director or executive officer;
- (c) any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any director/independent director or executive officer or person nominated to become a director/independent director or executive officer in any type of business, securities, commodities or banking activities; and
- (d) any finding by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, that any director/independent director or executive officer or person nominated to become a director/independent director or executive officer, has violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

EXECUTIVE COMPENSATION

Directors

Article III, Section 8 of NLEX Corp's By-Laws provides that the remuneration of the Directors shall be determined by, and be subject to the approval of, the stockholders.

The Directors each receive per diems amounting to ₱10,000.00 for their attendance to board meetings and ₱5,000.00 for their attendance to committee meetings. There are no other arrangements for compensation either by way of payments for committee participation or consulting contracts. The Directors do not have employment contracts.

Compensation

The following table below sets forth the total annual compensation (salary and other variable pay) paid in 2016, 2017, and the first quarter of 2018 to: (i) the President and CEO, Mr. Rodrigo E. Franco, and the four (4) most highly compensated officers of NLEX Corp as a group, and (ii) all other executive officers, and other officers, as a group.

Name	Year	Salary (₱ millions)	Bonus (₱ millions)**
Chief Executive Officer and four highest-compensated executive officers*	2018 (1 st quarter)	7.4***	66.9***
	2017	28.1	15.5
	2016	19.0	6.9
	2018 (1 st quarter)	21.4***	130.2***
All other executive officers and managers as a group (excluding the President and CEO and four highest-compensated executive officers)	2018 (1 st quarter)	74.2	33.2
	2017	33.2	11.0
	2016		
	2018 (1 st quarter)		

*The President and CEO receives compensation from MPTC, not from NLEX Corp.

**Bonuses includes amounts received under the LTIP, as 13th month pay, mid-year bonus and performance bonus.

***Expected compensation for 2018.

The executive officers are covered by standard employment contracts and employees' retirement plan and can be terminated upon appropriate notice. There are no other special arrangements pursuant to which any director was compensated. There is no compensatory plan or arrangement for the termination, resignation, or retirement of a member of the Board.

Long-Term Incentive Plan

NLEX Corp's long-term incentive plan, or LTIP, is a cash plan that is intended to provide meaningful and contingent financial incentive compensation for eligible executives, officers and advisors of MPTC and its subsidiaries (the "MPTC Group"), who are consistent performers and contributors to the achievement of the long-term strategic plans and objectives, as well as the functional strategy and goals of the MPTC Group. The LTIP is administered by the Executive Compensation Committee ("ECC") and the Board of Directors which has the authority to determine: (a) eligibility and identity of participants; (b) the award attributable to each participant based on the participant's annual base compensation and

taking into account such participant's seniority, responsibility level, performance potential, tenure with the MPTC Group, job difficulty and such other measures as the Committee deems appropriate; (c) the level of achievement of the performance objectives; and (d) the actual award payable to each participant based on the level of achievement of the performance objectives. The LTIP payable of the Company will be based on profit targets for the covered performance cycle, amounted to ₱193.4 million and ₱129.4 million as at December 31, 2017 and 2016, respectively.

**SECURITY OWNERSHIP OF
CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT**

(a) Security Ownership of Certain Records and Beneficial Owners of more than 5% as at March 31, 2018

Title of class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	% of Outstanding
Common	Metro Pacific Tollways North Corporation 7th Floor, LV Locsin Building, Makati Avenue, Legazpi Village, Makati City	Same as record owner	Filipino	12,609,591	71.00%
Common	BDO Unibank, Inc. BDO Corporate Center, 7899 Makati Avenue, Makati City	Same as record owner	Filipino	2,197,800	12.375%
Common	Egis Investment Partners Philippines Inc., Unit 703, Citistate Center, 709 Shaw Blvd., Pasig City	Same as record owner	French	1,775,998	10.00%

(b) Security Ownership of Directors and Management as at March 31, 2018

Title of Class	Name of Stockholder	Amount and Nature of Ownership	Citizenship	% of Outstanding
Common	Manuel V. Pangilinan	1 share (of record)	Filipino	0.00%
Common	Jose Ma K. Lim	1 share (of record)	Filipino	0.00%
Common	Rodrigo E. Franco	1 share (of record)	Filipino	0.00%
Common	Christopher Daniel C. Lizo	1 share (of record)	Filipino	0.00%

Title of Class	Name of Stockholder	Amount and Nature of Ownership	Citizenship	% of Outstanding
Common	Raul L. Ignacio	1 share (of record)	Filipino	0.00%
Common	Roberto V. Bontia	1 share (of record)	Filipino	0.00%
Common	J. Luigi L. Bautista	1 share (of record)	Filipino	0.00%
Common	Antonette C. Tionko	1 share (of record)	Filipino	0.00%
Common	Jean-Claude Neumann	1 share (of record)	French	0.00%
Common	Jose T. Sio	1 share (of record)	Filipino	0.00%
Common	Frederic C. DyBuncio	1 share (of record)	Filipino	0.00%
Common	Liberato P. Laus	1 share (of record)	Filipino	0.00%
Common	Dr. Arlyn Sicangco-Villanueva	1 (beneficial and of record)	Filipino	0.00%

None of the members of the NLEX Corp's Board of Directors and Management owns 2.0% or more of the outstanding capital stock of NLEX Corp.

(c) Voting Trust Holders of 5% or more

NLEX Corp is not aware of any person holding more than 5% of common shares under a voting trust or similar agreement.

(d) Changes in Control

No change in control in the Company has occurred since the beginning of its last fiscal year.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

NLEX Corp, in the ordinary course of business, has entered into transactions with stockholders, affiliates, and other related parties principally consisting of advances and reimbursement of expenses, construction contracts, and development, management, underwriting, marketing, leasing and administrative service agreements. Sale and purchase of goods and services to and from related parties are made on an arm's length basis and at current market prices at the time of the transactions.

Except for the transactions discussed in Note 16 (Related Party Disclosures) to the accompanying financial statements, there were no other material related party transactions during the last three financial years, nor are there any material transactions currently proposed between NLEX Corp and any: (i) director or executive officer, direct or indirect owner of 10% or more of the outstanding shares in NLEX Corp; (ii) close family member of such director, executive officer or owner; (iii) associates of NLEX Corp; (iv) enterprises controlling, controlled by or under common control with NLEX Corp or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any director, executive officer or owner of 10% or more of the outstanding shares in NLEX Corp or any close family member of such director, executive officer or owner.

DESCRIPTION OF DEBT

As at December 31, 2017, NLEX had a total debt of about ₱20,548 million, all Peso-denominated and mostly carrying a fixed interest rate, with the principal amount payable in lump-sum upon maturity.

Below is the schedule of debt maturities for NLEX Corp for the years stated below based on total outstanding debt as at December 31, 2017:

Year Due	Principal (in ₱ Millions)
2018	₱ 4,318
2019	360
2020	360
2021	5,660
2022	350
2023	1,350
2024	4,200
2025	1,850
2026	1,100
2027	-
2028	1,000
TOTAL	₱ 20,548

Long-term debt consists of the following facilities:

Loan Facility	Amount (in ₱ Millions)
Fixed-Rate Corporate Notes (Series A Notes)	₱ 4,898
Term Loan Facilities	8,650
Fixed-rate Bonds	7,000
TOTAL	₱ 20,548

The loan facilities are all unsecured and are subject to common terms and covenants. The material financial covenants are as follows:

	Definition
Maintenance DSCR	Cashflow Available for Debt Service divided by Debt Service for the past 12-month period should not be less than 1.15x
Maintenance Debt-to-Equity Ratio	Debt to Equity Ratio should not exceed: (i) 3.0x until maturity; and (ii) 2.5x until March 31, 2024 (for the 2014 fixed-rate bonds).
Pro-Forma DSCR* – Debt Incurrence	NLEX Corp shall not create, incur, assume or suffer to exist any new Indebtedness if as a result of creating, incurring, assuming or suffering such Indebtedness, the Issuer's Pro-forma DSCR for the relevant year will be less than 1.30 times.
Pro-Forma DSCR* – Dividend/Other Distributions	NLEX Corp shall not declare or pay any dividends or make any other distributions to its common or preferred stockholders if the Pro-forma DSCR is less than 1.30 times.

**Debt service for purposes of the Pro-Forma DSCR is forward looking.*

Other than the foregoing, the Company does not maintain any other material financial covenants under its loan facilities.

CORPORATE GOVERNANCE

The Company recognizes the importance of corporate governance in building and sustaining its long-term growth and profitability as well as enhancing stakeholders' interests in the Company. The Company believes that the practice of corporate governance beyond mere compliance with rules and legislation, through a process of developing the proper competencies in order to establish an ethical corporate culture of principled business within the framework of its core values of accountability, integrity, fairness and transparency.

As strong advocates of accountability, transparency, and integrity in all aspects of the business, the Board of Directors, management, officers and employees of NLEX Corp commit themselves to the principles and best practices of governance in the attainment of its corporate goals.

Policies

The basic mechanisms for corporate governance are principally contained in NLEX Corp's Articles of Incorporation and By-Laws. These constitutive documents lay down, among others, the basic structure of governance, minimum qualifications of directors, and the principal duties of the Board and officers of NLEX Corp.

The NLEX Corp's Corporate Governance Manual ("**Governance Manual**") which was adopted and approved by the Board of Directors on February 3, 2014, supplements and complements the Articles of Incorporation and By-Laws by institutionalizing the principles of good governance that the Board of Directors and management believe to be a necessary component of sound business management. It was adopted pursuant to the Code of Corporate Governance, or the Philippine SEC Governance Code, that was promulgated by the SEC, under SEC Memorandum Circular No. 2, Series of 2002, dated April 5, 2002, as amended by SEC Memorandum Circular No. 6, Series of 2009 dated June 22, 2009, SEC Memorandum Circular No. 9, Series of 2014 dated May 6, 2014, and SEC Memorandum Circular No. 19, Series of 2016 dated November 22, 2016.

In compliance with the Philippine SEC Governance Code and consistent with the relevant provisions of the Securities Regulation Code and Corporation Code of the Philippines, the Governance Manual covers the following key areas:

1. The qualifications and grounds for disqualification for directorship;
2. The requirement that at least two (2) or 20% of the members of the Board of Directors, whichever is lesser, must be independent directors and the standards/criteria for the determination of independent directors;
3. The duties and responsibilities of the Board of Directors and the individual directors;
4. The Board committees, specifically, the nomination committee, audit committee and compensation and remuneration committee, the composition and the principal duties and responsibilities of such committees and grounds for permanent and temporary disqualification;
5. The role of the chairman in ensuring compliance with the corporate governance principles;
6. The role of our president/chief executive officer in ensuring that our organizational and procedural controls are adequate and effective to ensure reliability and

integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules, regulations and contracts;

7. The duties and responsibilities of the corporate secretary/assistant corporate secretary in terms of the support services that they need to provide the Board in upholding sound corporate governance;
8. The duties and responsibilities of the head of the internal audit organization that would provide the board of directors, management and stockholders with reasonable assurance that the key organizational and procedural controls are appropriate, adequate, effective and reasonably complied with;
9. The functions of the independent auditors that would reasonably ensure an environment of sound corporate governance as reflected in the financial records and reports; the requirement that non-audit work of the independent auditors should not conflict with their function as independent auditors; the requirement to rotate, at least once every five years, the independent auditors or the lead partner assigned to handle the independent audit of the financial statements;
10. The commitment to respect and promote stockholders' rights such as voting right, pre-emptive right, inspection right, dividend right, appraisal right, and right to receive information about the background, business experience, compensation and shareholdings of the directors and officers and their transactions with us;
11. The requirement to appoint a compliance officer and the duties and responsibilities of such compliance officer including the establishment of an evaluation system to determine and measure compliance with the provisions of the Governance Manual; and
12. The penalties for violations of the Governance Manual.

NLEX Corp also has a Code of Conduct ("**Code**"). The Code defines the behavior that is acceptable or not acceptable within the organization. It details the offenses versus the Company's or the person's property, the schedule of penalties for each offense according to its gravity, and the grievance process, and defines the roles of the different people involved in disciplinary action. The Code covers all Directors, employees, consultants, product and service providers, and anyone who acts in the name of NLEX Corp.

Board of Directors

Key Roles

The Board of Directors is the highest authority in matters of governance. The Board establishes the vision, mission and strategic direction of NLEX Corp, monitors over-all corporate performance, and protects the long-term interests of the various stakeholders by ensuring transparency, accountability and fairness. The Board exercises an oversight role over the risk management function while ensuring the adequacy of internal control mechanisms, reliability of financial reporting and compliance with applicable laws and regulations. In addition, certain matters are reserved specifically for the Board's disposition, including the approval of corporate operating and capital budgets, major acquisitions and disposals of assets, major investments and changes in authority and approval limits.

Composition

The Board consists of thirteen (13) members. They bring together immense value in terms of experience in running and directing various businesses and organizations. This expertise is applied in good measure to the pursuit of NLEX Corp's continued growth and profitability. Such a commitment requires, as well, a keen observance of corporate governance principles and policies adopted to ensure the objective performance of its oversight functions over management.

In compliance with the SEC's requirement to have independent directors (comprising at least 20% of the Board) with no material relationship with NLEX Corp, two independent directors were elected during the last annual stockholders' meeting held on May 26, 2017, namely Mr. Liberato P. Laus and Dr. Arlyn Sicangco-Villanueva. These Directors are independent of management, and free from any relationship that may interfere with their judgment.

To further enhance Board independence, NLEX Corp maintains the practice of keeping the posts of Chairman of the Board and the President and CEO separate. Each position has been given distinct and separate duties and responsibilities pursuant to the provisions of NLEX Corp's By-Laws and Governance Manual.

Selection of Directors

The Board itself is responsible for screening its own members and in recommending them for election by the Nomination Committee. The Chairman and CEO have direct input in the screening process while the final approval for the nominees as Directors is determined by the Nomination Committee. Directors are elected during the annual stockholders' meeting; however, in case of vacancies (due to causes other than removal by the stockholders or by expiration of term) in the Board between annual stockholders' meetings, the Board if still constituting quorum, may elect directors to serve until the next annual meeting.

Mix of Directors

There is a mix of executive, non-executive and independent directors on the Board. Senior management executives other than the Chairman, the Chief Executive Officer, and the Chief Operating Officer attend Board meetings on a regular basis even though they are not members of the Board. On matters of corporate governance, while the Board assumes decisions will be made by the Directors, input in any policy formulation and discussion from Directors who are employees is welcome and expected unless the issue involves an actual conflict of interest with such Directors.

Criteria for Independence for Independent Directors

The Board assesses the independence of each director and of each individual nominated for election to the Board as an independent Director. As part of this analysis, the Board must review and conclude whether each nominee for independent director satisfies the requirements of the rules of the SEC, the By-Laws and the Governance Manual. Independent directors (i) are not directors or officers or substantial stockholders of NLEX Corp or its related companies or any of its substantial stockholders (other than as independent directors of any of the foregoing); (ii) are not relatives of any director, officer or substantial stockholder of NLEX Corp, or any of its related companies or any of its substantial stockholders; (iii) are not acting as nominees or representatives of a substantial stockholder of NLEX Corp, or any of its related companies or any of its substantial stockholders; (iv) have not been employed in any executive capacity by NLEX Corp, or any of its related companies or by any of its substantial stockholders within the last two (2) years; (v) are not retained as professional advisers by NLEX Corp, any of its related companies or any of its substantial stockholders within the last

two (2) years, either personally or through their firms; (vi) have not engaged and do not engage in any transaction with NLEX Corp or with any of its related companies or with any of its substantial stockholders, whether by themselves or with other persons or through a firm of which they are partners or companies of which they are directors or substantial stockholders, other than transactions which are conducted at arm's length and are immaterial and (vii) do not own more than 2% of the shares of NLEX Corp and/or its related companies or any of its substantial stockholders.

Board Performance

The Board regularly meets to review the performance of NLEX Corp and approve any pertinent plans, budgets, and financial statements, set guidelines for management and discuss any various matters requiring Board attention and approval. Any member of the Board may ask management to give special reports and analysis on certain issues.

The regular meetings of the Board are normally held at least six (6) times a year, as well as special meetings of the Board, and the Annual General Meeting. The Board met seven (7) times in 2017. The attendance of the individual Directors at these meetings is duly recorded, as follows:

	Regular and Special Meetings	
	Present	Absent
Manuel V. Pangilinan	6	1
Jose Ma. K. Lim	5	2
Rodrigo E. Franco	7	0
Christopher Daniel C. Lizo	7	0
Jose Luigi L. Bautista	7	0
Raul L. Ignacio	7	0
Roberto V. Bontia	6	1
Jose T. Sio	7	0
Frederic C. DyBuncio	5	2
Jean-Claude Neumann	7	0
Antonette C. Tionko*	4	2
Arlyn Sicangco-Villanueva	6	1
Liberato P. Laus***	5	2

*Atty. Tionko was elected as director of the Corporation effective 19 April 2017.

The average attendance rate of members of the Board was at 87.9%.

Prior to the Board meetings, all of the Directors are provided with board papers which include reports on NLEX Corp's strategic, operational and financial performance and other regulatory matters. The Board also has access to the Corporate Secretary who, among other functions, oversees the flow of information to the Board prior to the meetings and who serves as adviser to the Directors on their responsibilities and obligations. The members of the Board also have access to management should they need to clarify matters concerning items submitted for their consideration.

Compensation of Directors

Members of the Board each receive per diems amounting to ₱10,000 for their attendance to Board meetings and ₱5,000 for committee meetings. There are no other arrangements for remuneration either by way of payments for committee participation or consulting contracts.

Board Committees

The Board of Directors is authorized under the Company's By-Laws to create committees, as it may deem necessary. There are currently three (3) Board committees, namely, the audit, nomination, and compensation and remuneration committees, the purpose of which is to assist the Board of Directors.

Audit Committee

NLEX Corp's Audit Committee is composed of four (4) voting members, all of whom are members of the Board of Directors, preferably with accounting and finance backgrounds, and one (1) of whom must be an independent Director and another with audit experience. The Audit Committee is chaired by an independent director.

The purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibility for: (i) NLEX Corp's accounting and financial reporting principles and policies and internal audit controls and procedures; (ii) the integrity of NLEX Corp's financial statements and the independent audit thereof; (iii) NLEX Corp's compliance with legal and regulatory requirements and (iv) the performance of the internal audit organization and the external auditors. To carry its direct responsibility for the appointment, setting of compensation, retention and removal of the external auditors, the Audit Committee has the following duties and powers:

- Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations.
- Check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements.
- Perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Company, and crisis management. This function shall include the regular receipt from management of information on risk exposures and risk management activities.
- Perform direct interface functions with the internal and external auditors. To ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel in the performance of their respective audit functions.
- Review of the annual audit plan to ensure its conformity with the objectives of NLEX Corp. The plan includes the audit scope, resources and budget necessary to implement it.
- Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.

- Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal.
- Monitor and evaluate the adequacy and effectiveness of NLEX Corp's internal control system, including financial reporting control and information technology security.
- Review the reports submitted by the internal and external auditors.
- Review the quarterly, half-year and annual financial statements before its submission to the Board, with particular focus on the following matters:
 - Any change/s in accounting policies and practices
 - Major judgment areas
 - Significant adjustments resulting from the audit
 - Going concern assumptions
 - Compliance with accounting standards
 - Compliance with tax, legal and regulatory requirements
- Coordinate, monitor and facilitate compliance with laws, rules and regulations.
- Elevate to international standards the accounting and auditing processes, practices and methodologies, and develop the following in relation to this reform:
 - A definitive timetable within which the accounting system of NLEX Corp will be 100% Philippine Accounting Standard (PAS) compliant.
 - An accountability statement that will specifically identify officers and/or personnel directly responsible for the accomplishment of such task.
- Develop a transparent financial management system that will ensure the integrity of internal control activities throughout NLEX Corp through a step-by-step procedures and policies handbook that will be used by the entire company.
- Coordinate, monitor and facilitate compliance with laws, rules and regulations.
- Evaluate and determine non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to NLEX Corp's overall consultancy expenses to disallow any non-audit work that will conflict with external auditor's duties and poses a threat to his independence. Non-audit works, if allowed, are disclosed in NLEX Corp's annual report.
- Establish and identify reporting line of the Chief Audit Executive to properly enable him or her to fulfil his or her duties and responsibilities. The Chief Audit Executive shall functionally report directly to the Audit Committee.
- To ensure that the performance of the work of Chief Audit Executive is free from interference by outside parties.

The Audit Committee also has the authority to retain or obtain advice from special counsel or other experts or consultants in the discharge of their responsibilities without the need for Board approval.

Audit Committee Report

The Audit Committee meets at least once every year and invites non-members, including the President and CEO, Chief Finance Officer, independent and internal auditors, and other key persons involved in company governance, to attend meetings where necessary. During these meetings:

- The Committee reviews the financial statements and all related disclosures and reports certified by the Chief Finance Officer, and released to the public and/or submitted to the Philippine SEC for compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements. The Committee, after its review of the annual audited financial statements of NLEX Corp endorses these to the Board for approval.
- The Committee meets with the internal and independent auditors, and discusses the results of their audits, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal controls and compliance issues.
- The Committee reviews the performance and recommends the appointment, retention or discharge of the independent auditors, including the fixing of their remuneration, to the full Board. On an annual basis, the Committee also assesses the independent auditor's qualifications, skills, resources, effectiveness and independence. The Committee also reviews and approves the proportion of audit and non-audit work both in relation to their significance to the auditor and in relation to NLEX Corp's total expenditure on consultancy, to ensure that non-audit work will not be in conflict with the audit functions of the independent auditor.
- The Committee reviews the plans, activities, staffing and organizational structure and assesses the effectiveness of the internal audit function, including conformance with international standards.
- The Committee provides oversight of the financial reporting and operational risks, specifically on financial statements, internal controls, legal or regulatory compliance, corporate governance, risk management and fraud risks. The Committee also reviews the results of management's annual risk assessment exercise.

To ensure compliance with regulatory requirements and assess the appropriateness of the existing charter for enabling good corporate governance, the Committee also reviews and assesses the adequacy of its charter annually, seeking Board approval for any amendments.

Nomination Committee

The Nomination Committee is composed of three (3) voting members, all of whom are regular members of the Board of Directors and one (1) of whom must be independent, and one (1) non-voting member in the person of the Human Resource Director/Manager.

The principal functions and responsibilities of the Nomination Committee are to:

- review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval;

- assess the effectiveness of the Board's processes and procedures in the election or replacement of directors; and
- pre-screen and shortlist all candidates nominated to become a member of the Board of Directors in accordance with the qualifications and disqualifications set forth in the Company's Manual on Corporate Governance.

Compensation and Remuneration Committee

The Compensation and Remuneration Committee is composed of three (3) voting members, all of whom are regular members of the Board of Directors and one (1) of whom must be independent.

The principal functions and responsibilities of the Compensation and Remuneration Committee are to:

- establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of Directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with NLEX Corp's culture, strategy and control environment;
- designate amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run NLEX Corp successfully;
- establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, if any, and officers;
- develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired;
- disallow any director to decide his or her own remuneration;
- provide in NLEX Corp's annual reports, information and proxy statements a clear, concise and understandable disclosure of all fixed and variable compensation paid, directly or indirectly, to its executive officers, directors and management officers for the previous fiscal year and the ensuing year; and
- review the existing Human Resources Development Handbook, to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts.

The members of each Board committee are set forth below:

	Audit Committee	Nomination Committee	Compensation and Remuneration Committee
Chairman	Dr. Arlyn Sicangco-Villanueva	Jose Ma. K. Lim	Manuel V. Pangilinan
Members	Jean-Claude Neumann Jose T. Sio J Luigi L. Bautista	Rodrigo E. Franco Liberato P. Laus	Rodrigo E. Franco Dr. Arlyn Sicangco-Villanueva
Non-voting Member		Baby Lea M. Wong	

Compliance Officer

NLEX Corp has appointed a Compliance Officer who is tasked to ensure the Company's observance of corporate governance best practices and provide recommendations to the Board for continuous improvement towards full compliance and adoption of global best practices.

Risk Management

NLEX Corp's risk management, control, and governance processes are adequate and functioning to ensure that:

1. Risks are appropriately identified and managed;
2. Significant financial, managerial, and operating information are accurate, reliable and timely;
3. Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
4. Resources are acquired economically, used efficiently and adequately protected;
5. Programs, plans and objectives are achieved;
6. Quality and continuous improvement are fostered in our control process;
7. Significant legislative or regulatory issues impacting us are recognized and addressed appropriately; and
8. Interaction with various governance groups occurs as needed.

To ensure independence, the Chief Audit Executive, head of the internal audit organization, reports functionally to our audit committee and administratively to our president and chief executive officer. He is accountable to management and our audit committee in the discharge of his duties and is required to:

1. Provide annually an assessment on the adequacy and effectiveness of our processes for controlling our activities and managing our risks;
2. Report significant issues related to the processes of controlling our activities, including potential improvements to those processes, and provide information concerning such issues;
3. Periodically provide information on the status and results of the annual audit plan and the sufficiency of our internal audit organization's resources; and
4. Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, and external audit).

The internal audit organization has a charter that has been approved by the audit committee. It seeks to comply with the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors in the discharge of its scope of work and responsibilities.

PARTIES TO THE OFFER

THE ISSUER

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NLEX Compound, Balintawak
Caloocan City, Metro Manila,
Philippines

ISSUE MANAGER AND BOOKRUNNER

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Philippines

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Makati City 0726
Philippines

First Metro Investment Corporation
45th Floor, GT Tower International, 6813 Ayala
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TRUSTEE

BDO Unibank, Inc. – Trust Banking Group
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Center, 7899 Makati Avenue,
Makati City 0726
Philippines

REGISTRAR AND PAYING AGENT

Philippine Depository & Trust Corp.
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Makati City 1226
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LEGAL ADVISORS

To the Issue Manager and Bookrunner

SyCip Salazar Hernandez & Gatmaitan
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Metro Manila
Philippines

To the Issuer

Picazo Buyco Tan Fider & Santos
10th, 17th, 18th, and 19th Floors, Liberty Center
104 H.V. Dela Costa Street
Salcedo Village, Makati City
Philippines

AUDITOR OF THE ISSUER

SyCip Gorres Velayo & Co., a member firm of Ernst & Young
6760 Ayala Avenue,
Makati City 1226
Philippines

LISTING AGENT

Philippine Dealing & Exchange Corp.
37th Floor, Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City 1226
Philippines

FINANCIAL INFORMATION

The following pages set forth NLEX Corp's audited financial statements as at December 31, 2017, December 31, 2016 and December 31, 2015 and for the years ended December 31, 2017, December 31, 2016 and December 31, 2015.



MANILA NORTH TOLLWAYS CORPORATION
A METRO PACIFIC GROUP Company

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **NLEX Corporation** (formerly Manila North Tollways Corporation) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2016** and **2015**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SGV and Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

MANUEL V. PANGILINAN
Chairman of the Board

RODRIGO E. FRANCO
Chief Executive Officer

MARIA THERESA O. WELLS
Chief Financial Officer

Signed this 16th day of February 2017.

NLEX Corporation

(Formerly Manila North Tollways Corporation)

*(A Subsidiary of Metro Pacific Tollways
Development Corporation)*

and A Subsidiary

Consolidated Financial Statements
December 31, 2016 and 2015
and Years Ended December 31, 2016,
2015 and 2014

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
NLEX Corporation

Opinion

We have audited the consolidated financial statements of NLEX Corporation (formerly Manila North Tollways Corporation, a subsidiary of Metro Pacific Tollways Development Corporation) and its subsidiary (the Company), which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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



Recoverability of Service Concession Assets Not Yet Available for Use

The Company has entered into several service concession agreements with the Philippine Government and/or its agencies or instrumentalities, of which ₱8.8 billion of these service concession assets are not yet available for use. Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Company is required to perform annual impairment test on the service concession assets not yet available for use. These annual impairment tests are significant to our audit because the amounts are material to the consolidated financial statements. In addition, the determination of the recoverable amount of the cash-generating units (CGUs) to which the service concession assets relates, involves significant assumptions about the future results of business such as revenue growth, gross margins and discount rates which are applied to the cash flow forecasts. The assumption on revenue growth mainly relates to the expected volume of traffic of the toll roads. Refer to Notes 2 and 8 to the consolidated financial statements for the details of service concession assets.

Audit response

We obtained an understanding of the Company's impairment assessment process and the related controls. We also involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include the expected volume of traffic, gross margins and discount rates. We compared the forecast revenue growth and gross margins against the historical data of the CGUs and inquired from management and operations personnel about the plans to support the forecast revenues. We also compared the Company's key assumptions such as traffic volume against historical data and against available studies by independent parties that were commissioned by the Company. We reviewed the weighted average cost of capital (WACC) used in the impairment test by comparing it with WACC of other comparable companies in the regions where the Company operates. Furthermore, we reviewed the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on determining the recoverable amount of the service concession assets not yet available for use.

Amortization of Service Concession Assets using Unit-of-Production Method

The service concession assets are amortized using the unit-of-production (UOP) method. The amortization is based on the ratio of the actual traffic volume to the total expected traffic volume of the underlying toll expressways over the remaining concession period. The UOP amortization method is a key audit matter as the method involves significant management judgment and estimates, particularly in determining the total expected traffic volume over the remaining period of the concession agreement. The Company reviews annually the total expected traffic volume with reference to traffic projection reports. It considers different factors such as population growth and ongoing and future expansions. Refer to Notes 4 and 8 to the consolidated financial statements for the related discussions on service concession assets.



Audit response

We obtained an understanding of management's processes and controls in the estimation of traffic volume. We then evaluated the competence, capabilities and objectivity of management's specialists who estimated the forecasted volumes. We also reviewed the report of the management's specialists and gained an understanding of the methodology and the basis of computing the forecasted volumes. Furthermore, we compared the actual traffic volume during the year against the data generated from the toll collection system. We recalculated the amortization expense for the year and the service concession assets as of year-end based on the established traffic volume.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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



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

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

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

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




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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Belinda T. Beng Hui.

SYCIP GORRES VELAYO & CO.



Belinda T. Beng Hui

Partner

CPA Certificate No. 88823

SEC Accreditation No. 0923-AR-1 (Group A),

May 1, 2016, valid until May 1, 2019

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-78-2015,

June 26, 2015, valid until June 25, 2018

PTR No. 5908672, January 3, 2017, Makati City

February 16, 2017





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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
NLEX Corporation
NLEX Compound
Balintawak, Caloocan City

We have audited the consolidated financial statements of NLEX Corporation (formerly Manila North Tollways Corporation, a subsidiary of Metro Pacific Tollways Development Corporation) and its subsidiary (the Company) as at and for the year ended December 31, 2016, on which we have rendered the attached report dated February 16, 2017.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the above Company has five (5) stockholders owning more than one hundred (100) shares each.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0923-AR-1 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2015,
June 26, 2015, valid until June 25, 2018
PTR No. 5908672, January 3, 2017, Makati City

February 16, 2017





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December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
NLEX Corporation
NLEX Compound
Balintawak, Caloocan City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of NLEX Corporation (formerly Manila North Tollways Corporation, a subsidiary of Metro Pacific Tollways Development Corporation) and its subsidiary (the Company) as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated February 16, 2017. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0923-AR-1 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2015,
June 26, 2015, valid until June 25, 2018
PTR No. 5908672, January 3, 2017, Makati City

February 16, 2017



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

CONSOLIDATED BALANCE SHEETS

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	₱389,912,852	₱2,669,324,105
Short-term deposits (Notes 12 and 30)	82,407,389	1,225,420,748
Receivables (Notes 7 and 16)	593,177,913	564,116,578
Inventories - at cost	91,176,361	71,393,140
Available-for-sale financial assets (Notes 12 and 30)	—	200,645,000
Other current assets (Note 13)	969,432,484	748,590,099
Total Current Assets	2,126,106,999	5,479,489,670
Noncurrent Assets		
Service concession assets (Note 8)	30,672,147,592	22,798,406,210
Property and equipment (Note 9)	134,971,360	121,077,788
Investment properties (Note 10)	41,443,879	—
Other intangible assets (Note 11)	18,258,492	16,681,278
Available-for-sale financial assets (Notes 12 and 30)	1,353,667,695	1,514,483,246
Pension asset (Note 23)	904,680	12,055,764
Deferred tax assets - net (Note 27)	645,104	—
Other noncurrent assets (Note 28)	940,551,082	942,806,342
Total Noncurrent Assets	33,162,589,884	25,405,510,628
	₱35,288,696,883	₱30,885,000,298
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 14 and 16)	₱3,178,755,241	₱2,324,167,861
Income tax payable	303,456,146	258,655,448
Dividends payable (Note 19)	—	1,422,576,000
Provisions (Note 15)	320,814,502	167,361,768
Current portion of long-term debt (Notes 17 and 30)	278,737,740	992,503,413
Total Current Liabilities	4,081,763,629	5,165,264,490
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 17 and 30)	18,543,924,749	16,822,078,532
Service concession fees payable (Notes 18 and 30)	2,335,916,229	—
Long-term incentive plan payable (Note 23)	129,442,315	70,478,307
Provisions (Note 15)	98,894,187	172,092,670
Deferred tax liabilities - net (Note 27)	486,884,747	521,447,771
Other noncurrent liabilities (Note 30)	253,292	—
Total Noncurrent Liabilities	21,595,315,519	17,586,097,280
Total Liabilities	25,677,079,148	22,751,361,770

(Forward)



	December 31	
	2016	2015
Equity (Note 19)		
Capital stock	₱1,776,000,000	₱1,776,000,000
Additional paid-in capital	3,749,711,168	3,749,711,168
Retained earnings	4,109,784,668	2,622,707,396
Other comprehensive income (loss) reserve	(36,912,383)	(26,569,475)
Other reserve (Note 24)	13,034,282	11,789,439
Total Equity	9,611,617,735	8,133,638,528
	₱35,288,696,883	₱30,885,000,298

See accompanying Notes to Consolidated Financial Statements.



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

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2016	2015	2014
OPERATING REVENUES			
Toll fees (net of discounts amounting to P136,344,787 in 2016, P111,967,528 in 2015, and P79,048,588 in 2014)	₱10,538,908,306	₱8,453,380,333	₱7,516,586,901
Sales of magnetic cards	5,000	13,482	5,357
Toll revenues	10,538,913,306	8,453,393,815	7,516,592,258
Non-toll revenues (Note 20)	157,434,640	150,063,733	119,007,282
Total revenues	10,696,347,946	8,603,457,548	7,635,599,540
COST OF SERVICES (Note 21)	(4,392,888,455)	(3,420,625,851)	(3,146,485,760)
GROSS PROFIT	6,303,459,491	5,182,831,697	4,489,113,780
CONSTRUCTION REVENUE (Note 8)	6,170,060,989	3,328,364,819	2,425,272,471
CONSTRUCTION COSTS (Note 8)	(6,170,060,989)	(3,328,364,819)	(2,425,272,471)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 22)	(726,169,402)	(708,962,366)	(552,082,087)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Note 26)	(442,912,617)	(622,295,149)	(601,214,207)
INTEREST INCOME (Note 25)	62,089,704	72,896,989	61,266,122
FOREIGN EXCHANGE GAIN (LOSS) - net	(254,488)	7,840,647	4,260,215
OTHER INCOME	10,479,541	5,957,455	2,779,295
INCOME BEFORE INCOME TAX	5,206,692,229	3,938,269,273	3,404,123,118
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	1,152,806,403	963,726,925	752,767,850
Deferred	(33,191,446)	(18,587,795)	85,914,211
	1,119,614,957	945,139,130	838,682,061
NET INCOME	₱4,087,077,272	₱2,993,130,143	₱2,565,441,057

See accompanying Notes to Consolidated Financial Statements.



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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2016	2015	2014
NET INCOME	₱4,087,077,272	₱2,993,130,143	₱2,565,441,057
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Net gain on cash flow hedges (Notes 19 and 30)	–	3,775,752	8,935,147
Income tax effect (Notes 19 and 27)	–	(1,132,726)	(2,680,544)
	–	2,643,026	6,254,603
Gain (loss) on available-for-sale financial assets (Notes 12 and 19)	(1,661,917)	(78,828,116)	21,117,971
Income tax effect (Notes 19 and 27)	(1,192,620)	5,483,894	6,088,359
	(2,854,537)	(73,344,222)	27,206,330
	(2,854,537)	(70,701,196)	33,460,933
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on defined benefit retirement plan (Notes 19 and 23)	(10,697,673)	6,692,099	(3,054,067)
Income tax effect (Notes 19 and 27)	3,209,302	(2,007,629)	916,220
	(7,488,371)	4,684,470	(2,137,847)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	(10,342,908)	(66,016,726)	31,323,086
TOTAL COMPREHENSIVE INCOME	₱4,076,734,364	₱2,927,113,417	₱2,596,764,143

See accompanying Notes to Consolidated Financial Statements.



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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss) Reserve	Other Reserve	Total Equity
At January 1, 2016	₱1,776,000,000	₱3,749,711,168	₱2,622,707,396	₱26,569,475	₱11,789,439	₱8,133,638,528
Cash dividends (Note 19)	-	-	(2,600,000,000)	-	-	(2,600,000,000)
Equity contribution - executive stock option plan (Note 24)	-	-	-	-	1,244,843	1,244,843
Net income	-	-	4,087,077,272	-	-	4,087,077,272
Other comprehensive loss (Note 19)	-	-	-	(10,342,908)	-	(10,342,908)
Total comprehensive income for the year	-	-	4,087,077,272	(10,342,908)	-	4,076,734,364
At December 31, 2016	₱1,776,000,000	₱3,749,711,168	₱4,109,784,668	₱36,912,383	₱13,034,282	₱9,611,617,735
At January 1, 2015	₱1,776,000,000	₱3,749,711,168	₱2,052,153,253	₱39,447,251	₱10,544,596	₱7,627,856,268
Cash dividends (Note 19)	-	-	(2,422,576,000)	-	-	(2,422,576,000)
Equity contribution - executive stock option plan (Note 24)	-	-	-	-	1,244,843	1,244,843
Net income	-	-	2,993,130,143	-	-	2,993,130,143
Other comprehensive loss (Note 19)	-	-	-	(66,016,726)	-	(66,016,726)
Total comprehensive income for the year	-	-	2,993,130,143	(66,016,726)	-	2,927,113,417
At December 31, 2015	₱1,776,000,000	₱3,749,711,168	₱2,622,707,396	₱26,569,475	₱11,789,439	₱8,133,638,528
At January 1, 2014	₱1,776,000,000	₱3,749,711,168	₱1,656,984,196	₱8,124,165	₱8,199,559	₱7,199,019,088
Cash dividends (Note 19)	-	-	(2,170,272,000)	-	-	(2,170,272,000)
Equity contribution - executive stock option plan (Note 24)	-	-	-	-	2,345,037	2,345,037
Net income	-	-	2,565,441,057	-	-	2,565,441,057
Other comprehensive income (Note 19)	-	-	-	31,323,086	-	31,323,086
Total comprehensive income for the year	-	-	2,565,441,057	31,323,086	-	2,596,764,143
At December 31, 2014	₱1,776,000,000	₱3,749,711,168	₱2,052,153,253	₱39,447,251	₱10,544,596	₱7,627,856,268

See accompanying Notes to Consolidated Financial Statements.



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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2016	2015	2014
OPERATING ACTIVITIES			
Income before income tax	₱5,206,692,229	₱3,938,269,273	₱3,404,123,118
Adjustments to reconcile income before income tax to net cash flows:			
Amortization of service concession assets (Notes 8 and 21)	615,120,463	575,097,888	483,626,911
Interest expense and other finance costs (Note 26)	442,912,617	622,295,149	601,214,207
Movements in:			
Provisions	66,899,069	69,538,725	(58,490,828)
Pension asset	453,411	(2,789,680)	(3,790,206)
Interest income (Note 25)	(62,089,704)	(72,896,989)	(61,266,122)
Long-term incentive plan expense (Note 23)	58,964,008	48,735,905	55,171,612
Depreciation of property and equipment (Notes 9, 21 and 22)	29,978,498	38,025,416	30,963,982
Amortization of other intangible assets (Notes 11 and 22)	5,924,711	10,954,056	6,056,952
Gain on disposal of available-for-sale financial assets (Note 12)	(4,699,640)	(2,032,346)	(1,169,267)
Deferred toll revenue realized	(1,646,827)	(149,003)	(335,345)
Executive stock option plan expense (Notes 23 and 24)	1,244,843	1,244,843	2,345,037
Gain on disposals of property and equipment (Notes 9)	(861,043)	(506,685)	(355,322)
Unrealized foreign exchange loss (gain) - net	(245,495)	(2,477,153)	1,006,086
Working capital changes:			
Decrease (increase) in:			
Receivables	(30,697,442)	134,045,636	(443,911,058)
Inventories	(19,783,221)	(23,588,656)	2,484,978
Other current assets	(221,944,766)	(447,713,191)	60,846,717
Increase (decrease) in:			
Accounts payable and other current liabilities	886,394,582	233,572,875	644,536,617
Long-term incentive plan payable	-	(98,257,610)	-
Unearned toll revenue (Note 14)	2,571,857	1,646,827	149,003
Income tax paid	(1,108,005,705)	(876,414,152)	(774,118,329)
Net cash flows from operating activities	5,867,182,445	4,146,601,128	3,949,088,743

(Forward)



	Years Ended December 31		
	2016	2015	2014
INVESTING ACTIVITIES			
Interest received	P63,725,811	P70,466,549	P51,952,183
Acquisition of available-for-sale financial assets (Note 12)	(7,063,921,689)	(5,407,332,256)	(4,049,816,145)
Increase in other noncurrent assets	(129,950,093)	(9,895,766)	(907,879,073)
Additions to:			
Service concession assets (Note 8)	(6,031,216,910)	(6,550,150,015)	(2,423,808,366)
Property and equipment (Note 9)	(45,382,933)	(31,071,973)	(43,881,614)
Investment properties (Note 10)	(40,341,498)	-	-
Other intangible assets (Note 11)	(7,501,925)	(5,465,571)	(18,237,565)
Proceeds from:			
Sale of available-for-sale financial assets (Note 12)	8,394,068,882	8,955,539,952	866,641,317
Maturity of investments in bonds (Note 12)	200,000,000	250,000,000	-
Sale of property and equipment (Note 9)	2,371,906	1,977,918	1,640,888
Net cash flows used in investing activities	(4,658,148,449)	(2,725,931,162)	(6,523,388,375)
FINANCING ACTIVITIES			
Proceeds from loans (Note 17)	2,000,000,000	3,000,000,000	7,000,000,000
Payments of:			
Dividends (Note 19)	(4,022,576,000)	(2,193,472,000)	(1,385,812,800)
Loans	(1,012,102,309)	(1,954,602,309)	(954,602,309)
Interest expense and other finance costs	(427,123,627)	(559,630,299)	(556,418,582)
Debt issue costs (Note 17)	(26,888,808)	-	(76,029,099)
Net cash flows from (used in) financing activities	(3,488,690,744)	(1,707,704,608)	4,027,137,210
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,279,656,748)	(287,034,642)	1,452,837,578
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	245,495	2,477,153	(1,006,086)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,669,324,105	2,953,881,594	1,502,050,102
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	P389,912,852	P2,669,324,105	P2,953,881,594

See accompanying Notes to Consolidated Financial Statements.



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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

General

NLEX Corporation (NLEX Corp. or the Parent Company) (formerly Manila North Tollways Corporation or MNTC) and its subsidiary (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.

NLEX Ventures Corporation (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” 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 entity. On November 17, 2016, the BOD and the stockholders of NLEX Corp. owning at least two-thirds of NLEX Corp.’s outstanding capital stock approved the amended plan of merger between NLEX Corp and TMC. As at February 16, 2017, the Parent Company has yet to file the proposed merger with the SEC.

Metro Pacific Tollways Development Corporation (MPTDC), 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% and 52.1% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2016 and 2015, respectively. The reduction in the ownership interest resulted from GT Capital Holdings, Inc.’s (GTCHI) acquisition of 1.3 billion MPIC common shares from MPHI on May 27, 2016. On the same date, MPIC entered into a Share Subscription Agreement with GTCHI for the subscription by GTCHI of 3.6 billion common shares in MPIC. As sole holder of the voting Class A Preferred Shares, MPHI’s combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at December 31, 2016. 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.

The consolidated financial statements as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 were authorized for issuance by the Parent Company's BOD on February 16, 2017, as reviewed and recommended for approval by the Parent Company's Audit Committee.

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 Tipu 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 completed in May 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 February 16, 2017.

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.

2. Service Concession Arrangements

Supplemental Toll Operation Agreement (STOA) for the Manila-North Expressway

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

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

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

The PNCC franchise expired on May 1, 2007. Pursuant to the STOA, the TRB issued the necessary TOC for the NLEX in order to allow the continuation of the Concession. As further discussed in Note 28, NLEX Corp. pays a certain amount to PNCC.

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

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



and equipment found therein directly related to and in connection with the operation of the toll road facilities.

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

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

Agreements covering the SCTEX

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

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

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

In consideration for the assignment by BCDA to NLEX Corp. of its rights to and interests in SCTEX, NLEX Corp. paid BCDA an upfront cash of ₱3.5 billion (inclusive of VAT) upon effectivity of the BA (the Upfront Payment). NLEX Corp. shall also pay BCDA monthly



concession fees amounting to 50% of the Audited Gross Toll Revenues of SCTEX for the relevant month from effective date to October 30, 2043. NLEX Corp. shall gross up the concession fees by the 12% VAT. The Company recorded concession fees of ₱791.5 million and ₱132.1 million in 2016 and 2015, respectively, which is included under “Cost of services” account in the consolidated statement of income (see Note 21).

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

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

NLEX-SLEX Connector Road Concession Agreement

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

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

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

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



Legal title to the NLEX-SLEX Connector Road, including all assets and other improvements constructed therein and all additional and/or enhancement works contributed by NLEX Corp. during the concession period, shall remain with NLEX Corp. until the termination date. At the end of the concession period or upon the termination of the concession agreement, the NLEX-SLEX Connector Road, including all rights, title and interest in the aforesaid assets, shall be turned over to DPWH or to its successor-in-interest conformably with law, and in all cases in accordance with and subject to the terms and conditions of the Concession Agreement. NLEX Corp. shall be prohibited from transferring, alienating, selling, or otherwise disposing the NLEX-SLEX Connector Road.

Pursuant to the Concession Agreement, NLEX Corp. shall preserve the asset so it can be handed back to DPWH in a manner that complies with the pavement performance standards specified in the concession agreement and that all the building and equipment necessary to operate the expressway remain functional and in good condition that is equivalent to prudent industry practice. NLEX Corp. must also manage the maintenance of the assets so that there is a residual asset life that complies with the residual life standards stated in the concession agreement at the end of the concession period.

3. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency.

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs) as issued by the Financial Reporting Standards Council (FRSC).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016.

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

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

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



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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended PFRSs which were adopted as at January 1, 2016. The adoption of the new and amended PFRSs did not have any significant impact on the Company's financial position or performance.

- Amendments to PFRS 10, PFRS 12 and Philippine Accounting Standards (PAS) 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
 - Amendment to PFRS 5, *Changes in Methods of Disposal*
 - Amendment to PFRS 7, *Servicing Contracts*
 - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
 - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
 - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Current versus Noncurrent Classification of Assets and Liabilities

The Company presents assets and liabilities in the consolidated balance sheet based on current or noncurrent classification.

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

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



Cash and Cash Equivalents

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

Financial Assets and Financial Liabilities

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

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at FVPL.

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

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, inclusive of directly attributable transaction costs.

The Company has no financial assets and financial liabilities at FVPL and HTM investments as at December 31, 2016 and 2015.

Subsequent Measurement. The subsequent measurement of financial assets and financial liabilities depends on their classification as described below:

a. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income under general and administrative expenses.

Loans and receivables include cash and cash equivalents, receivables (excluding advances to officers and employees), and restricted cash and refundable deposits (included in "Other noncurrent assets" account in the consolidated balance sheet) (see Notes 6 and 7).



b. AFS Financial Assets

AFS financial assets include equity and debt instruments. Equity investments classified as AFS are those, which are neither classified as held for trading nor designated at FVPL. Debt instruments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized as other comprehensive income (OCI) in "Other comprehensive income (loss) reserve" account, net of related deferred tax until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. Interest earned on the investments is reported as interest income using the EIR method.

As at December 31, 2016 and 2015, the Company's AFS financial assets consist of investments in fixed rate retail treasury bonds and notes of the ROP; fixed rate corporate bonds of Manila Electric Company (Meralco), Philippine Long Distance Telephone Company (PLDT) and First Metro Investment Corporation (FMIC); long-term negotiable certificate of deposits (LTNCDs); and unit investment trust funds (UITFs) (see Note 12).

c. Loans and Borrowings

All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs (referred to herein as "debt issue costs"). After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method.

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

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

This category includes accounts payable and other current liabilities, dividends payable, rental deposits (included in "Other noncurrent liabilities" account in the consolidated balance sheet), long-term debt and service concession fees payable (see Notes 14, 17, 18, 19 and 30).

Offsetting Financial Instruments

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

'Day 1' Profit or Loss

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference



between the transaction price and fair value (a 'Day 1' profit or loss) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Impairment of Financial Assets

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

a. Financial Assets Carried at Amortized Cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of income. The assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If a write-off is later recovered, any amount formerly charged is credited to the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.



b. AFS Financial Assets

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income) is removed from OCI and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized directly in OCI.

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

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

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

Derecognition of Financial Assets and Liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e., removed from the Company's consolidated balance sheet) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.



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

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in the consolidated statement of income.

Derivatives and Hedge Accounting

Freestanding Derivatives. The Company uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified primarily either as (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) hedge of a net investment in a foreign operation. The Company designated and accounted for certain derivatives under cash flow hedges. The Company did not designate any of its derivatives as fair value hedges or hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

In cash flow hedges, changes in the fair value of a hedging instrument that qualifies as highly effective cash flow hedge are included in equity under "Other comprehensive income (loss) reserve" account, net of related deferred tax. The ineffective portion is immediately recognized in the consolidated statement of income.

If the hedged cash flow results in the recognition of an asset or a liability, gains and losses initially recognized in equity are transferred from equity to consolidated statement of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect the consolidated statement of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that has been reported directly in



equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is charged against the consolidated statement of income.

For derivatives that are not designated as effective accounting hedges, any gains or losses arising from changes in fair value of derivatives are recognized directly in the consolidated statement of income.

Fair Value Measurement

The Company measures financial instruments such as AFS financial assets at fair value at each balance sheet date.

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

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

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

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

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

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

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

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



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

- Disclosures for valuation methods, significant estimates and assumptions Notes 4, 10, 12 and 30
- Quantitative disclosures of fair value measurement hierarchy Note 30
- Investment properties Note 10
- Financial instruments (including those carried at amortized cost) Notes 12 and 30

Inventories

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

Advances to Contractors and Consultants

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

Service Concession Arrangements

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

Revenue and Cost Recognition. The Company recognizes and measures construction revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs. When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value. The revenue and cost from these services are recognized based on the percentage of completion measured principally on the basis of estimated completion of a physical proportion of the contract works, and by reference to the actual costs incurred to date over the estimated total cost of the project.

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

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



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

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

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

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

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

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

Property and Equipment

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

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

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

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the



asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of income in the year the item is derecognized.

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

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

Investment Properties

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

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

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Other Intangible Assets (Software Cost)

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

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

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

Impairment of Nonfinancial Assets

The Company assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not



generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

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

Provisions

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

Equity

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

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

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



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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably, regardless of when the payment is received. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding VAT, discounts and rebates. The Company has concluded that it is acting as principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

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

- Revenue from toll fees is recognized upon the sale of toll tickets. Toll fees received in advance, through transponders or magnetic cards, are recognized as income upon the holders' availment of the toll road services, net of discounts or rebates. The unused portion of toll fees received in advance is reflected as "Unearned toll revenue" in the consolidated balance sheet.
- Revenue from sale of magnetic cards is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, normally upon delivery.
- Construction revenue and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.
- Income from utility facility contracts, toll service facilities (TSF) and advertising, included in "Non-toll revenues" account in the consolidated statement of income, are recognized in accordance with the terms of the agreement.
- Interest income is recognized as the interest accrues using the effective interest method.
- Rental revenue is accounted for on a straight-line basis over the lease term.
- Service revenue, included in "Non-toll revenues" account in the consolidated statement of income, is recognized as services are rendered in accordance with the terms of the agreements.
- Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability that can be measured reliably. This includes gain on disposal of property and equipment.

Cost and Expenses Recognition

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



Operating Lease

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

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

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

Company as Lessee. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

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

Foreign Currency-denominated Transactions and Translations

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

Borrowing Costs

Borrowing costs are capitalized as part of service concession assets if they are directly attributable to the acquisition and construction of the assets. Capitalization of borrowing costs commences when the activities to prepare for the construction of the assets are in progress and expenditures and borrowing costs are being incurred, until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

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



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

Defined Benefit Plan

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

Employee Leave Entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve



months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Share-based Payment

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

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

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

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

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

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

Long-term Employee Benefits

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

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



Taxes

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

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

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

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with its investment in a subsidiary, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with its investment in a subsidiary, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

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

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



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

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

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

- a. When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- b. When receivables and payables are stated with the amount of VAT included.

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

Contingencies

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

Events After the Balance Sheet Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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



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

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

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

The Company also recognizes construction revenues and costs in accordance with PAS 11. It measures contract revenue at the fair value of the consideration received or receivable. Given that NLEX Corp. has subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in consolidated statements of income amounted to ₱6,170.1 million, ₱3,328.4 million and ₱2,425.3 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 8).

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability. The Company recognizes a provision following PAS 37, as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱314.0 million and ₱263.3 million as at December 31, 2016 and 2015, respectively (see Note 15).

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

Estimates and Assumptions

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



Allowance for Doubtful Accounts. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectability. An evaluation of the receivables using specific method, designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year. There were no provisions under collective assessment in 2016, 2015 and 2014.

Receivables (excluding advances to officers and employees) amounted to ₱577.9 million and ₱556.7 million as at December 31, 2016 and 2015, respectively. Allowance for doubtful accounts amounted to ₱24.9 million and ₱14.2 million as at December 31, 2016 and 2015, respectively (see Notes 7).

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

In 2016, 2015 and 2014, the Company reported amortization of service concession assets amounting to ₱615.1 million, ₱575.1 million and ₱483.6 million, respectively (see Notes 8 and 21). The carrying values of the service concession assets as at December 31, 2016 and 2015 amounted to ₱30,672.1 million and ₱22,798.4 million, respectively (see Note 8).

Impairment of Nonfinancial Assets. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the concession period and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to service concession assets not yet available for use recognized by the Company. The key assumptions used to determine the recoverable amount, including a sensitivity analysis, are disclosed and further explained in Note 8.

There was no impairment loss recognized in the consolidated statements of income in 2016, 2015 and 2014. The carrying values of the Company's service concession assets not yet available for use amounted to ₱8,773.7 million and ₱3,742.7 million as at December 31, 2016 and 2015, respectively (see Note 8).

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



Deferred tax assets are recognized on deductible temporary differences and the carryforward benefits of net operating loss carry-over (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of NOLCO can be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the expected future results of operations.

Deferred tax assets amounted to ₱870.6 million and ₱134.7 million as at December 31, 2016 and 2015, respectively (see Note 27).

Retirement Costs. The cost of defined benefit retirement plan and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuations involve making various assumptions about discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date. Further details about the assumptions used are given in Note 23.

Pension asset amounted to ₱0.9 million and ₱12.1 million as at December 31, 2016 and 2015, respectively (see Note 23).

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

LTIP payable amounted to ₱129.4 million and ₱70.5 million as at December 31, 2016 and 2015, respectively (see Note 23).

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

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

Provisions (current and noncurrent) amounted to ₱419.7 million and ₱339.5 million as at December 31, 2016 and 2015, respectively (see Note 15).

Contingencies. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the Company's consolidated financial statements (see Note 31).



5. Operating Segment Information

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

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

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

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

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

The revenues, net income, assets, liabilities, and other information of the Company's operations as at and for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Net toll revenues	₱10,538,908,306	₱8,453,380,333	₱7,516,586,901
Other income	163,219,541	154,002,324	120,227,103
Total revenues	10,702,127,847	8,607,382,657	7,636,814,004
Operating and maintenance costs	(3,663,871,264)	(2,694,832,558)	(2,438,204,973)
Operating expenses	(625,204,430)	(613,837,616)	(501,220,971)
EBITDA	6,413,052,153	5,298,712,483	4,697,388,060
Financing costs	(354,728,002)	(480,832,163)	(504,337,927)
Core income before depreciation, amortization and provisions	6,058,324,151	4,817,880,320	4,193,050,133
Depreciation, amortization and provisions*	(1,900,818,231)	(1,737,541,182)	(1,609,093,962)
Core income	4,157,505,920	3,080,339,138	2,583,956,171
Nonrecurring items	(70,428,648)	(87,208,995)	(18,515,114)
Net income	₱4,087,077,272	₱2,993,130,143	₱2,565,441,057
EBITDA margin for the year	61%	63%	62%
Core income margin for the year	39%	36%	34%
Net income margin for the year	39%	35%	34%

(Forward)



	2016	2015	2014
Total assets	₱35,288,696,883	₱30,885,000,298	₱28,715,035,254
Total liabilities	25,677,079,148	22,751,361,770	21,087,178,986
Total equity	9,611,617,735	8,133,638,528	7,627,856,268
Other disclosures:			
Capital expenditure (consists of additions to service concession assets, property and equipment, investment properties and other intangible assets)	₱6,124,443,266	₱6,586,687,559	₱2,485,927,545

* Includes provision for current and deferred taxes.

The following table shows the reconciliation of EBITDA to consolidated net income for the years ended December 31, 2016, 2015 and 2014.

	2016	2015	2014
EBITDA	₱6,413,052,153	₱5,298,712,483	₱4,697,388,060
Interest expense and other finance costs (see Note 26)	(442,912,617)	(622,295,149)	(601,214,207)
Amortization of service concession assets (see Note 21)	(615,120,463)	(575,097,888)	(483,626,911)
Interest income (see Note 25)	62,089,704	72,896,989	61,266,122
Provision for heavy maintenance (see Note 21)	(113,971,317)	(150,819,004)	(224,653,876)
Depreciation of property and equipment (see Note 22)	(25,001,484)	(29,069,236)	(30,963,982)
Amortization of other intangible assets (see Note 22)	(5,924,711)	(10,954,056)	(6,056,952)
Gain on sale on AFS financial assets	4,699,640	2,032,346	1,169,267
Nonrecurring items:			
Provisions	(3,737,064)	(5,101,457)	(13,840,182)
Foreign exchange gain (loss) - net	(254,488)	7,840,647	4,260,215
Other nonrecurring items	(66,227,124)	(49,876,402)	395,564
Income before income tax	5,206,692,229	3,938,269,273	3,404,123,118
Provision for (benefit from) income tax (see Note 27):			
Current	₱1,152,806,403	₱963,726,925	₱752,767,850
Deferred	(33,191,446)	(18,587,795)	85,914,211
	1,119,614,957	945,139,130	838,682,061
Net income	₱4,087,077,272	₱2,993,130,143	₱2,565,441,057

The following table shows the reconciliation of the consolidated core income to the net income for the years ended December 31, 2016, 2015 and 2014.

	2016	2015	2014
Core income for the year	₱4,157,505,920	₱3,080,339,138	₱2,583,956,171
Provisions	(3,737,064)	(5,101,457)	(13,840,182)
Foreign exchange gain (loss) - net	(254,488)	7,840,647	4,260,215
Other nonrecurring items	(66,437,096)	(89,948,185)	(8,935,147)
Net income	₱4,087,077,272	₱2,993,130,143	₱2,565,441,057



6. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand and in banks	₱35,649,031	₱378,985,821
Short-term deposits as cash equivalents	354,263,821	2,290,338,284
	₱389,912,852	₱2,669,324,105

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

Interest earned from cash and cash equivalents amounted to ₱20.6 million, ₱19.1 million and ₱11.1 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 25).

As at December 31, 2016 and 2015, the Company had available ₱5.0 billion and ₱2.0 billion of undrawn committed term loan facilities, respectively.

7. Receivables

This account consists of:

	2016	2015
Trade receivables:		
Related parties (see Note 16)	₱304,124,441	₱262,931,935
Third parties	59,666,237	50,996,443
Advances to DPWH	180,361,049	202,883,464
Advances to officers and employees (see Note 16)	15,317,943	7,373,156
Interest receivables	14,307,194	15,943,301
Due from related parties (see Note 16)	3,812,414	2,807,542
Other receivables	40,527,225	35,342,796
	618,116,503	578,278,637
Less allowance for doubtful accounts	24,938,590	14,162,059
	₱593,177,913	₱564,116,578

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

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

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

Interest receivables are collectible within three to six months.



Other receivables are noninterest-bearing and are collectible within a year. As at December 31, 2016 and 2015, other receivables include those receivables from motorists who caused accidental damage to NLEX properties from day-to-day operations amounting to P38.2 million and P33.2 million, respectively.

Movements in the allowance for individually assessed impaired receivables in 2016 and 2015 are as follows:

	2016		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	P2,389,832	P11,772,227	P14,162,059
Provision for doubtful accounts (see Note 22)	664,119	10,112,412	10,776,531
Balance at end of year	P3,053,951	P21,884,639	P24,938,590

	2015		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	P2,238,191	P7,645,006	P9,883,197
Provision for doubtful accounts (see Note 22)	151,641	4,127,221	4,278,862
Balance at end of year	P2,389,832	P11,772,227	P14,162,059

8. Service Concession Assets

The movements in this account follow:

	MNEP	SCTEX	NLEX-SLEX Connector Road	Total
Cost:				
At January 1, 2015	P22,805,590,949	P-	P-	P22,805,590,949
Additions	3,328,364,819	3,177,555,625	-	6,505,920,444
At December 31, 2015	26,133,955,768	3,177,555,625	-	29,311,511,393
Additions	5,602,509,835	378,504,587	2,507,847,423	8,488,861,845
At December 31, 2016	P31,736,465,603	P3,556,060,212	P2,507,847,423	P37,800,373,238
Accumulated amortization:				
At January 1, 2015	P5,938,007,295	P-	P-	P5,938,007,295
Amortization (see Note 21)	563,733,763	11,364,125	-	575,097,888
At December 31, 2015	6,501,741,058	11,364,125	-	6,513,105,183
Amortization (see Note 21)	540,223,703	74,896,760	-	615,120,463
At December 31, 2016	P7,041,964,761	P86,260,885	P-	P7,128,225,646
Net book value:				
At December 31, 2016	P24,694,500,842	P3,469,799,327	P2,507,847,423	P30,672,147,592
At December 31, 2015	19,632,214,710	3,166,191,500	-	22,798,406,210

MNEP

Additions during 2016 and 2015 pertain mainly to lane widening project on Segments 2 and 3 (portions of Phase I); civil works construction for Segments 9 and 10 (portion of Phase II); and fixed operating equipment (FOE) design, supply and installation on Segment 10 (portion of Phase II). Additions also include the pre-construction costs of Segment 8.2, portion of Phase II.



Borrowing costs capitalized amounted to ₱653.7 million and ₱383.0 million for the years ended December 31, 2016 and 2015, respectively. The interest rates used to determine the amount of borrowing costs eligible for capitalization ranges from 5.0% to 5.8% in 2016 and 2015.

The concession term for fully operational Phase I and Segments 8.1 and 9 of Phase II of the MNEP is until December 31, 2037. As at December 31, 2016 and 2015, the remaining concession term is 21 years and 22 years, respectively.

As at February 16, 2017, Segment 10, portion of Phase II, with a carrying amount of ₱6,265.9 million and ₱3,742.7 million as at December 31, 2016 and 2015, respectively, has not yet started its tollway operation.

SCTEX

As discussed in Note 2, NLEX Corp. took over from BCDA the management, operation and maintenance of the SCTEX on October 27, 2015. Additions during 2015 pertain to an upfront fee payment amounting to ₱3.1 billion and other directly attributable costs of the project. Additions during 2016 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. As at December 31, 2016 and 2015, the remaining concession term is 27 years and 28 years, respectively.

NLEX-SLEX Connector Road

As discussed in Note 2, NLEX Corp. and DPWH signed the Concession Agreement for the NLEX-SLEX Connector Road on November 23, 2016. Additions during 2016 pertain mainly to the present value of the service concession fees payable of ₱2,318.8 million and pre-construction costs of ₱171.9 million.

Borrowing costs capitalized amounted to ₱17.1 million for the year ended December 31, 2016. The borrowing rate used to determine the amount of borrowing costs eligible for capitalization is 7.1% in 2016.

The expected concession period for NLEX-SLEX Connector Road is until 2055, which is 37 years after the expected issuance by the DPWH of the NTP to start the construction of the NLEX-SLEX Connector Road.

Impairment Testing of Service Concession Assets Not Yet Available for Use

For the purposes of impairment testing related to an intangible asset (service concession asset) not yet available for use under the requirements of PAS 36, *Impairment of Assets*, the Company has performed the analysis by comparing the recoverable amount and the carrying amount of the service concession assets as at reporting date.

As at December 31, 2016 and 2015, the total carrying amount of Segment 10 (portion of Phase II of MNEP) and NLEX-SLEX Connector Road which are not yet available for use amounted to ₱8,773.7 million and ₱3,742.7 million, respectively.

The recoverable amount of Segment 10 (portion of Phase II of MNEP) and NLEX-SLEX Connector Road have been determined based on a value in use computation using the cash flow projections from most recent financial budgets and forecast of NLEX Corp. For the impairment testing conducted, average traffic volume growth rates used were 1.2% to 2.3% and the pre-tax discount rates applied range from 10.33% to 10.56%, which was based on the weighted average cost of capital with estimated premium of 2.0% over cost of equity. The average forecast period



used in the computation is 21 years for Segment 10 and 39 years for NLEX-SLEX Connector Road. The forecast period is greater than 5 years as management can reliably estimate the cash flow for the entire duration of the concession period.

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

9. 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, 2015	₱92,921,543	₱71,188,860	₱138,009,983	₱302,120,386
Additions	1,279,911	10,720,714	19,071,348	31,071,973
Disposals	–	(7,304,642)	(724,111)	(8,028,753)
At December 31, 2015	94,201,454	74,604,932	156,357,220	325,163,606
Additions	22,500	23,086,472	22,273,961	45,382,933
Disposals	–	(9,827,443)	(3,469,102)	(13,296,545)
At December 31, 2016	₱94,223,954	₱87,863,961	₱175,162,079	₱357,249,994
Accumulated depreciation:				
At January 1, 2015	₱31,641,654	₱40,159,650	₱100,816,618	₱172,617,922
Depreciation (see Notes 21 and 22)	4,873,240	12,979,609	20,172,567	38,025,416
Disposals	–	(5,995,409)	(562,111)	(6,557,520)
At December 31, 2015	36,514,894	47,143,850	120,427,074	204,085,818
Depreciation (see Notes 21 and 22)	3,572,702	10,292,564	16,113,232	29,978,498
Disposals	–	(8,376,549)	(3,409,133)	(11,785,682)
At December 31, 2016	₱40,087,596	₱49,059,865	₱133,131,173	₱222,278,634
Net book value:				
At December 31, 2016	₱54,136,358	₱38,804,096	₱42,030,906	₱134,971,360
At December 31, 2015	57,686,560	27,461,082	35,930,146	121,077,788

Proceeds from the sale of property and equipment amounted to ₱2.4 million, ₱2.0 million and ₱1.6 million in 2016, 2015 and 2014, respectively. Gain on disposal of property and equipment amounted to ₱0.9 million, ₱0.5 million and ₱0.4 million for the years ended December 31, 2016, 2015 and 2014, respectively. The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱139.4 million and ₱115.0 million as at December 31, 2016 and 2015, respectively.

10. Investment Properties

Details of this account as at December 31, 2016 are as follows:

Land	₱37,761,269
Land improvements	3,682,610
Total	₱41,443,879



In 2016, NVC purchased parcels of land located in Valenzuela City from certain land owners. A parcel of land acquired is presently the site of a service facility while the other parcels of land will be developed as a service facility and/or for lease with business proponents.

As discussed in Note 28, the land acquired with a service facility was leased to RDL Fuel Point, Inc. Rental income earned from this investment property amounted to ₱4.3 million in 2016.

Fair value of investment properties

As at December 31, 2016, the fair value of investment properties amounting to ₱50.3 million is based on valuation performed by an accredited independent appraiser. A valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied.

	Valuation Technique	Significant unobservable input	Range (Weighted Average)
Land and land improvements	Direct Sales Comparison Approach	Price per square meter (sqm)	₱6,200 per sqm

The Market Data (or Direct Sales Comparison) Approach is an appraisal technique in which the market value estimate is predicated based upon prices paid in actual market transactions and current listings, the former fixing the lower limit of value in a static or advancing market (price wise), and fixing the higher limit of value in a declining market; and the latter fixing the higher limit in any market. It is a process of correlation and analysis of similar recently sold properties.

The reliability of this technique is dependent upon: (a) the degree of comparability of each property with the property under appraisal; (b) the time of the sale; (c) the verification of the sale data, and; (d) the absence of unusual conditions affecting the sale. The weight given to this approach is dependent on the availability of recent confirmed listings/sales of properties considered comparable to the property under appraisal. These listings/sold properties are compared to the subject in key units of comparison. Appropriate adjustments are made for differences between the subject and the comparables, resulting in adjusted sales values for each of the comparables. These adjusted values are then reconciled for a value conclusion by the Sales Comparison Data Grid.

The Market Data (or Direct Sales Comparison) Approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property. The reliability of this method depends on the number of comparables utilized and their overall similarity to the property being appraised.

Significant increases (decreases) in estimated price per sqm in isolation would result in a significantly higher (lower) fair value.

The determination of the fair value of investment properties is categorized under Level 3 fair value hierarchy measurement.

The Company has no restriction on the realizability of its investment properties and no obligation to either purchase, construct or develop, or for repairs, maintenance and enhancements.



11. Other Intangible Assets

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

	2016	2015
Cost:		
Balance at the beginning of the year	₱99,033,490	₱93,567,919
Additions	7,501,925	5,465,571
Balance at end of the year	106,535,415	99,033,490
Accumulated amortization:		
Balance at beginning of year	82,352,212	71,398,156
Amortization (see Note 22)	5,924,711	10,954,056
Balance at end of the year	88,276,923	82,352,212
Net book value	₱18,258,492	₱16,681,278

12. Available-for-sale Financial Assets

Details of AFS financial assets are shown below:

Maturity Date	Interest Rate	2016		2015	
		Fair Value	Principal Amount	Fair Value	Principal Amount
UITF*					
Short-term		₱82,407,389	₱82,221,409	₱1,225,420,748	₱1,220,988,850
ROP Retail Treasury Bonds					
March 3, 2016	6.00%	-	-	150,870,000	150,000,000
August 15, 2023	3.25%	524,017,230	565,100,000	525,712,530	565,100,000
		524,017,230	565,100,000	676,582,530	715,100,000
Fixed Rate Treasury Notes					
April 25, 2016	1.63%	-	-	49,775,000	50,000,000
May 23, 2018	2.13%	246,600,000	250,000,000	434,254,716	449,260,000
July 19, 2019	4.75%	11,179,465	11,230,000	-	-
August 20, 2020	3.38%	20,560,000	20,000,000	-	-
		278,339,465	281,230,000	484,029,716	499,260,000
LTNCD					
PNB - June 12, 2020	4.13%	49,613,000	50,000,000	49,460,000	50,000,000
Metrobank - November 21, 2021	4.25%	48,603,000	50,000,000	48,135,000	50,000,000
		98,216,000	100,000,000	97,595,000	100,000,000
Corporate Bonds					
FMIC - August 10, 2019	5.75%	48,781,000	50,000,000	52,745,000	50,000,000
Meralco - December 12, 2020	4.38%	197,300,000	200,000,000	202,142,000	200,000,000
PLDT - February 6, 2021	5.23%	207,014,000	200,000,000	202,034,000	200,000,000
		453,095,000	450,000,000	456,921,000	450,000,000
		₱1,436,075,084	₱1,478,551,409	₱2,940,548,994	₱2,985,348,850

* Presented as "Short-term deposits" in the consolidated balance sheets.

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 are invested in various financial instruments such as money market securities, bonds and equities, which are normally available to bigger 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 based



on the estimated fair market value of the assets of the fund based on prices supplied by independent sources.

The movements in this account follow:

	2016	2015
Balance at beginning of year	P2,940,548,994	P6,727,635,157
Additions	7,063,921,689	5,407,332,256
Maturity	(200,000,000)	(250,000,000)
Sale of AFS financial assets	(8,366,733,682)	(8,865,590,303)
Loss on AFS financial assets during the year (see Note 19)	(1,661,917)	(78,828,116)
Balance at end of year	P1,436,075,084	P2,940,548,994
Current	P82,407,389	P1,426,065,748
Noncurrent	1,353,667,695	1,514,483,246
	P1,436,075,084	P2,940,548,994

The fair value is based on the quoted market price of the financial instruments as at December 31, 2016 and 2015. The movements in the net unrealized gain (loss) on fair value change in AFS financial assets under "Other comprehensive income (loss) reserve" account for the years ended December 31, 2016, 2015 and 2014 follow:

	2016	2015	2014
Balance at beginning of year	(P37,532,107)	P41,296,009	P20,178,038
Changes in fair value during the year	25,673,283	11,121,533	27,759,214
Reclassification to profit or loss*	(27,335,200)	(89,949,649)	(6,641,243)
Balance at end of year	(39,194,024)	(37,532,107)	41,296,009
Tax effects of items taken directly in equity (see Note 27)	1,464,533	2,657,153	(2,826,741)
	(P37,729,491)	(P34,874,954)	P38,469,268

* Includes gain on sale of AFS amounting to P22,635,560 and P87,917,303 in 2016 and 2015, respectively, that was deducted from borrowing costs capitalized to service concession assets.

13. Other Current Assets

Details of other current assets follow:

	2016	2015
Advances to contractors and consultants (Notes 16 and 28)	P298,617,715	P101,181,578
Input VAT	412,113,258	447,522,931
Deferred input VAT	186,898,381	166,091,789
Prepayments	67,638,138	31,926,400
Creditable tax	19,545,453	17,247,862
	984,812,945	763,970,560
Less allowance for non-recoverability of creditable tax	15,380,461	15,380,461
	P969,432,484	P748,590,099



14. Accounts Payable and Other Current Liabilities

This account consists of:

	2016	2015
Trade payables:		
Related parties (see Note 16)	P135,325,540	P236,879,437
Third parties	171,054,098	741,450,643
Accrued expenses:		
Related parties (see Note 16)	362,310,718	376,017,263
Third parties	1,899,350,895	554,290,122
Retention payable:		
Related parties (see Note 16)	19,776,883	18,010,626
Third parties	315,671,166	121,939,251
Output VAT	141,308,092	124,354,201
Withholding taxes payable	93,142,828	95,145,493
Interest payable	24,517,438	41,996,378
Unearned toll revenue	2,571,857	1,646,827
Unearned rental income (see Note 28)	2,132,223	-
Others	11,593,503	12,437,620
	P3,178,755,241	P2,324,167,861

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

Accrued expenses consist of:

	2016	2015
Construction costs	P1,551,445,903	P239,316,532
Operator's fee (see Note 16)	253,612,988	329,024,746
Professional fees	94,300,662	8,732,323
Concession fees (see Note 2)	87,422,800	78,025,151
Operating and maintenance cost	61,249,421	64,700,365
Advertising and marketing expenses	52,599,331	32,522,105
PNCC fee	52,539,032	47,895,086
Salaries and employee benefits	27,206,476	41,368,543
Outside services	18,668,329	17,665,604
Management fees (see Note 16)	17,851,424	29,890,097
Project insurance	12,806,822	10,670,039
Repairs and maintenance	7,405,068	7,405,068
Toll collection and medical services	6,494,316	3,339,113
Others	18,059,041	19,752,613
	P2,261,661,613	P930,307,385

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

Interest payable is settled within three to six months.



15. Provisions

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2015	₱167,851,682	₱90,124,571	₱257,976,253
Additions (see Notes 21 and 22)	168,917,287	5,101,457	174,018,744
Accretion (see Note 26)	11,939,460	–	11,939,460
Payments	(85,455,941)	(19,024,078)	(104,480,019)
At December 31, 2015	263,252,488	76,201,950	339,454,438
Additions (see Notes 21 and 22)	127,647,874	29,537,324	157,185,198
Accretion (see Note 26)	14,957,803	–	14,957,803
Payments	(91,888,750)	–	(91,888,750)
At December 31, 2016	₱313,969,415	₱105,739,274	₱419,708,689
At December 31, 2016:			
Current	₱228,915,410	₱91,899,092	₱320,814,502
Noncurrent	85,054,005	13,840,182	98,894,187
	₱313,969,415	₱105,739,274	₱419,708,689
At December 31, 2015:			
Current	₱105,000,000	₱62,361,768	₱167,361,768
Noncurrent	158,252,488	13,840,182	172,092,670
	₱263,252,488	₱76,201,950	₱339,454,438

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

Other provisions include 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.

16. Related Party Disclosures

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



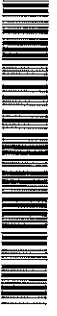
The following table provides the total amount of significant transactions with related parties for the relevant year:

Related Party	2016	2015	2014	Management Fees (see Note 22)	Operator's Fee (see Note 21)	Outside Services (see Note 21)	Repairs and Maintenance (see Note 21)	Communication, Light and Water (see Notes 21 and 22)	Advertising and Marketing Expenses (see Note 22)	Income from Advertising (see Note 20)	Income from Utility Facilities (see Note 20)
	2016	2015	2014	₱	₱	₱	₱	₱	₱	₱	₱
MPTC	Intermediate Parent Company			₱60,702,628	-	-	-	-	₱42,966,485	-	-
				60,702,628	-	-	-	-	-	-	-
				44,832,143	-	-	-	-	-	-	-
TMC	Associate of MPTDC			-	2,001,498,970	-	6,234,952	-	-	-	-
				-	1,741,674,430	-	5,524,377	-	-	-	-
				-	1,710,956,357	-	3,230,823	-	-	-	-
Easytrip Services Corp. (ESC)	Joint Venture of MPTDC			-	-	67,861,426	-	-	-	920,000	-
				-	-	61,167,420	-	-	-	60,000	-
				-	-	54,442,444	-	-	-	620,000	-
Smart Communications Inc. (Smart)	Associate of FPC			-	-	-	-	-	-	43,480,000	357,756
				-	-	-	-	-	-	72,850,000	342,350
				-	-	-	-	-	-	58,492,000	327,608
PLDT	Associate of FPC			-	-	-	-	-	-	1,009,000	6,628,069
				-	-	-	-	-	-	-	2,423,099
				-	-	-	-	-	-	-	1,889,481
Digital Mobile Philippines, Inc. (Digitel)	Associate of FPC			-	-	-	-	-	-	-	-
				-	-	-	-	-	-	7,579,000	-
				-	-	-	-	-	-	10,880,000	-
Manila Electric Company (Meralco)	Associate of MPIC			-	-	-	-	5,975,142	-	-	-
				-	-	-	-	-	-	-	-
				-	-	-	-	-	-	-	-
Total				₱60,702,628	₱2,001,498,970	₱67,861,426	₱6,234,952	₱5,975,142	₱42,966,485	₱45,409,000	₱6,985,825
				60,702,628	1,741,674,430	61,167,420	5,524,377	-	-	80,489,000	2,765,449
				44,832,143	1,710,956,357	54,442,444	3,230,823	-	-	69,992,000	2,217,089



Outstanding balances of receivables from/payables to related parties are carried in the consolidated balance sheets under the following accounts:

Name	Relationship	Advances to Contractors and Consultants (see Note 13)	Trade Receivables ⁽²⁾ (see Note 7)	Due from Related Parties ⁽¹⁾ (see Note 7)	Accounts Payable and Other Current Liabilities ⁽²⁾ (see Note 14)	Terms	Conditions
MPTC	Intermediate Parent Company	₱—	₱—	₱188,934	₱64,272,100	(1) On demand; noninterest-bearing	Unsecured; no impairment
		—	647,529	2,201,450	65,192,328	(2) 30-45 days; noninterest-bearing	Unsecured; no impairment
MPTDC	Parent Company	—	—	1,496	161,459	(1) On demand; noninterest-bearing	Unsecured; no impairment
		—	—	—	8,624,846	(2) 30-45 days; noninterest-bearing	Unsecured; no impairment
MPCALA Holdings, Inc. (MHI)	Subsidiary of MPTDC	—	—	1,437,464	—	On demand; noninterest-bearing	Unsecured; no impairment
TMC	Associate of MPTDC	58,000	43,010	481,152	343,641,076	(1) On demand; noninterest-bearing	Unsecured; no impairment
		58,000	25,455	109,177	479,494,299	(2) 30-45 days; noninterest-bearing	Unsecured; no impairment
Cavitex Infrastructure Corp. (CIC)	Subsidiary of MPTC	—	—	1,604,368	69,300	On demand; noninterest-bearing	Unsecured; no impairment
ESC	Joint Venture of MPTDC	—	—	342,507	—	On demand; noninterest-bearing	Unsecured; no impairment
		—	246,967,216	99,000	89,360,507	(1) On demand; noninterest-bearing	Unsecured; no impairment
		—	228,352,174	99,000	59,366,617	(2) 7 days; noninterest-bearing	Unsecured; no impairment
Indra Philippines, Inc. (Indra) Smart	Associate of MPIC	493,728	—	—	19,776,883	Within one year; noninterest-bearing	Unsecured, no impairment
		425,045	—	—	18,010,626	Within one year; noninterest-bearing	Unsecured, no impairment
		—	44,949,254	—	129,035	30-45 days; noninterest-bearing	Unsecured; no impairment
PLDT	Associate of FPC	—	24,727,200	—	125,761	30-45 days; noninterest-bearing	Unsecured; no impairment
		—	7,057,761	—	—	30-45 days; noninterest-bearing	Unsecured; no impairment
		—	892,697	—	92,849	30-45 days; noninterest-bearing	Unsecured; no impairment
Digital	Associate of FPC	—	5,107,200	—	2,781	30-45 days; noninterest-bearing	Unsecured; no impairment
		—	8,286,880	—	—	30-45 days; noninterest-bearing	Unsecured; no impairment
Meralco	Associate of MPIC	6,727,892	—	—	—	Within one year; noninterest-bearing	Unsecured, no impairment
		—	—	—	—	Within one year; noninterest-bearing	Unsecured, no impairment
Total		₱7,279,620	₱304,124,441	₱3,812,414	₱517,413,141		
		483,045	262,931,935	2,807,542	630,907,326		



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

Transactions with Parent Companies

MPTC

- MPTC performs managerial and financial advisory services for NLEX Corp. in 2016, 2015, and 2014. On January 1, 2014, NLEX Corp. and MPTC renewed their Management Services Agreement where NLEX Corp. shall pay MPTC a fixed monthly fee of ₱3.7 million (exclusive of VAT) for the services rendered by MPTC. The agreement is effective January 1, 2014, and shall remain in effect for twelve (12) months. As at February 16, 2017, NLEX Corp. and MPTC are in the process of renewing the Management Services Agreement for years 2016 and 2015 with an increase in the monthly fee to ₱5.1 million.
- In 2016, MPTC billed NLEX Corp. for its share in the compensation, bonuses and other benefits of the NLEX Road Warriors Philippine Basketball Association team.

MPTDC

- In 2016 and 2015, MPTDC billed NLEX Corp. for various expenses paid in behalf of NLEX Corp. as well as the latter's share in common expenses.

Transactions with Other Related Parties

TMC

NLEX

- TMC, an associate of MPTDC, provides services to NLEX Corp. as operator to the existing NLEX, and Segment 7 under the Operations and Management Agreement (O&M) entered into by NLEX Corp. and TMC on July 6, 2001. The O&M contains the terms and conditions for the operation and maintenance by TMC of the existing NLEX and subsequently, of Segment 7, and sets forth the scope of its services. Under the O&M, NLEX Corp. pays TMC a minimum fixed annual amount of ₱605.4 million for the existing NLEX and ₱38.8 million for Segment 7, to be escalated on a quarterly basis plus a variable component, which took effect upon start of commercial operations. The O&M, which also provides for certain bonuses and penalties as described in the O&M, shall be effective for the entire concession term.
- On May 27, 2010, pursuant to the O&M and the TRB's approval to integrate the operations period of Phase I and Segment 8.1, portion of Phase II of the MNEP, and to extend the concession term, NLEX Corp. and TMC agreed to extend the O&M to cover Segment 8.1 from June 1, 2010 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee for the operations and maintenance of Segment 8.1 in the amount of ₱33.6 million effective in June 2010.
- On December 10, 2012, pursuant to the O&M and the TRB's approval to open and operate the Balagtas Interchange as an integral part of Phase I of the MNEP, NLEX Corp. and TMC agreed that the scope of the O&M shall correspondingly cover the Balagtas Interchange from June 25, 2012 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee for the operations and maintenance of the Balagtas Interchange in the amount of ₱15.6 million effective in 2012. On July 6, 2015, NLEX Corp. and TMC agreed to reduce



the base fee for Balagtas Interchange from ₱15.6 million to ₱13.7 million to take into account the reduction in operational and maintenance costs of the Sta. Rita Interchange. The Balagtas Interchange is a 1.5-km stretch connecting Plaridel to NLEX.

- In 2012, NLEX Corp. also added the new Bocaue Interchange Northbound Exit to the scope of TMC's operations and maintenance contract at the proposed annual fee of ₱7.7 million. On June 22, 2015, pursuant to the O&M, NLEX Corp. gave a formal notice to TMC that the scope of O&M shall correspondingly cover the Bocaue Interchange Northbound Exit from July 29, 2012 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee of ₱7.7 million. It has been further agreed that the base fee may be escalated after the lapse of one (1) year from July 2012.
- In 2014, in view of the latest publication of the National Statistics Office (NSO) for CPI values issued in July 2011, with different commodity grouping compared with those stipulated in the O&M, NLEX Corp. and TMC agreed to amend the base fee, effective January 9, 2012 as follows:
 - ₱1,312.6 million for the existing NLEX;
 - ₱84.2 million for Segment 7;
 - ₱6.9 million for Dau Interchange; and
 - ₱32.9 million for Segment 8.1.

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

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

SCTEX

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

ESC

- On December 5, 2007, NLEX Corp. engaged the services of ESC, a joint venture of MPTDC, to assist NLEX Corp. in increasing the usage of the electronic toll collection (ETC) facility along the NLEX which ended on April 30, 2010. On November 24, 2010, NLEX Corp. and ESC signed the Supplemental Agreement to the Service Agreement extending the services of ESC as ETC service provider for another eight years effective on May 1, 2010 with a five year extension. In accordance with the Supplemental Agreement, NLEX Corp. will pay ESC an



annual fixed fee of ₱14.0 million for Class 1 vehicles and annual fixed fee of ₱5.0 million for Class 2 and Class 3 vehicles, which are to be maintained and escalated every year for labor index and CPI. NLEX Corp. shall also pay for variable fees of ₱0.75 or ₱2.5 per transaction for Class 1 vehicles depending on the number of transactions achieved during the year compared with prior year; and ₱3.0 and ₱4.0 per transactions for Class 2 and Class 3, respectively, which are also to be maintained and escalated every year for labor index and CPI.

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

Indra

- On June 14, 2013, NLEX Corp. entered into a Contract Agreement with Egis Projects Philippines Inc. (EPPI) and Indra Consortium for the design, supply, installation, testing and commissioning of the FOE for Segment 9 of Phase II. The total contract price of €1.3 million (₱77.5 million) shall be fixed lump sum, inclusive of VAT. Segment 9 has been substantially completed and has started tollway operation on March 19, 2015.
- On May 8, 2015, NLEX Corp. entered into a Contract Agreement with EPPI and Indra Consortium for the design, supply, installation, testing and commissioning of the FOE for Segment 10, part of Phase II of the MNEP. The total contract amount is €1.8 million (₱92.7 million), inclusive of VAT. The target completion of the works shall be within 2 years from contract date.
- On August 7, 2015, NLEX Corp. issued a letter of acceptance to EPPI and Indra Consortium relating to the revised proposal dated August 3, 2015 for the design, supply, installation, testing and commissioning of the FOE for the NLEX-SCTEX integration project. The revised contract price amounted to €10.2 million (₱507.2 million). The project was completed on March 15, 2016.

PLDT, Smart and Digitel

- On March 17, 2010, NLEX Corp. and PLDT entered into an agreement with respect to the commercial aspect of the Utility Facilities Contract for the Fiber Optic Overlay along Phase I of the NLEX, the contract of which was signed on February 18, 2013. Pursuant to the agreement, PLDT shall pay NLEX Corp. an annual fee of ₱1.3 million starting in the year 2010 which shall then be escalated annually by 9% on the succeeding years. The contract shall be effective for a period of 20 years from April 15, 2010 and may be renewed or extended upon mutual agreement by NLEX Corp. and PLDT.
- NLEX Corp. and PLDT entered into an agreement in relation to the installation of Fiber Optic Cable (FOC) along SFEX on August 24, 2016. Pursuant to the agreement, PLDT shall pay an annual fee of ₱0.2 million starting September 3, 2016 which shall be escalated annually using the inflation rate as determined by the National Economic and Development Authority but in no case lower than 5%. The contract shall be effective for a period of 5 years from the date of



its execution and may be renewed or extended upon mutual agreement by NLEX Corp. and PLDT.

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

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

- On March 26, 2012, NLEX Corp. and Smart agreed on the terms of the grant to Smart of exclusive rights to name the NLEX-Mindanao Avenue Cloverleaf as a Smart Connect Interchange and put up outdoor advertising structures near the interchange. The annual package is based on a predetermined timetable of when the official road signs are progressively built. The base price is from ₱175.0 million to ₱228.2 million and may increase depending on the final features and characteristics of the cloverleaf. This agreement shall take effect from April 1, 2012 until April 30, 2017, unless pre-terminated or renewed by mutual written agreement of the parties.
- In 2016, 2015 and 2014, NLEX Corp. entered into advertising arrangements with Smart and Digitel (a subsidiary of PLDT) related to various advertising mediums, which include rental, material production, installation and maintenance at several locations along NLEX. In 2015, the advertising arrangement with Digitel has ended.

Meralco

- The Company was billed by Meralco for its electric consumption in its head office; in Segment 9, portion of Phase II of MNEP, and for its drainage system in Balintawak and Valenzuela.
- As at December 31, 2016, NLEX Corp. has advances to Meralco for its new electric line applications for Segment 9, portion of Phase II of MNEP, and Balintawak and Valenzuela drainage system. These advances are either refundable or consumable upon activation of the electric lines in Segment 9 and Balintawak and Valenzuela drainage system.

Other Transactions

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

	2016	2015	2014
Short-term employee benefits	₱96,657,884	₱90,576,679	₱96,765,803
Retirement expense (see Note 23)	9,059,351	10,924,834	9,726,985
ESOP expense (see Notes 23 and 24)	1,244,843	1,244,843	2,345,037
LTIP expense (see Note 23)	58,964,008	48,735,905	55,171,612
	₱165,926,086	₱151,482,261	₱164,009,437

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



- The Company paid directors fees amounting to ₱0.7 million, ₱0.5 million and ₱0.7 million in 2016, 2015 and 2014, respectively, recorded under “General and administrative expenses” account in the consolidated statements of income (see Note 22).
- Advances to officers and employees has an outstanding balance of ₱15.3 million and ₱7.4 million as at December 31, 2016 and 2015, respectively (see Note 7).

17. Long-term Debt

This account consists of:

	2016	2015
Peso-denominated Notes, Loans and Bonds:		
Series A Notes	₱4,949,719,307	₱5,961,821,616
Term Loan Facilities	7,000,000,000	5,000,000,000
Fixed-rate Bonds	7,000,000,000	7,000,000,000
	18,949,719,307	17,961,821,616
Less unamortized debt issue costs	127,056,818	147,239,671
	18,822,662,489	17,814,581,945
Less current portion of long-term debt - net of unamortized debt issue costs of ₱23,364,569 in 2016 and ₱19,598,895 in 2015	278,737,740	992,503,413
	₱18,543,924,749	₱16,822,078,532

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱127.1 million and ₱147.2 million as at December 31, 2016 and 2015, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2016	2015
Balance at beginning of year	₱147,239,671	₱170,354,436
Amortization during the year* (see Note 26)	(32,071,661)	(38,114,765)
Debt issue costs incurred during the year	11,888,808	15,000,000
Balance at end of year	₱127,056,818	₱147,239,671

* Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱12,158,913 and ₱9,322,837 in 2016 and 2015, respectively.

Series A Notes

On April 15, 2011, NLEX Corp. entered into a Corporate Notes Facility Agreement with various local financial institutions for fixed-rate unsecured notes amounting to ₱6.2 billion, with tenors ranging from 5 years, 7 years and 10 years (“Series A Notes”). Weighted average fixed interest rate on the Series A Notes is 7.22% per annum. Debt issue costs incurred in the availment of the Series A Notes amounted to ₱141.9 million in 2011.

Term Loan Facilities

The Insular Life Assurance Company, Ltd. (Insular) and the Philippine American Life and General Insurance Company (Philam). On December 12, 2011, NLEX Corp. entered into a Term Loan Facility Agreement for a ₱1.0 billion fixed-rate term loan facility from Insular and Philam. The loan facility has a final maturity date of 15 years, with two bullet repayment tranches of ₱500.0 million each after 10 and 15 years from availment date. Average fixed interest rate on the



loan facility is 7.10% per annum. Debt issue cost incurred in the availment of the fixed-rate term loans amounted to ₱8.1 million.

On November 20, 2015, NLEX Corp. issued a notice of prepayment effective on December 15, 2015 for the loans availed from Insular and Philam, amounting to ₱500.0 million each. The prepayment penalty amounting to ₱30.0 million was recognized as part of “Interest expense and other finance costs” (see Note 26).

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

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

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

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

Philippine National Bank (PNB). On December 4, 2015, NLEX Corp. entered into a new ten-year term loan facility agreement with PNB for a facility amount of ₱5.0 billion to finance capital expenditures such as the NLEX Lane Widening Project, NLEX-SCTEX Integration Project and the upgrade of the SCTEX. On December 10, 2015, NLEX Corp. made its initial drawdown amounting to ₱3.0 billion. The undrawn amount will be available for drawing until December 4, 2017. The maturity date of the loan is on December 10, 2025. Debt issue costs incurred on the initial drawdown amounted to ₱15.0 million.

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

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



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

Fixed-rate Bonds

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

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

Compliance with Loan Covenants

As at December 31, 2016 and 2015, NLEX Corp. is in compliance with the required financial ratios and other loan covenants. NLEX Corp.'s long-term debt are unsecured as at December 31, 2016 and 2015.

18. Service Concession Fees Payable

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

	Amount
At January 1, 2016	₱-
Additions	2,318,800,856
Accretion	17,115,373
At December 31, 2016	<u>₱2,335,916,229</u>

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

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

The undiscounted estimated future periodic payments, excluding the effect of the CPI, is ₱8,510.4 billion.



19. Equity

Capital Stock

Details of common shares of the Parent Company as at December 31, 2016 and 2015 follow:

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

Cash Dividends

The Parent Company's BOD declared the following cash dividends in 2016, 2015 and 2014:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
July 8, 2016	July 19, 2016	August 18, 2016	₱70.38	₱1,250,000,000
December 15, 2016	December 25, 2016	December 28, 2016	76.01	1,350,000,000
July 23, 2015	July 13, 2015	August 12, 2015	56.31	1,000,000,000
December 17, 2015	December 28, 2015	January 27, 2016	80.10	1,422,576,000
July 31, 2014	July 21, 2014	August 20, 2014	55.00	976,800,000
December 17, 2014	December 7, 2014	January 6, 2015	67.20	1,193,472,000

Unpaid dividends of ₱1,422.6 million as at December 31, 2015 was subsequently paid in January 2016.

Other Comprehensive Income (Loss) Reserve

	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, 2016	(₱37,532,107)	₱2,657,153	₱11,864,970	(₱3,559,491)	(₱26,569,475)
Change in fair value of AFS (see Note 12)	(1,661,917)	(1,192,620)	-	-	(2,854,537)
Remeasurement loss (see Note 23)	-	-	(10,697,673)	3,209,302	(7,488,371)
Balance at December 31, 2016	(₱39,194,024)	₱1,464,533	₱1,167,297	(₱350,189)	(₱36,912,383)

	Cash Flow Hedge	Income Tax Related to Cash Flow Hedge	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, 2015	(₱3,775,752)	₱1,132,726	₱41,296,009	(₱2,826,741)	₱5,172,871	(₱1,551,862)	₱39,447,251
Net movement in cash flow hedge (see Note 30)	3,775,752	(1,132,726)	-	-	-	-	2,643,026
Change in fair value of AFS (see Note 12)	-	-	(78,828,116)	5,483,894	-	-	(73,344,222)
Remeasurement gain (see Note 23)	-	-	-	-	6,692,099	(2,007,629)	4,684,470
Balance at December 31, 2015	₱-	₱-	(₱37,532,107)	₱2,657,153	₱11,864,970	(₱3,559,491)	(₱26,569,475)
Balance at January 1, 2014	(₱12,710,899)	₱3,813,270	₱20,178,038	(₱8,915,100)	₱8,226,938	(₱2,468,082)	₱8,124,165
Net movement in cash flow hedge (see Note 30)	8,935,147	(2,680,544)	-	-	-	-	6,254,603
Change in fair value of AFS (see Note 12)	-	-	21,117,971	6,088,359	-	-	27,206,330
Remeasurement loss (see Note 23)	-	-	-	-	(3,054,067)	916,220	(2,137,847)
Balance at December 31, 2014	(₱3,775,752)	₱1,132,726	₱41,296,009	(₱2,826,741)	₱5,172,871	(₱1,551,862)	₱39,447,251



20. Non-toll Revenues

Details of non-toll revenues follow:

	2016	2015	2014
Income from advertising (see Note 16)	₱106,466,110	₱112,313,888	₱95,112,651
Income from TSF	36,414,084	32,661,844	21,540,542
Income from utility facilities (see Note 16)	7,836,678	5,088,001	2,354,089
Rental income (see Notes 10 and 28)	4,307,205	–	–
Service revenue	2,410,563	–	–
	₱157,434,640	₱150,063,733	₱119,007,282

Service revenue pertains to the traffic management services, supply and application of pavement markings of NVC to various customers.

21. Cost of Services

This account consists of:

	2016	2015	2014
Operator's fee (see Note 16)	₱2,001,498,970	₱1,741,674,430	₱1,710,956,357
Concession fees (see Note 2)	791,493,044	132,146,972	–
Amortization of service concession assets (see Note 8)	615,120,463	575,097,888	483,626,911
PNCC fee (see Note 28)	527,740,201	482,149,955	442,714,079
Provision for heavy maintenance (see Note 15)	113,971,317	150,819,004	224,653,876
Insurance	78,074,708	52,976,575	48,781,314
Repairs and maintenance (see Note 16)	77,200,629	108,201,070	108,050,774
Outside services (see Note 16)	72,496,308	64,279,224	54,442,444
Salaries and employee benefits (see Note 23)	51,244,292	53,303,999	43,603,408
Toll collection and medical services	25,484,409	17,636,666	15,612,000
Depreciation of property and equipment (see Note 9)	4,977,014	8,956,180	–
Others	33,587,100	33,383,888	14,044,597
	₱4,392,888,455	₱3,420,625,851	₱3,146,485,760



22. General and Administrative Expenses

This account consists of:

	2016	2015	2014
Salaries and employee benefits (see Notes 16, 23 and 24)	₱190,906,315	₱184,339,652	₱203,587,291
Advertising and marketing expenses (see Note 16)	135,303,974	220,221,143	93,756,686
Professional fees	105,085,770	50,619,790	17,718,074
Taxes and licenses	62,504,339	57,258,388	51,740,610
Management fees (see Note 16)	60,702,628	60,702,628	44,832,143
Representation and travel	31,245,455	27,495,494	22,064,000
Provisions (see Note 15)	29,537,324	5,101,457	13,840,182
Depreciation of property and equipment (see Note 9)	25,001,484	29,069,236	30,963,982
Outside services	21,802,034	23,201,107	26,072,527
Repairs and maintenance	13,649,163	6,837,414	6,430,205
Provision for doubtful accounts (see Note 7)	10,776,531	4,278,862	4,339,110
Communication, light and water (see Note 16)	10,428,199	10,251,450	10,472,969
Amortization of other intangible assets (see Note 11)	5,924,711	10,954,056	6,056,952
Training and development costs	5,042,927	5,416,536	3,997,548
Office supplies	4,301,753	2,365,137	5,807,068
Rentals	1,612,882	1,168,873	—
Directors' fees (see Note 16)	695,000	530,000	680,000
Miscellaneous	11,648,913	9,151,143	9,722,740
	₱726,169,402	₱708,962,366	₱552,082,087

23. Personnel Cost and Employee Benefits

This account consists of:

	2016	2015	2014
Salaries expense	₱165,166,190	₱169,520,573	₱171,404,655
LTIP	58,964,008	48,735,905	55,171,612
Retirement expense	10,772,390	13,256,495	12,811,988
ESOP expense (see Note 24)	1,244,843	1,244,843	2,345,037
Other employee benefits	6,003,176	4,885,835	5,457,407
	₱242,150,607	₱237,643,651	₱247,190,699
Cost of services (see Note 21)	₱51,244,292	₱53,303,999	₱43,603,408
General and administrative expenses (see Note 22)	190,906,315	184,339,652	203,587,291
	₱242,150,607	₱237,643,651	₱247,190,699



LTIP

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

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

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

The total cost of the LTIP recognized by the Company in 2016, 2015 and 2014 included in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statements of income amounted to ₱59.0 million, ₱48.7 million and ₱55.2 million, respectively. Total long-term incentive plan payable amounted to ₱129.4 million and ₱70.5 million as at December 31, 2016 and 2015, respectively.

Retirement Costs

NLEX Corp. has a funded noncontributory defined benefit retirement plan covering all of its regular and full time employees. The plan provides for a lump sum benefit payment upon retirement. Contributions and costs are determined in accordance with the actuarial study made for the plan which is normally obtained every two years. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out as at December 31, 2016 by a certified actuary.

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

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



Changes in pension asset in 2016 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2016	(P110,939,146)	P122,994,910	P12,055,764
Net benefit income (cost) in statement of consolidated statement of income:			
Current service cost	(11,325,749)	-	(11,325,749)
Net interest	(5,092,107)	5,645,466	553,359
	(16,417,856)	5,645,466	(10,772,390)
Benefits paid	73,647	(73,647)	-
Remeasurement gain (loss) in other comprehensive income (see Note 19):			
Return on plan assets (excluding amount included in net interest)	-	(2,268,322)	(2,268,322)
Actuarial changes arising from changes in financial assumptions	2,679,135	-	2,679,135
Actuarial changes due to experience adjustment	(11,108,486)	-	(11,108,486)
	(8,429,351)	(2,268,322)	(10,697,673)
Contributions	-	10,318,979	10,318,979
At December 31, 2016	(P135,712,706)	P136,617,386	P904,680

Changes in pension asset in 2015 are as follows:

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2015	(P126,819,299)	P129,393,284	P2,573,985
Net benefit income (cost) in consolidated statement of income:			
Current service cost	(13,361,771)	-	(13,361,771)
Net interest	(5,186,909)	5,292,185	105,276
	(18,548,680)	5,292,185	(13,256,495)
Benefits paid	26,416,340	(26,416,340)	-
Remeasurement gain (loss) in other comprehensive income (see Note 19):			
Return on plan assets (excluding amount included in net interest)	-	(1,320,394)	(1,320,394)
Actuarial changes arising from changes in financial assumptions	4,496,060	-	4,496,060
Actuarial changes arising from changes in demographic assumptions	(525,026)	-	(525,026)
Actuarial changes due to experience adjustment	4,041,459	-	4,041,459
	8,012,493	(1,320,394)	6,692,099
Contributions	-	16,046,175	16,046,175
At December 31, 2015	(P110,939,146)	P122,994,910	P12,055,764



Changes in pension asset in 2014 are as follows:

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2014	(P113,327,192)	P115,165,038	P1,837,846
Net benefit income (cost) in consolidated statement of income:			
Current service cost	(12,881,458)	–	(12,881,458)
Net interest	(4,283,768)	4,353,238	69,470
	(17,165,226)	4,353,238	(12,811,988)
Benefits paid	4,257,778	(4,257,778)	–
Remeasurement gain (loss) in other comprehensive income (see Note 19):			
Return on plan assets (excluding amount included in net interest)	–	(2,469,408)	(2,469,408)
Actuarial changes arising from changes in financial assumptions	2,769,968	–	2,769,968
Actuarial changes due to experience adjustment	(3,354,627)	–	(3,354,627)
	(584,659)	(2,469,408)	(3,054,067)
Contributions	–	16,602,194	16,602,194
At December 31, 2014	(P126,819,299)	P129,393,284	P2,573,985

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

The actual return on plan assets amounted to ₱3.4 million, ₱4.0 million and ₱1.9 million in 2016, 2015 and 2014, respectively.

NLEX Corp. expects to contribute ₱15.6 million in 2017.

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

	2016		2015		2014	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Investments in:						
Government securities	₱72,305,424	52.93%	₱76,878,679	62.51%	₱77,778,679	60.11%
Debt securities	34,170,670	25.01%	39,818,321	32.37%	31,283,347	24.18%
UITFs	3,811,041	2.79%	–	–	–	–
Equity securities	1,625,600	1.19%	–	–	–	–
Cash and cash equivalents	21,900,203	16.03%	2,544,126	2.07%	14,546,546	11.24%
Loans/notes receivable	–	–	2,600,000	2.11%	2,600,000	2.01%
Receivables and others	2,804,448	2.05%	1,153,784	0.94%	3,184,712	2.46%
	₱136,617,386	100.00%	₱122,994,910	100.00%	₱129,393,284	100.00%

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



The plan assets consist of the following:

- Investments in government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 2.13% to 8.63% per annum and have maturities from 2017 to 2032.
- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 4.63% to 6.27% per annum and have maturities from 2017 to 2024.
- Investment in equity securities consist of non-voting perpetual preferred shares Series A of GTCHI amounting to ₱1.6 million as at December 31, 2016. Gain on change in the fair value of the equity securities amounted to ₱25,600 in 2016.
- Cash and cash equivalents include regular savings and time deposits, which bear interest of ranging 1.25% to 3.47% per annum.
- As at December 31, 2015 and 2014, loans and notes receivables consist of unsecured subordinated note of an unaffiliated company amounting to ₱2.6 million, which bears interest of 6.73% per annum.
- Other financial assets held by the plan are primarily accrued interest income from cash and cash equivalents, investments in UITFs, and investments in debt securities.

The principal assumptions used to determine accrued retirement costs as at December 31, 2016 and 2015 are as follows:

	2016	2015	2014
Discount rate	4.86%	4.59%	4.09%
Salary increase rate	7.00%	7.00%	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2016 and 2015, assuming if all other assumptions were held constant:

			Amount
Discount rate			
2016	(Actual + 1.00%)	5.86%	₱126,890,914
	(Actual - 1.00%)	3.86%	146,178,372
2015	(Actual + 1.00%)	5.59%	102,803,333
	(Actual - 1.00%)	3.59%	120,324,656
Salary increase rate			
2016	(Actual + 1.00%)	8.00%	₱145,344,195
	(Actual - 1.00%)	6.00%	127,335,282
2015	(Actual + 1.00%)	8.00%	119,614,630
	(Actual - 1.00%)	6.00%	103,213,151

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



the plans. NLEX Corp.'s current strategic investment strategy consists of 99.59% of debt instruments and 0.41% cash.

The average duration of the defined benefit obligation as at December 31, 2016 and 2015 is 15 years and 14 years, respectively.

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

	2016	2015
Less than 1 year	₱37,985,441	₱30,476,517
More than 1 year to 5 years	38,188,286	24,525,496
More than 5 years to 10 years	94,485,721	91,278,048
More than 10 years to 15 years	79,026,306	68,161,913
More than 15 years to 20 years	110,873,443	98,944,707
More than 20 years	290,308,553	178,590,037

24. Share-based Payment Plan

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

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

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

On July 2, 2010, MPIC has granted options in respect of 94,300,000 common shares of MPIC to new directors and senior management officers of MPIC and to selected management committee members of MPIC subsidiaries (includes the Company). Of the total shares granted, 12,200,000 common shares were allocated to MPTC Group. The stock options expired on July 2, 2015. With respect to the stock options granted to MPIC subsidiaries, said stock options vested as follows: 30% on July 2, 2011; 35% on July 2, 2012; and 35% on July 2, 2013.

On October 14, 2013, MPIC has granted options in respect of 120,000,000 common shares of MPIC to its directors and senior management officers of MPIC and to selected management committee members of MPTC Group (includes the Company). Of the total shares granted, 14,000,000 common shares were allocated to MPTC Group. The stock options will expire on October 15, 2018. With respect to the stock options granted to MPIC subsidiaries, said stock options will vest as follows: 50% on October 14, 2014 and 50% on October 14, 2015.



A summary of the Company's stock option activity received from MPIC and related information for the years ended December 31, 2016, 2015 and 2014 follows:

	2010 Grant		2013 Grant	
	Number of Shares	Exercise Price	Number of Shares	Exercise Price
Outstanding at January 1, 2014	485,000	₱2.73	4,000,000	₱4.60
Exercised during the year	(485,000)	2.73	–	–
Outstanding at December 31, 2016, 2015 and 2014	–	–	4,000,000	₱4.60
Exercisable at:				
December 31, 2016	–	₱–	4,000,000	₱4.60
December 31, 2015	–	–	4,000,000	4.60

The weighted average remaining contractual life for the 2013 share options outstanding as at December 31, 2016 and 2015 is 1.8 years and 2.8 years, respectively.

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

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

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

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

The following tables list the inputs to the model used for the ESOP in 2010:

	30% Vesting on	35% Vesting on	35% Vesting on
	July 2, 2011	July 2, 2012	July 2, 2013
Grant date	July 2, 2010		
Spot price	₱2.65	₱2.65	₱2.65
Exercise price	₱2.73	₱2.73	₱2.73
Risk-free rate	4.61%	5.21%	5.67%
Expected volatility*	69.27%	67.52%	76.60%
Term to vesting (in days)	365	731	1,096
Call price	₱0.73	₱1.03	₱1.39

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

ESOP expense, recognized by the Company in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statements of income amounted to ₱1.2 million in 2016 and 2015 and ₱2.3 million in 2014 (see Notes 22 and 23).



Carrying value of the ESOP, recognized under “Other reserve” in the consolidated statement of changes in equity, amounted to ₱13.0 million, ₱11.8 million and ₱10.5 million as at December 31, 2016, 2015 and 2014, respectively.

25. Interest Income

Sources of interest income follow:

	2016	2015	2014
Cash and cash equivalents (see Note 6)	₱20,600,148	₱19,108,129	₱11,129,626
AFS financial assets	40,128,011	53,776,152	50,136,496
Others	1,361,545	12,708	—
	₱62,089,704	₱72,896,989	₱61,266,122

26. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	2016	2015	2014
Interest expense on:			
Loans (see Notes 17 and 30)	₱405,396,398	₱546,748,317	₱563,162,098
Provision for heavy maintenance (see Note 15)	13,355,182	11,939,460	11,978,840
Deferred lease income	7,148	—	—
Finance costs:			
Amortization of debt issue costs (see Note 17)	19,912,748	28,791,928	23,742,514
Lenders' fees	3,726,452	3,998,564	1,793,373
Bank charges	514,689	816,880	537,382
Loan prepayment fees (see Note 17)	—	30,000,000	—
	₱442,912,617	₱622,295,149	₱601,214,207

27. Income Taxes

The provisions for current income tax for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Regular corporate income tax (RCIT)	₱1,140,798,359	₱949,581,001	₱742,156,676
Final tax on interest income from banks	12,008,044	14,145,924	10,611,174
	₱1,152,806,403	₱963,726,925	₱752,767,850



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

	2016	2015
Deferred tax assets:		
Service concession fees payable	₱700,774,869	₱-
Provision for heavy maintenance	85,657,300	72,072,409
LTIP payable	38,832,694	21,143,492
Accrued expenses and provisions	28,642,907	25,849,075
Unamortized past service cost	7,036,469	8,710,551
Allowance for doubtful accounts	7,481,577	4,248,618
Fair value changes on AFS financial assets (see Note 12)	1,464,533	2,657,153
Unearned rental income	639,667	-
Deferred lease income	42,341	-
	870,572,357	134,681,298
Deferred tax liabilities:		
Present value of concession fees capitalized as service concession assets	(700,774,869)	-
Difference in amortization of service concession assets	(636,952,861)	(632,176,295)
Unamortized realized foreign exchange losses capitalized	(18,702,313)	(19,592,899)
Pension asset	(271,404)	(3,616,729)
Unrealized foreign exchange gain	(73,649)	(743,146)
Present value of rental deposits	(36,904)	-
	(1,356,812,000)	(656,129,069)
Deferred tax liabilities – net	(₱486,239,643)	(₱521,447,771)

Reflected in the consolidated balance sheet as follows:

Deferred tax assets – net	₱645,104	₱-
Deferred tax liabilities – net	(486,884,747)	(521,447,771)
	(₱486,239,643)	(₱521,447,771)

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

As at December 31, 2015, NVC has NOLCO of ₱277,690 that can be claimed as deduction for future taxable income and will expire in year 2018. In 2016, NVC applied its 2015 NOLCO as tax credit against its income tax due. The deferred tax asset on NOLCO of ₱83,307 as at December 31, 2015 was not recognized since management believes that it is more likely than not that these will not be realized in the future.



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

	2016	2015	2014
Income before income tax	P5,206,692,229	P3,938,269,273	P3,404,123,118
Income tax computed at statutory tax rate of 30%	1,562,007,669	1,181,480,782	1,021,236,935
Add (deduct) the tax effects of:			
Effect of optional standard deduction	(443,264,106)	(228,320,466)	(175,204,186)
Interest income already subjected to final tax	(18,218,447)	(21,865,284)	(18,379,836)
Nondeductible expenses and others	7,081,797	(301,826)	417,974
Final tax on interest income	12,008,044	14,145,924	10,611,174
Provision for income tax	P1,119,614,957	P945,139,130	P838,682,061

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

The Company opted to avail of the OSD for the taxable years 2016, 2015 and 2014.

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

	2016	2015	2014
Balance at beginning of year	P521,447,771	P542,379,105	P460,788,929
Provision for (benefit from) income tax during the year recognized in the consolidated statements of income	(33,191,446)	(18,587,795)	85,914,211
Income tax effect during the year recognized in the consolidated statements of comprehensive income	(2,016,682)	(2,343,539)	(4,324,035)
Balance at end of year	P486,239,643	P521,447,771	P542,379,105

28. Significant Contracts and Commitments

PNCC Fee

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



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

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

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

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

The Company recorded PNCC fee amounting to ₱527.7 million, ₱482.1 million and ₱442.7 million in 2016, 2015 and 2014, respectively (see Note 21).

Construction of Segment 10, part of Phase II of the Project

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

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

On January 12, 2017, pursuant to the escrow agreement, NLEX Corp. exercised its option to reduce the escrow account balance to the new minimum balance of ₱669.0 million. The 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. The reduction of ₱220.0 million was released to the Company on January 18, 2017.

Construction of the 5.65 km fully-elevated segment is now underway. Project is estimated to be completed in May 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 while Segment 2 of the NLEX widening project is expected to be completed by February 2017.

Unapplied advances payment to First Balfour, Inc. amounted to ₱195.5 million as at December 31, 2016 (see Note 13).

NLEX-SCTEX Integration Agreement

On February 5, 2015, NLEX Corp. and BCDA executed the Integration Agreement relating to the TCS integration of the NLEX-SCTEX that will involve the adoption of an advanced common transit ticket system which will make operations more efficient and enhance motorists' convenience. The total project cost including civil works, FOE design supply and installation, and independent design checker and certification engineer amounted to ₱786.1 million and completed in March 2016.

Lease Contract

On January 1, 2016, NVC, as lessor, entered into a contract of lease with RDL Fuel Point, Inc, as lessee, covering a parcel of land adjacent to the NLEX and is presently the site of a service facility. The lease term shall be for 14 years starting from January 1, 2016, unless earlier terminated or otherwise extended by the parties in writing. The amount of the rent for the first 2 years shall be ₱3.6 million per year (inclusive of VAT). On the third year of the lease and every year thereafter, the rent shall be escalated by 5%. The lessee shall likewise pay the lessor additional fees based on the sales proceeds of the service facility.

Upon signing of the lease contract, the lessee paid an advance rent amounting to ₱7.2 million which shall be applied equally for the first 2 years. The lessee also paid security deposit amounting to ₱0.3 million which shall be returned to the lessee after the expiration or termination of the lease contract.

Unearned rental income related to the advance rent amounted to ₱2.1 million as at December 31, 2016.

As at December 31, 2016, the minimum lease receivables are as follows:

Within one year	₱3,214,286
After one year but not more than five years	18,649,005
After five years	35,071,297
	<u>₱56,934,588</u>

29. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise long-term debt, proceeds of which were used to finance the construction of the service concession assets. The Company has various other financial instruments such as cash and cash equivalents, receivables from trade debtors and



payables to trade creditors, which arise directly from its operations. The Company also holds AFS financial assets.

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

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not significantly exposed to interest rate risk since the Company's interest-bearing financial instruments, particularly its long-term debt, bears fixed interest rates as at December 31, 2016 and 2015. In accordance with its interest rate management policy, the Company converted its outstanding loans into fixed-rate debt, effectively locking in the interest rate on its loan obligations and reducing exposure to interest rate fluctuations.

To further reduce its cash flow interest rate risk exposure, the Company entered into a series of derivative transactions, in particular, interest rate swaps. The Company also constantly monitors fluctuation of interest rates in order to manage interest rate risks.

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

December 31, 2016						
	Interest Rate	Within the Year ('000)	2-3 Years ('000)	4-5 Years ('000)	More than 5 Years ('000)	Total ('000)
Cash and cash equivalents ^(a)	0.10%-4.00%	₱331,603	₱-	₱-	₱-	₱331,603
AFS financial assets	1.63%-6.00%	-	311,230	520,000	565,100	1,396,330
Restricted cash ^(b)	1.00%	-	889,000	-	-	889,000
		₱331,603	₱1,200,230	₱520,000	₱565,100	₱2,616,933
Fixed-rate loans:						
Series A-7	7.27%	₱42,102	₱3,957,617	₱-	₱-	₱3,999,719
Series A-10	7.70%	10,000	20,000	920,000	-	950,000
Term-loan facility	5.00%-5.80%	250,000	500,000	500,000	5,750,000	7,000,000
Fixed-rate bonds	5.07%-5.50%	-	-	4,400,000	2,600,000	7,000,000
		₱302,102	₱4,477,617	₱5,820,000	₱8,350,000	₱18,949,719

^(a) Excluding cash on hand

^(b) Included under "Other noncurrent assets" account in the consolidated balance sheets.

December 31, 2015						
	Interest Rate	Within the Year ('000)	2-3 Years ('000)	4-5 Years ('000)	More than 5 Years ('000)	Total ('000)
Cash and cash equivalents ^(a)	0.25%-2.50%	₱2,607,948	₱-	₱-	₱-	₱2,607,948
AFS financial assets	1.63%-6.00%	200,000	449,260	300,000	815,100	1,764,360
Restricted cash ^(b)	1.00%	-	889,000	-	-	889,000
		₱2,807,948	₱1,338,260	₱300,000	₱815,100	₱5,261,308
Fixed-rate loans:						
Series A-5	6.54%	₱960,000	₱-	₱-	₱-	₱960,000
Series A-7	7.27%	42,102	3,999,719	-	-	4,041,821
Series A-10	7.70%	10,000	20,000	20,000	910,000	960,000
Term-loan facility	5.00%-5.80%	-	300,000	300,000	4,400,000	5,000,000
Fixed-rate bonds	5.07%-5.50%	-	-	-	7,000,000	7,000,000
		₱1,012,102	₱4,319,719	₱320,000	₱12,310,000	₱17,961,821

^(a) Excluding cash on hand

^(b) Included under "Other noncurrent assets" account in the consolidated balance sheets.



Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the above table are noninterest-bearing and are therefore not subject to cash flow interest rate risk.

Credit Risk

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

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

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

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

The Company's credit risk is concentrated on AFS financial assets (including short-term deposits) covering at least 49% and 67% of the Company's financial assets, except cash and cash equivalents, as at December 31, 2016 and 2015, respectively. The table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account of any collateral, credit enhancements and other credit risk mitigation techniques.

	December 31, 2016	December 31, 2015
Cash and cash equivalents ^(a)	₱331,602,950	₱2,607,948,946
Short-term deposits	82,407,389	1,225,420,748
Receivables ^(b)	577,859,970	556,743,422
AFS financial assets	1,353,667,695	1,715,128,246
Refundable deposits ^(c)	3,694,561	3,694,561
Restricted cash ^(c)	889,000,000	889,000,000
Total credit risk exposure	₱3,238,232,565	₱6,997,935,923

^(a) Excluding cash on hand.

^(b) Excluding advances to officers and employees.

^(c) Included in "Other noncurrent assets" account in the consolidated balance sheets.



Cash and cash equivalents and AFS financial assets (including short-term deposits) are placed with reputable local and international banks and companies and Philippine Government which meet the standards of the Company's BOD.

As at December 31, 2016 and 2015, the aging analysis of past due but not impaired trade receivables follows. All other financial assets of the Company are neither past due nor impaired as at December 31, 2016 and 2015.

Year	Neither Past	Past Due but not Impaired					Total	Total
	Due nor Impaired	<31 Days	31-60 Days	61-90 Days	91-180 Days	Over 180 Days		
2016	₱261,417,478	₱11,135,229	₱41,126,262	₱10,338,069	₱8,075,166	₱28,644,523	₱99,319,249	₱360,736,727
2015	248,866,172	54,219,711	1,069,731	975,781	746,254	5,660,897	62,672,374	311,538,546

The tables below show the credit quality of the Company's financial assets based on their historical experience with the corresponding third parties:

December 31, 2016				
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents ^(a)	₱331,602,950	₱-	₱-	₱331,602,950
Short-term deposits	82,407,389	-	-	82,407,389
Receivables:				
Trade receivables	261,417,478	99,319,249	3,053,951	363,790,678
Advances to DPWH	180,361,049	-	-	180,361,049
Interest receivables	14,307,194	-	-	14,307,194
Due from related parties	3,812,414	-	-	3,812,414
Other receivables	18,642,586	-	21,884,639	40,527,225
AFS financial assets	1,353,667,695	-	-	1,353,667,695
Refundable deposits ^(b)	3,694,561	-	-	3,694,561
Restricted cash ^(b)	889,000,000	-	-	889,000,000
	₱3,138,913,316	₱99,319,249	₱24,938,590	₱3,263,171,155

^(a) Excluding cash on hand.

^(b) Included in "Other noncurrent assets" account in the consolidated balance sheets.

December 31, 2015				
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents ^(a)	₱2,607,948,946	₱-	₱-	₱2,607,948,946
Short-term deposits	1,225,420,748	-	-	1,225,420,748
Receivables:				
Trade receivables	248,866,172	62,672,374	2,389,832	313,928,378
Advances to DPWH	202,883,464	-	-	202,883,464
Interest receivables	15,943,301	-	-	15,943,301
Due from related parties	2,807,542	-	-	2,807,542
Other receivables	23,570,569	-	11,772,227	35,342,796
AFS financial assets	1,715,128,246	-	-	1,715,128,246
Refundable deposits ^(b)	3,694,561	-	-	3,694,561
Restricted cash ^(b)	889,000,000	-	-	889,000,000
	₱6,935,263,549	₱62,672,374	₱14,162,059	₱7,012,097,982

^(a) Excluding cash on hand.

^(b) Included in "Other noncurrent assets" account in the consolidated balance sheets.



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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2016 and 2015, the Company is not significantly exposed to foreign currency risk. The minimal exposure to foreign currency risk relates to the Company's foreign currency denominated cash and cash equivalents and accounts payables as at December 31, 2016 and 2015.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is not exposed to significant liquidity risk because of the nature of its operations which provides daily inflows of cash from toll collections. The Company is able to build up sufficient cash from operating revenues prior to the maturity of its payment obligations. The Company arranged additional short-term lines to boost its ability to meet short-term liquidity needs. The Company has short-term credit lines amounting to ₱12,750.0 million and ₱2,450.0 million as at December 31, 2016 and 2015, respectively, and cash and cash equivalents amounting to ₱390.0 million and ₱2,669.3 million as at December 31, 2016 and 2015, respectively, that are allocated to meet the Company's short-term liquidity needs.

The tables below summarize the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2016 and 2015 based on undiscounted payments:

	December 31, 2016				
	Within the Year	2-3 Years	4-5 Years	More than 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱389,912,852	₱-	₱-	₱-	₱389,912,852
Short-term deposits	82,407,389	-	-	-	82,407,389
Receivables ^(a)	577,859,970	-	-	-	577,859,970
AFS financial assets ^(b)	50,895,971	404,460,065	585,477,806	597,648,190	1,638,482,032
Refundable deposits	-	-	-	3,694,561	3,694,561
Restricted cash	-	889,000,000	-	-	889,000,000
	₱1,101,076,182	₱1,293,460,065	₱585,477,806	₱601,342,751	₱3,581,356,804
Financial Liabilities					
Accounts payable and other current liabilities ^(c)	₱2,939,600,242	₱-	₱-	₱-	₱2,939,600,242
Long-term debt ^(d)	1,409,598,803	6,165,684,725	7,137,934,352	9,844,549,546	24,557,767,426
Service concession fees payable	-	-	243,154,581	8,267,255,768	8,510,410,349
Rental deposits	-	-	-	124,936	124,936
	₱4,349,199,045	₱6,165,684,725	₱7,381,088,933	₱18,111,930,250	₱36,007,902,953

^(a) Excluding advances to officers and employees.

^(b) Including interest to be received.

^(c) Excluding statutory liabilities, unearned toll revenues and unearned rental income.

^(d) Including interest to be paid.



December 31, 2015					
	Within the Year	2-3 Years	4-5 Years	More than 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱2,669,324,105	₱-	₱-	₱-	₱2,669,324,105
Short-term deposits	1,225,420,748	-	-	-	1,225,420,748
Receivables ^(a)	556,743,422	-	-	-	556,743,422
AFS financial assets ^(b)	256,791,692	552,234,537	376,223,604	869,099,663	2,054,349,496
Refundable deposits	-	-	-	3,694,561	3,694,561
Restricted cash	-	889,000,000	-	-	889,000,000
	₱4,708,279,967	₱1,441,234,537	₱376,223,604	₱872,794,224	₱7,398,532,332
Financial Liabilities					
Accounts payable and other current liabilities ^(c)	₱2,103,021,340	₱-	₱-	₱-	₱2,103,021,340
Dividends payable	1,422,576,000	-	-	-	1,422,576,000
Long-term debt ^(d)	2,042,011,488	6,121,358,466	1,697,568,817	13,977,224,180	23,838,162,951
	₱5,567,608,828	₱6,121,358,466	₱1,697,568,817	₱13,977,224,180	₱27,363,760,291

^(a) Excluding advances to officers and employees.

^(b) Including interest to be received.

^(c) Excluding statutory liabilities and unearned toll revenues.

^(d) Including interest to be paid.

Capital Management

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

The Company's long-term debt to equity ratio stood at 1.96 times and 2.19 times for 2016 and 2015, respectively, indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2016	2015
Long-term debt	₱18,822,662,489	₱17,814,581,945
Total equity	9,611,617,735	8,133,638,528
Total capital	₱28,434,280,224	₱25,948,220,473
Debt to equity ratio	1.96 times	2.19 times

The Company continuously evaluates whether its capital structure can support its business strategy.



30. 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 are reasonable approximate of fair values, by category as at December 31, 2016 and 2015 follows:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
AFS financial assets:				
UITF*	₱82,407,389	₱82,407,389	₱1,225,420,748	₱1,225,420,748
Investment in treasury bonds and notes	802,356,695	802,356,695	1,160,612,246	1,160,612,246
Investment in corporate bonds	453,095,000	453,095,000	456,921,000	456,921,000
Investment in LTNCD	98,216,000	98,216,000	97,595,000	97,595,000
	₱1,436,075,084	₱1,436,075,084	₱2,940,548,994	₱2,940,548,994
Financial Liabilities				
Other financial liabilities:				
Long-term debt	₱18,822,662,489	₱19,049,957,430	₱17,814,581,945	₱18,328,964,217
Service concession fees payable	2,335,916,229	2,450,579,759	—	—
Rental deposits	123,013	117,192	—	—
	₱21,158,701,731	₱21,500,654,381	₱17,814,581,945	₱18,328,964,217

* Presented as "Short-term deposits" in the consolidated balance sheets.

The management assessed that fair values of cash and cash equivalents, receivables, restricted cash, accounts payable and other current liabilities, 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:

AFS Financial Assets

The fair value of investment in treasury bonds and notes, corporate bonds and LTNCD is based on the quoted market price of the financial instruments as at December 31, 2016 and 2015. The fair value of the UITF is based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources as at December 31, 2016 and 2015.

Long-term Debt

For fixed peso-denominated notes and loans, except the fixed-rate bonds where the fair value is based on its quoted market price as at December 31, 2016 and 2015, estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2016 and 2015, the prevailing peso interest rates ranged from 3.0% to 6.4% and 3.2% to 6.1%, 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 2016, the prevailing peso interest rates ranged from 4.0% and 6.9%.

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 2016, the prevailing peso interest is 6.4%.



Fair Value Hierarchy

As at December 31, 2016 and 2015, the Company held the following financial instruments measured at fair value:

	2016	Level 1	Level 2	Level 3
Assets measured at fair value				
AFS financial assets:				
UITF*	₱82,407,389	₱-	₱82,407,389	₱-
Investment in treasury bonds and notes	802,356,695	267,160,000	535,196,695	-
Investment in corporate bonds	453,095,000	453,095,000	-	-
Investment in LTNCD	98,216,000	98,216,000	-	-
	₱1,436,075,084	₱818,471,000	₱617,604,084	₱-
Liabilities for which fair values are disclosed				
Other financial liabilities:				
Long-term debt	₱19,049,957,430	₱7,027,185,480	₱12,022,771,950	₱-
Service concession fees payable	2,450,579,759	-	-	2,450,579,759
Rental deposits	117,192	-	-	117,192
	₱21,500,654,381	₱7,027,185,480	₱12,022,771,950	₱2,450,696,951

* Presented as "Short-term deposits" in the consolidated balance sheets.

	2015	Level 1	Level 2	Level 3
Assets measured at fair value				
AFS financial assets:				
UITF*	₱1,225,420,748	₱-	₱1,225,420,748	₱-
Investment in treasury bonds and notes	1,160,612,246	959,967,246	200,645,000	-
Investment in corporate bonds	456,921,000	456,921,000	-	-
Investment in LTNCD	97,595,000	97,595,000	-	-
	₱2,940,548,994	₱1,514,483,246	₱1,426,065,748	₱-
Liabilities for which fair values are disclosed				
Other financial liabilities:				
Long-term debt	₱18,328,964,217	₱7,064,938,000	₱11,264,026,217	₱-

* Presented as "Short-term deposits" in the consolidated balance sheets.

During the years ended December 31, 2016 and 2015, portions of the investment in treasury bonds and notes amounting to ₱524.0 million and ₱200.6 million were transferred from Level 1 to Level 2. These investments were proven to be inactively traded due to the lower average daily trading volume in December 2016 and 2015, as well as no availability of bid-offer on value date.

Derivative Instruments

PNB Term Loan

On March 11, 2011, NLEX Corp. entered into a pay-fixed, receive-floating interest rate swap contract to hedge the variability of cash flows pertaining to the floating rate PNB Term Loan effective March 14, 2011. Under the swap, NLEX Corp. will receive semi-annual interest equal to six-months PDST-F plus 0.50% per annum spread and pay semi-annual fixed interest of 5.9% per annum, based on the amortizing principal balance of the PNB Term Loan, starting from June 15, 2011 until December 15, 2015. The interest rate swap effectively fixed the floating rate of the said loan over the duration of the agreement at 5.9% per annum.



The swap was designated as cash flow hedge at trade date. As at June 30, 2011, the effectiveness ratio was only 58.05% and the hedging relationship failed to meet the 80% to 125% hedge effectiveness criterion of PAS 39. As a result, the hedge was de-designated by the Company. The ₱39.0 million (gross of ₱10.7 million tax) deferred in equity representing the negative fair value change of the swap up to March 31, 2011 (the last testing date when the hedge was still effective) is being amortized over the term of the hedged loan and recognized under "Interest expense and other finance costs" account. As at December 31, 2016 and 2015, the unamortized amount deferred in equity amounted to nil (after amortization of ₱3.8 million in 2015).

Under cash flow hedge accounting, the effective portion of the change in fair values of the designated hedges are recognized directly in equity and recycled in earnings in the same periods during which the hedged transaction affects earnings.

On December 28, 2012, NLEX Corp. issued a notice for early termination of the interest rate swap transaction with PNB effective December 15, 2012.

Hedge Effectiveness of Cash Flow Hedges. Movements of the Company's cumulative translation adjustments on cash flow hedges under "Other comprehensive income (loss) reserve" account for the years ended December 31, 2015 and 2014 follow (see Note 19):

	2015	2014
Balance at beginning of year	(₱3,775,752)	(₱12,710,899)
Transferred to consolidated statement of income:		
Interest expense*	3,775,752	8,935,147
Balance at end of year	-	(3,775,752)
Tax effects of items taken directly to equity	-	1,132,726
	₱-	(₱2,643,026)

* Included in "Interest expense on loans" under "Interest expense and other finance costs" account (see Note 26).

31. Contingencies and Others

a. VAT

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

- The BIR issued a Formal Letter of Demand on March 16, 2009 requesting NLEX Corp. to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006.
- A Final Assessment Notice was received from the BIR dated November 15, 2009 assessing NLEX Corp. deficiency VAT plus penalties amounting to ₱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.

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 remains 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.

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.

As of December 31, 2016 and 2015, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2013 for NLEX, is approximately at ₱4.4 billion and ₱3.0 billion (VAT-exclusive), respectively.

- 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 February 16, 2017.

- 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.

32. Supplemental Cash Flow Information

The following table shows the Company's significant non-cash investing and financing activities and corresponding transaction amounts for the year ended December 31, 2016:

Non-cash investing and financing activities	
Additions to service concession asset and service concession fees payable pertaining to present value of concession fees recognized on effective date of the concession agreement (see Notes 8 and 18)	₱2,318,800,856
Additions to service concession asset and service concession fees payable pertaining to accretion of service concession fees payable (see Notes 8 and 18)	17,115,373
Additions to service concession asset pertaining to the transfer from deferred project cost (see Note 8)	132,205,353



33. Standards Issued but Not Yet Effective

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

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Company.



Effective beginning on or after January 1, 2018

- 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.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Company is currently assessing the potential effect of the amendments on its consolidated financial statements.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Company.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to 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 principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Company is currently assessing the impact of adopting the new revenue standard.



- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Company is currently assessing the impact of adopting the new financial instruments standard.

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

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

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

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

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

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or



receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities 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.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

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

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

On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.



**NLEX CORPORATION (FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY
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UNDER SRC RULE 68, AS AMENDED (2011)
DECEMBER 31, 2016**

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**NLEX CORPORATION
(FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY
SUPPLEMENTARY SCHEDULE REQUIRED
UNDER SRC RULE 68, AS AMENDED (2011)**

**List of Philippine Financial Reporting Standards (PFRSs) and
Interpretations Effective as at December 31, 2016**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
PFRS Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendment to PFRS 2: Definition of Vesting Condition	✓		
	Amendments to PFRS 2: Classification and Measurement of Payment Transactions*	Not Early Adopted		
PFRS 3 (Revised)	Business Combinations	✓		✓
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination	✓		✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements	✓		✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts	✓		✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		✓
	Amendments to PFRS 4: Applying PFRS 9 with PFRS 4*	Not Early Adopted		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		✓
	Amendment to PFRS 5: Changes in Methods of Disposals	✓		✓
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓		✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendment to PFRS 7: Disclosures - Servicing Contracts	✓		✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments*	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		✓
	Amendment to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		✓
PFRS 11	Joint Arrangements	✓		✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		✓
	Amendment to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		✓
	Amendment to PFRS 12: Clarification of the Scope of the Standard*	Not Early Adopted		
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		✓
PFRS 14	Regulatory Deferral Accounts	✓		✓
PFRS 15	Revenue from Contracts with Customers*	Not Early Adopted		
PFRS 16	Leases*	Not Early Adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiatives*	Not Early Adopted		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendments to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses*	Not Early Adopted		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		✓
	Amendment to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		✓
	Amendment to PFRS 12: Clarification of the Scope of the Standard*	Not Early Adopted		
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		✓
PFRS 14	Regulatory Deferral Accounts	✓		✓
PFRS 15	Revenue from Contracts with Customers*	Not Early Adopted		
PFRS 16	Leases*	Not Early Adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiatives*	Not Early Adopted		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendments to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses*	Not Early Adopted		

SCHEDULE I

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of Servicing Equipment	✓		✓
	Amendment to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation/Amortization	✓		✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants	✓		✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	✓		✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		✓
	Amendment to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies	✓		✓

SCHEDULE I

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of Servicing Equipment	✓		✓
	Amendment to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation/Amortization	✓		✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants	✓		✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	✓		✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		✓
	Amendment to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies	✓		✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of Servicing Equipment	✓		✓
	Amendment to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation/Amortization	✓		✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants	✓		✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	✓		✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		✓
	Amendment to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies	✓		✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of Servicing Equipment	✓		✓
	Amendment to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation/Amortization	✓		✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants	✓		✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	✓		✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		✓
	Amendment to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies	✓		✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of Servicing Equipment	✓		✓
	Amendment to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation/Amortization	✓		✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants	✓		✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	✓		✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		✓
	Amendment to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies	✓		✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as at December 31, 2016				
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of Servicing Equipment	✓		✓
	Amendment to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation/Amortization	✓		✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants	✓		✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	✓		✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		✓
	Amendment to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception	✓		✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies	✓		✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		✓
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments	✓		
PAS 33	Earnings per Share	✓		✓
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Depreciation/Amortization	✓		✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		✓
	Amendment to PAS 39: Eligible Hedged Items	✓		✓
Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property	✓		
	Amendments to PAS 40: Transfers of Investment Property*	Not Early Adopted		
PAS 41	Agriculture	✓		✓
	Amendments to PAS 16 and PAS 41: Bearer Plants	✓		✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	✓		✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	✓		✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies	✓		✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements	✓		
IFRIC 13	Customer Loyalty Programmes	✓		✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 15	Agreements for the Construction of Real Estate*	Not Early Adopted		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	✓		✓
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		✓
IFRIC 18	Transfers of Assets from Customers	✓		✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	✓		✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration*	Not Early Adopted		

SCHEDULE I

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro	✓		✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities	✓		✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓		✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures	✓		
SIC-31	Revenue - Barter Transactions Involving Advertising Services	✓		✓
SIC-32	Intangible Assets - Web Site Costs	✓		✓

* Standards and interpretations which will become effective subsequent to December 31, 2016.

Note: Standards and interpretations tagged as "Not Applicable" are those standards and interpretations which were adopted but the entity has no significant transaction as at and for the year ended December 31, 2016.

NLEX CORPORATION
(FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY

Supplementary Schedules Required by Paragraph 4D, Part I
Under SRC Rule 68, As Amended (2011)

Financial Soundness Indicators

Financial Ratios	Formula	December 31, 2016	December 31, 2015
a) Current Ratio	$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$	0.52	1.06
b) Solvency Ratio	$\frac{\text{Net Profit after Tax (or NPAT) +Depreciation and amortization}}{\text{Total Liabilities}}$	0.18	0.16
c) Debt-to-Equity Ratio	$\frac{\text{Total Long-term Debt}}{\text{Total Stockholders' Equity}}$	1.96	2.19
d) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Stockholders' Equity}}$	3.67	3.80
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings before Interests and Taxes}}{\text{Net Interest Expense}}$	16.17	9.31
f) Net Profit margin	$\frac{\text{NPAT}}{\text{Net Operating Revenues}}$	38.21%	34.79%
g) Return on asset	$\frac{\text{NPAT}}{\text{Average Total Assets}}$	12.35%	10.04%
h) Return on Equity	$\frac{\text{NPAT}}{\text{Average Total Stockholders' Equity}}$	46.06%	37.98%

**RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION**

As at December 31, 2016

NLEX Corporation
(Formerly Manila North Tollways Corporation)
and a Subsidiary
NLEX Compound, Balintawak
Caloocan City

Items	Amount
Unappropriated Retained Earnings, beginning	₱2,622,989,360
Adjustment:	
Amount of recognized deferred tax assets	(132,696,445)
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning	2,490,292,915
Net income based on the face of audited financial statements	4,087,422,463
Less: Non-actual losses	
Deferred tax assets realized during the period	(735,729,371)
Net income actually earned during the period	3,351,693,092
Less:	
Dividend declarations during the period	(2,600,000,000)
TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND, END	₱3,241,986,007

**NLEX CORPORATION
(FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY**

Supplementary Schedules Required by Paragraph 6D, Part II
Under SRC Rule 68, As Amended (2011)

As at December 31, 2016

SCHEDULE A – Financial Assets

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
Available-for-sale financial assets:				
Investment in Retail Treasury Bonds and Notes of the Philippines	₱846,330,000	₱802,356,695	₱802,356,695	₱32,897,942 ^(a)
Investment in Unit Investment Trust Fund (UITF) ^(d)	82,221,409	82,407,389	82,407,389	28,110,007 ^(b)
Investment in Long-Term Negotiable Certificate of Deposits	100,000,000	98,216,000	98,216,000	4,187,500
Investment in FMIC Corporate Bonds	50,000,000	48,781,000	48,781,000	2,635,444
Investment in Meralco Corporate Bonds	200,000,000	197,300,000	197,300,000	8,750,000 ^(c)
Investment in PLDT Corporate Bonds	200,000,000	207,014,000	207,014,000	10,450,000
	₱1,478,551,409	₱1,436,075,084	₱1,436,075,084	₱87,030,893
Receivables^(e)				
Easytrip Services Corporation	₱–	₱246,967,216	₱–	₱–
Department of Public Works and Highways	–	180,361,049	–	–
Smart Communications Inc.	–	44,949,254	–	–
Various motorists	–	16,349,696	–	–
Interest receivable from various banks	–	14,307,194	–	–
Pilipinas Shell Petroleum Corporation	–	14,671,022	–	–
Petron Corporation	–	10,739,351	–	–
Philippine Long Distance Telephone Company	–	7,057,761	–	–
Digitel Mobile Philippines, Inc.	–	5,107,200	–	–
Chevron Philippines, Inc.	–	4,480,691	–	–
Others	–	32,869,536	–	–
	₱–	₱577,859,970	₱–	₱–

^(a) Includes interest income amounting to ₱10,042,875, which were deducted from borrowing costs capitalized as part of service concession assets.

^(b) Includes gain on sale of UITF amounting to ₱23,410,367, which were deducted from borrowing cost capitalized as part of service concession assets while the remaining amount of ₱4,699,640 was recognized as "Other income" in the consolidated statement of income.

^(c) These were deducted from borrowing costs capitalized as part of service concession assets.

^(d) Presented as "Short-term deposits" in the consolidated balance sheet.

^(e) Excluding advances to officers and employees amounting to ₱15,317,943 as at December 31, 2016.

**NLEX CORPORATION
(FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY**

Supplementary Schedules Required by Paragraph 6D, Part II
Under SRC Rule 68, As Amended (2011)

As at December 31, 2016

SCHEDULE C – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements

Deductions

Name and Designation of debtor	Balance at beginning of beginning of period	Additions	Amounts collected	Amounts written-off	Current	Not Current	Balance at end of period
NLEX Ventures Corporation	₱1,265,303	₱22,138,896	₱21,931,081	₱-	₱1,473,118	₱-	₱1,473,118

NLEX CORPORATION
(FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY

Supplementary Schedules Required by Paragraph 6D, Part II
Under SRC Rule 68, As Amended (2011)

As at December 31, 2016

SCHEDULE D – Intangible Assets – Other Assets

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Service Concession Assets:						
Cost	₱29,311,511,393	₱8,488,861,845	₱-	₱-	₱-	₱37,800,373,238
Accumulated Amortization	6,513,105,183	-	615,120,463	-	-	7,128,225,646
Carrying Value	22,798,406,210	8,488,861,845	615,120,463	-	-	30,672,147,592
Computer Software*:						
Cost	99,033,490	7,501,925	-	-	-	106,535,415
Accumulated Amortization	82,352,212	-	5,924,711	-	-	88,276,923
Carrying Value	16,681,278	7,501,925	5,924,711	-	-	18,258,492
TOTAL	₱22,815,087,488	₱8,496,363,770	₱621,045,174	₱-	₱-	₱30,690,406,084

* Computer software, presented as "Other intangible assets" account in the consolidated balance sheet pertains to the Company's accounting, reporting and asset management systems with estimated useful life of 5 years.

**NLEX CORPORATION
(FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY**

Supplementary Schedules Required by Paragraph 6D, Part II
Under SRC Rule 68, As Amended (2011)

As at December 31, 2016

SCHEDULE E – Long Term Debt

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term Debt" in related balance sheet	Interest rates, amounts or number of periodic installments, and maturity dates
SERIES-A NOTES				
<u>Series A-7 Notes</u> <ul style="list-style-type: none"> ▪ Robinsons Bank Corp. ▪ BDO Capital & Investment Corp. ▪ Philippine National Bank ▪ The Insular Life Assurance Company, Ltd. ▪ Security Bank Corporation ▪ Bank of the Philippine Islands 	₱4,210,230,849	₱24,451,670	₱3,952,082,166	Interest rate: 7.2704% fixed interest per annum Payment terms: 7 years bullet-like repayment, minimal annual amortizations aggregating 6% between March 15, 2012 to March 15, 2017 and 94% on April 19, 2018 Maturity date: April 19, 2018
<u>Series A-10 Notes</u> <ul style="list-style-type: none"> ▪ BDO Capital & Investment Corp. ▪ The Insular Life Assurance Company, Ltd. ▪ Security Bank Corporation 	1,000,000,000	7,269,088	929,536,803	Interest rate: 7.7038% fixed interest per annum Payment terms: 10 years bullet-like repayment, minimal annual amortizations aggregating 9% between March 15, 2012 to March 15, 2020 and 91% on April 19, 2021 Maturity date: April 19, 2021
TERM LOAN FACILITIES				
<ul style="list-style-type: none"> ▪ The Insular Life Assurance Company, Ltd. 	200,000,000	-	198,785,676	Interest rate: 5.0303% fixed interest per annum Payment terms: 10-years final maturity, bullet repayment of ₱200 million on November 29, 2023 Maturity date: November 29, 2023
<ul style="list-style-type: none"> ▪ The Philippine American Life and General Insurance Assurance 	1,000,000,000	-	992,971,924	Interest rate: 5.7971% fixed interest per annum Payment terms: 15-years final maturity, bullet repayment of ₱1.0 billion on December 12, 2028 Maturity date: December 12, 2028

SCHEDULE IV

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Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term Debt" in related balance sheet	Interest rates, amounts or number of periodic installments, and maturity dates
<ul style="list-style-type: none"> ▪ Sun Life of Canada (Philippines), Inc. 	₱800,000,000	₱-	₱795,203,729	<p>Interest rate: 5.2979% fixed interest per annum</p> <p>Payment terms: 10-years final maturity, bullet repayment of ₱800 million on October 11, 2023</p> <p>Maturity date: October 11, 2023</p>
<ul style="list-style-type: none"> ▪ PNB 	5,000,000,000	148,209,171	2,837,703,473	<p>Interest rate: (a) First drawdown is subject to 5.0000% fixed interest per annum until December 15, 2020</p> <p>(b) For the remaining drawdown made until repricing date (which is December 15, 2020) shall be the higher of (i) 5-year PDST-R2 rate on the drawdown date plus a 1.0% per annum; and (ii) 5.0% per annum, which will be repriced after 5 years from drawdown date.</p> <p>(c) On date immediately after the repricing date and until termination, the applicable interest rate shall be the higher of (i) 5-year PDST-R2 rate plus a 1.0% per annum; and (ii) weighted average of the applicable interest rate for each drawdown.</p> <p>Payment terms: 10-years annual repayment of 5% of principal amount from December 15, 2017 to December 15, 2023; 65% payable on the last 2 annual periods (December 15, 2024 to December 10, 2025)</p> <p>Maturity date: December 10, 2025</p>
<ul style="list-style-type: none"> ▪ Union Bank of the Philippines 	5,000,000,000	98,807,811	1,890,680,345	<p>Interest rate: 5.4855% fixed interest per annum</p> <p>Payment terms: 10 years annual repayment starting February 3, 2016 for the first drawdown of ₱1.0 billion and December 19, 2016 for the second drawdown of ₱1.0 billion; undrawn amount shall be available for drawing in 1 or more availments on any banking day within one year from July 24, 2015 with an extension period up to July 24, 2017</p> <p>Maturity date: February 3, 2026</p>
FIXED-RATE BONDS				
<ul style="list-style-type: none"> ▪ BDO Capital & Investment Corporation 	4,400,000,000	-	4,368,844,515	<p>Interest rate: 5.07000% fixed interest per annum</p> <p>Payment terms: 7-years final maturity, bullet repayment of ₱4,400 million on March 31, 2021</p> <p>Maturity date: March 31, 2021</p>

SCHEDULE IV
Page 6 of 7

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term Debt" in related balance sheet	Interest rates, amounts or number of periodic installments, and maturity dates
<ul style="list-style-type: none"> ▪ BDO Capital & Investment Corporation 	₱2,600,000,000	₱-	₱2,578,116,118	<p>Interest rate: 5.50000% fixed interest per annum</p> <p>Payment terms: 10-years final maturity, bullet repayment of ₱2,600 million on March 31, 2024</p> <p>Maturity date: March 31, 2024</p>
TOTAL	₱24,210,230,849	₱278,737,740	₱18,543,924,749	

NLEX CORPORATION
(FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY

Supplementary Schedules Required by Paragraph 6D, Part II
Under SRC Rule 68, As Amended (2011)

As at December 31, 2016

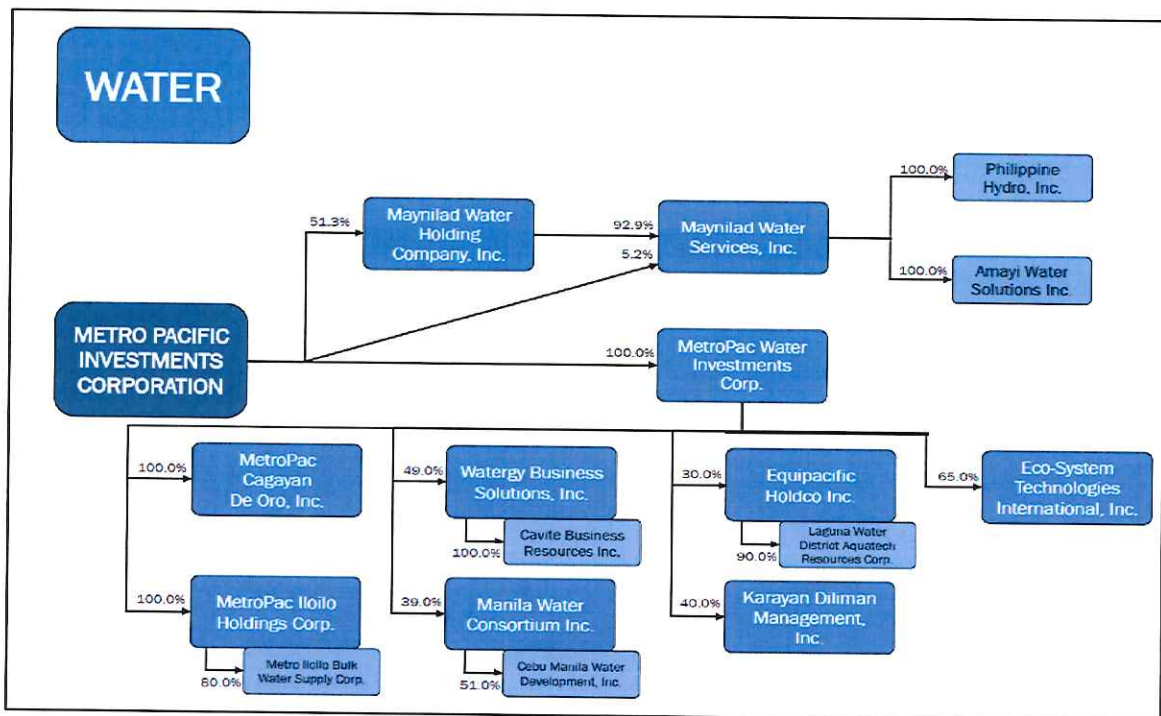
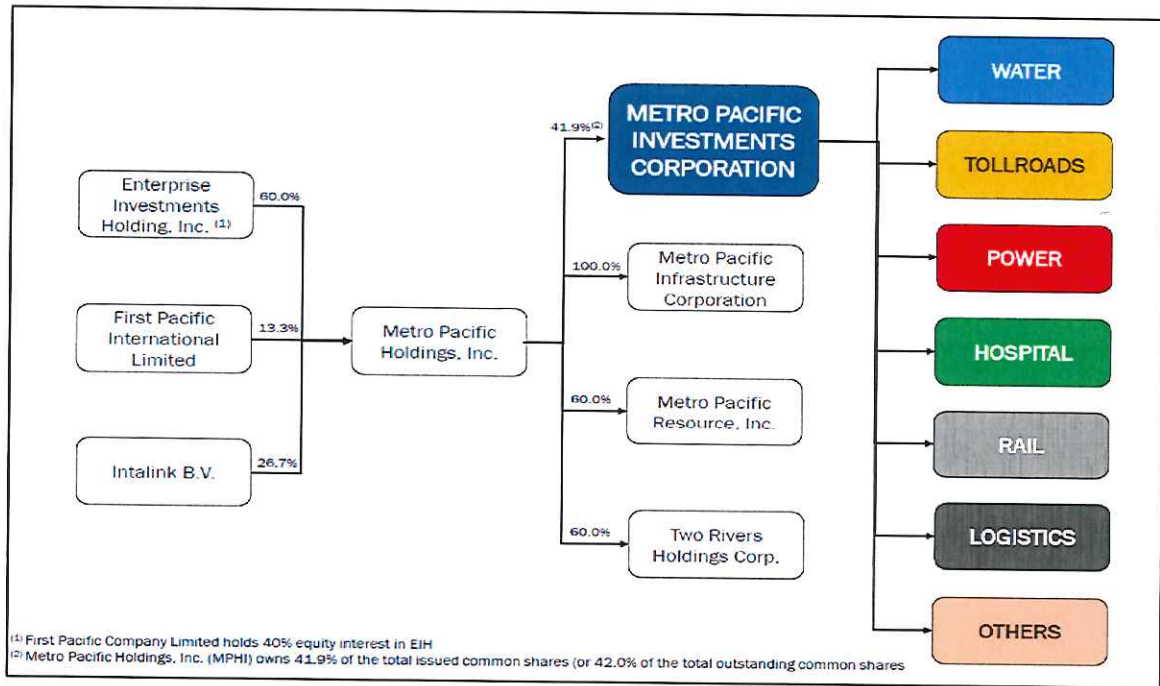
SCHEDULE H – Capital Stock

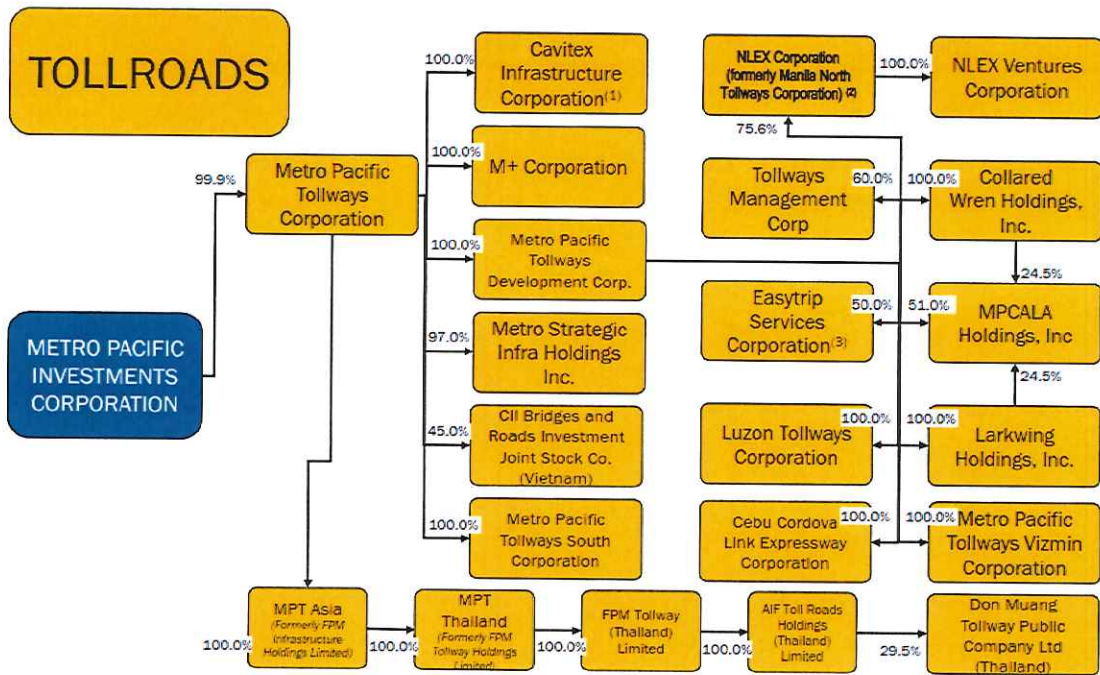
Title of Issue	Number of Shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common	40,000,000	17,760,000	None	14,385,590	13	None

**NLEX CORPORATION
(FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY**

Supplementary Schedules Required by Paragraph 6D, Part II
Under SRC Rule 68, As Amended (2011)

Group Structure as of December 31, 2016

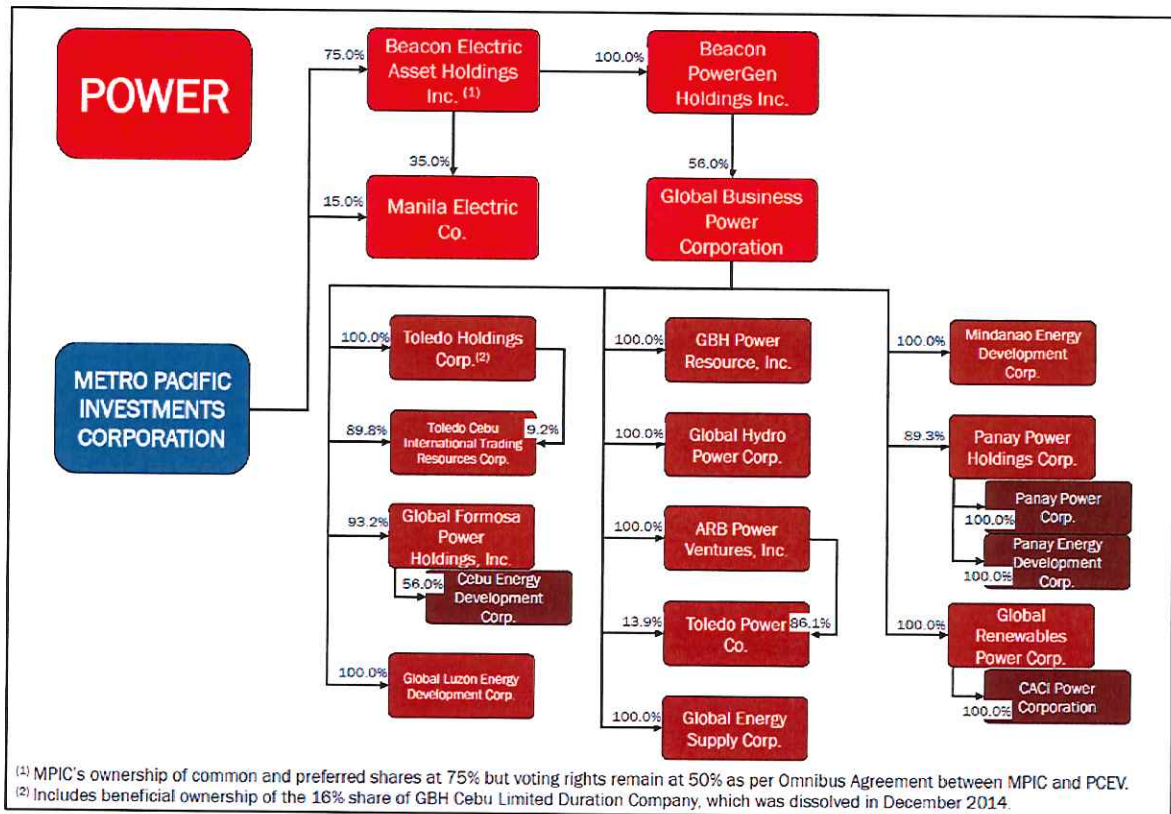




(1) By virtue of the Management Letter-Agreement, MPTC acquired control over CIC effective Jan 2, 2013.

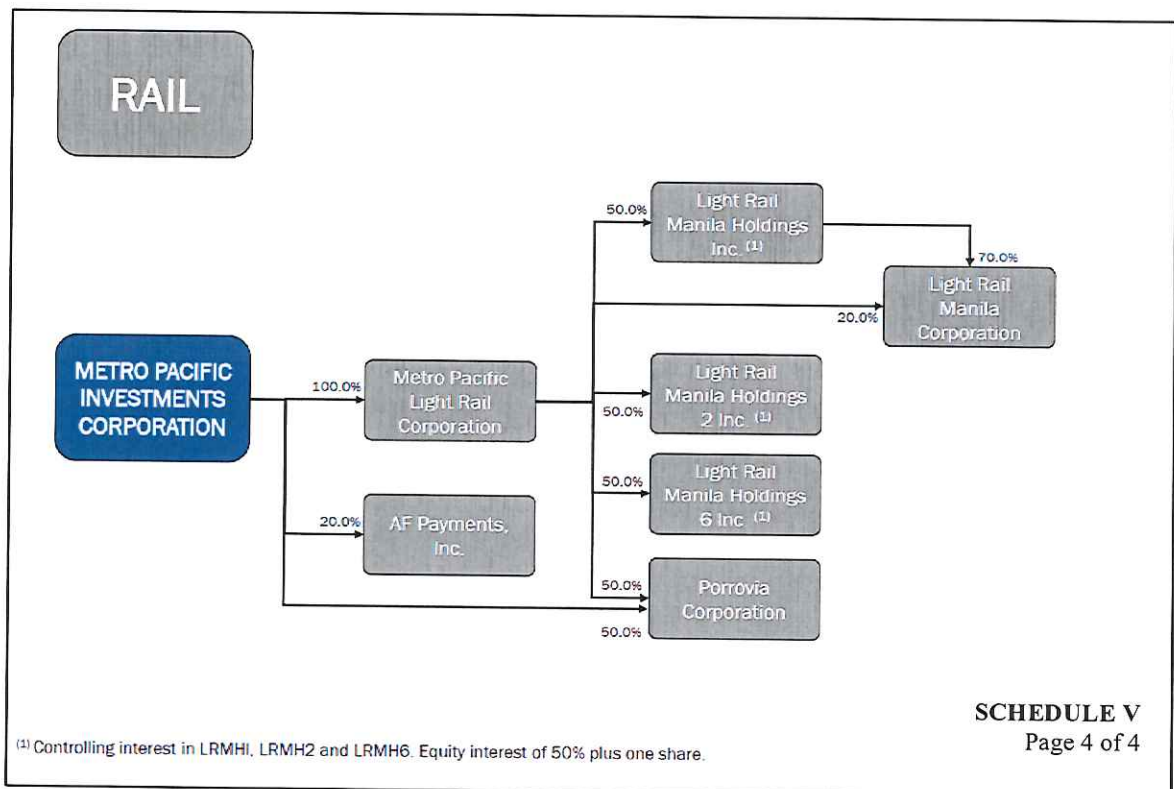
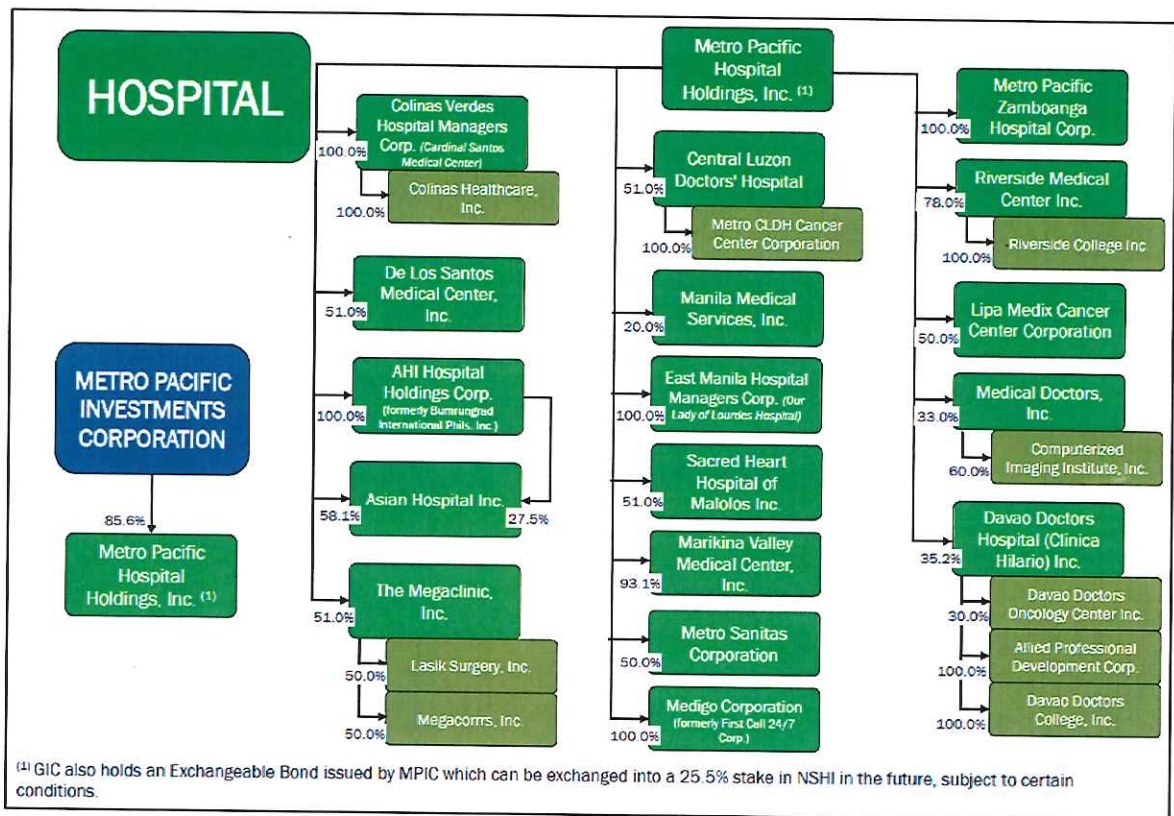
(2) 4.6% is owned through 46% ownership in Egis Investment Partners Philippines Inc.

(3) ESC is a Joint venture between MPTDC and EGIS. Equity interest of 50% plus one share.



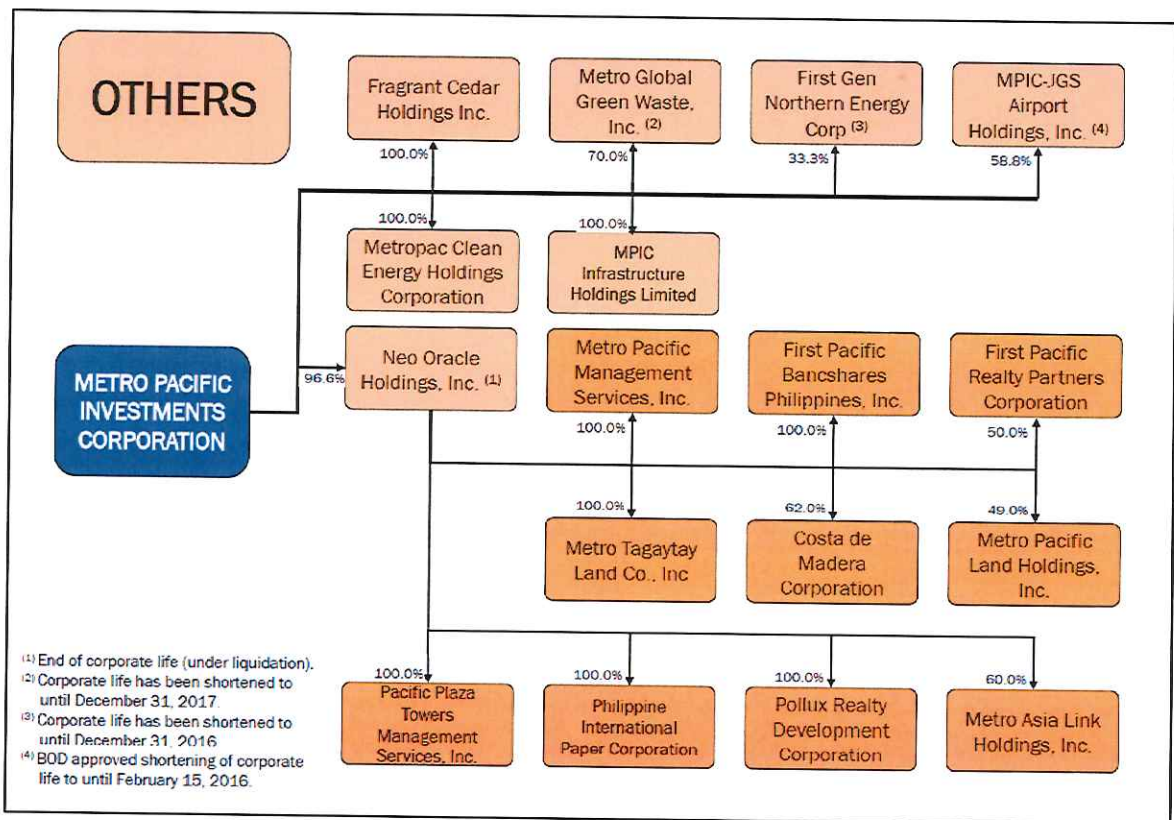
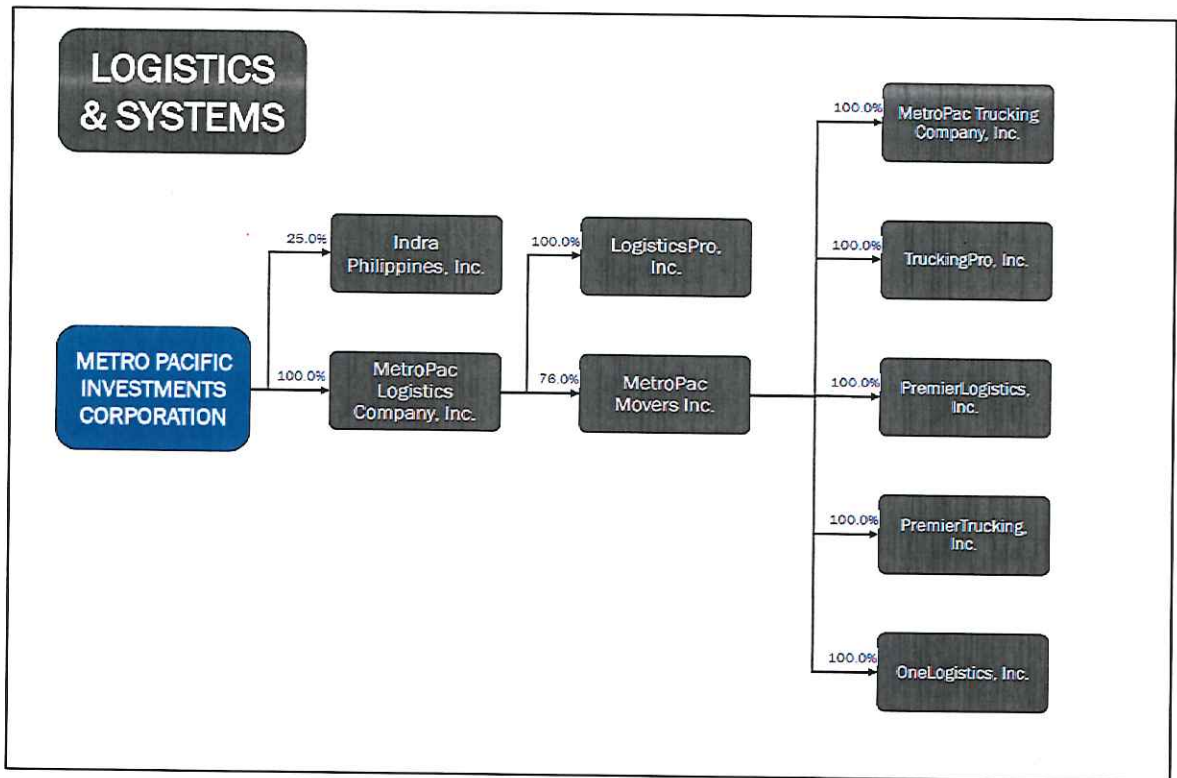
(1) MPIC's ownership of common and preferred shares at 75% but voting rights remain at 50% as per Omnibus Agreement between MPIC and PCEV.

(2) Includes beneficial ownership of the 16% share of GBH Cebu Limited Duration Company, which was dissolved in December 2014.



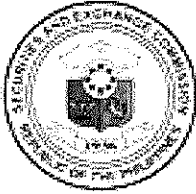
SCHEDULE V
Page 4 of 4

⁽¹⁾ Controlling interest in LRMHI, LRMH2 and LRMH6. Equity interest of 50% plus one share.





103072018000403



SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Information

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Industry Classification
Company Type Stock Corporation

Document Information

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Document Type FS-CONSOLIDATED
Document Code FS-C
Period Covered December 31, 2017
No. of Days Late 0
Department CRMD
Remarks

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **NLEX Corporation** (formerly Manila North Tollways Corporation) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2017** and **2016**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SGV and Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.



MANUEL V. PANGILINAN

Chairman of the Board



RODRIGO E. FRANCO

Chief Executive Officer



MARIA THERESA O. WELLS

Chief Financial Officer

Signed this 14th day of February 2018.

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) S.S.

BEFORE ME, a Notary Public for and in the City of Makati, Philippines, this FEB 14 2018
day of _____, personally appeared:

NAME

Competent Evidence of Identity
Expiration Date/Place Issued

Rodrigo E. Franco *[Signature]*

PP EC2643726 / 05 Nov. 2019
DFA Manila *[Signature]*

Maria Theresa O. Wells *[Signature]*

PP EC1320396 / 03 June 2019
DFA NCR East *[Signature]*

Manuel V. Pangilinan *[Signature]*

PP EC1452578 / 19 June 2019
DFA Manila *[Signature]*

all known to me and to me known to be the same persons who executed the foregoing instrument and they acknowledged to me that the same is their free and voluntary act and deed.

WITNESS MY HAND AND SEAL.

Doc. No. 7 ;
Page No. 1 ;
Book No. 1 ;
Series of 2018.

[Signature]
JAMIE KATRINA F. CHAN
Appointment No. M-223
Notary Public for Makati City
Until December 31, 2019
Liberty Center-Picazo Law
104 H.V. dela Costa Street, Makati City
Roll No. 70089
PTR No. 6619503/Makati City/01-05-2018
IBP No. 020684/PPLM/01-03-2018

February 14, 2018


BUREAU OF INTERNAL REVENUE
BIR National Office Bldg.,
Agham Road, Diliman,
Quezon City, Philippines

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN**

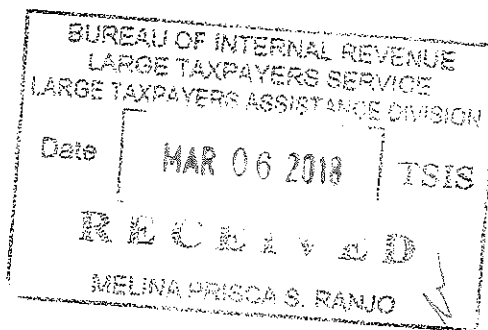
The Management of **NLEX Corporation** *formerly Manila North Tollways Corporation* (the Company) is responsible for all information and representations contained in the Annual Income Tax Return for the year ended **December 31, 2017**. Management is likewise responsible for all the information contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value-added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended **December 31, 2017** and the accompanying Annual Income Tax Return are in accordance with the books and records of the Company, complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (c) the Company has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.


RODRIGO E. FRANCO
President / Chief Executive Officer


MARIA THERESA O. WELLS
Chief Financial Officer



ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) S.S.

BEFORE ME, a Notary Public for and in the City of Makati, Philippines, this FEB 14 2018
day of _____, personally appeared:

<u>NAME</u>	<u>Competent Evidence of Identity</u> <u>Expiration Date/Place Issued</u>
Rodrigo E. Franco <i>RF</i>	PP EC2643726 / 05 Nov. 2019 DFA Manila <i>RF</i>
Maria Theresa O. Wells <i>MTOW</i>	PP EC1320396 / 03 June 2019 DFA NCR East <i>MTOW</i>

all known to me and to me known to be the same persons who executed the foregoing instrument and they acknowledged to me that the same is their free and voluntary act and deed.

WITNESS MY HAND AND SEAL.

Doc. No. 8 ;
Page No. 3 ;
Book No. 1 ;
Series of 2018.

J.K.F. Chan
JAME KATRINA F. CHAN
 Appointment No. M-223
 Notary Public for Makati City
 Until December 31, 2019
 Liberty Center-Picazo Law
 104 H.V. dela Costa Street, Makati City
 Roll No. 70989
 PTR No. 6619503/Makati City/01-05-2018
 IBP No. 020684/PPLM/01-03-2018

BUREAU OF INTERNAL REVENUE
 LARGE TAXPAYERS SERVICE
 LARGE TAXPAYERS ASSISTANCE DIVISION
 Date MAR 06 2018 TSIS
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 MELINA PRISCA S. RANJO

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	1	9	9	7	0	1	4	5	1
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COMPANY NAME

N	L	E	X		C	O	R	P	O	R	A	T	I	O	N		(F	O	R	M	E	R	L	Y		M	A	N	
i	l	a		N	o	r	t	h		T	o	i	l	w	a	y	s		C	o	r	p	o	r	a	t	i	o	n	
)		(	A		S	u	b	s	i	d	i	a	r	y		o	f		M	e	t	r	o		P	a	c	i	f
i	c		T	o	i	l	w	a	y	s		N	o	r	t	h		C	o	r	p	o	r	a	t	i	o	n)	
		(F	o	r	m	e	r	l	y		M	e	t	r	o		P	a	c	i	f	i	c		T	o	i	l	w
a	y	s		D	e	v	e	l	o	p	m	e	n	t		C	o	r	p	o	r	a	t	i	o	n))		

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

N	L	E	X		C	o	m	p	o	u	n	d	,		B	a	l	i	n	t	a	w	a	k	,		C	a	l
o	o	c	a	n		C	i	t	y																				

Form Type
A C F S

Department requiring the report
[] [] [] []

Secondary License Type, If Applicable
[] [] [] []

COMPANY INFORMATION

Company's Email Address corpcomm@nlex.com.ph	Company's Telephone Number (632) 580-8900	Mobile Number ---
No. of Stockholders 19	Annual Meeting (Month / Day) May 26	Fiscal Year (Month / Day) December 31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person Maria Theresa O. Wells	Email Address towells@nlex.com.ph	Telephone Number/s (632) 580-8900	Mobile Number ---
---	---	---	----------------------

CONTACT PERSON'S ADDRESS

NLEX Compound Balintawak, Caloocan City

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
NLEX Corporation
NLEX Compound
Balintawak, Caloocan City

Opinion

We have audited the consolidated financial statements of NLEX Corporation (formerly Manila North Tollways Corporation, a subsidiary of Metro Pacific Tollways North Corporation (formerly Metro Pacific Tollways Development Corporation)) and its subsidiary (the Company), which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

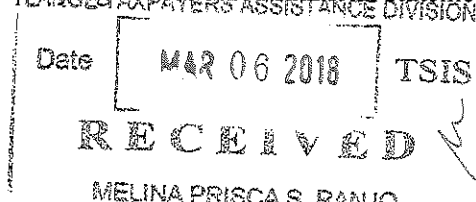
Basis for Opinion

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

Key Audit Matters

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

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



Recoverability of service concession assets not yet available for use

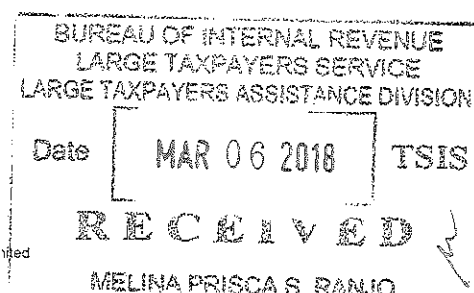
The Company has entered into several service concession agreements with the Philippine Government and/or its agencies or instrumentalities, of which ₱10.4 billion of these service concession assets are not yet available for use. Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Company is required to perform annual impairment test on the service concession assets not yet available for use. These annual impairment tests are significant to our audit because the balance of service concession assets is material to the consolidated financial statements. In addition, the determination of the recoverable amount of the cash-generating units (CGUs) to which the service concession assets relates, involves significant assumptions about the future results of business such as revenue growth, gross margins and discount rates which are applied to the cash flow forecasts. The assumption on revenue growth mainly relates to the expected volume of traffic of the toll roads. Refer to Notes 2 and 8 to the consolidated financial statements for the details of service concession assets.

Audit response

We obtained an understanding of the Company's impairment assessment process and the related controls. We also involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include the expected volume of traffic, gross margins and discount rates. We compared the forecast revenue growth and gross margins against the historical data of the CGUs and reviewed Management's plans to support the forecast revenues and gross margins. We also compared the Company's key assumptions such as traffic volume against historical data. We reviewed the report of the management's specialists and gained an understanding of the methodology and the basis of computing the forecasted volumes. We evaluated the competence, capabilities and objectivity of management's specialists who estimated the forecasted volumes. We reviewed the weighted average cost of capital (WACC) used in the impairment test by comparing it with WACC of other comparable companies in the region where the Company operates. Furthermore, we reviewed the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on determining the recoverable amount of the service concession assets not yet available for use.

Amortization of service concession assets using unit-of-production method

The service concession assets are amortized using the unit-of-production (UOP) method. The amortization is based on the ratio of the actual traffic volume to the total expected traffic volume of the underlying toll expressways over the remaining concession period. The UOP amortization method is a key audit matter as the method involves significant management judgment and estimates, particularly in determining the total expected traffic volume over the remaining period of the concession agreement. The Company reviews annually the total expected traffic volume with reference to traffic projection reports. It considers different factors such as population growth and ongoing and future expansions. Refer to Notes 4 and 8 to the consolidated financial statements for the related discussions on service concession assets.



Audit response

We obtained an understanding of management's processes and controls in the estimation of traffic volume. We then evaluated the competence, capabilities and objectivity of management's specialists who estimated the forecasted volumes. We also reviewed the report of the management's specialists and gained an understanding of the methodology and the basis of computing the forecasted volumes. We also compared the traffic volume against historical data. Furthermore, we compared the actual traffic volume during the year against the data generated from the toll collection system. We recalculated the amortization expense for the year and the service concession assets as of year-end based on the established traffic volume.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

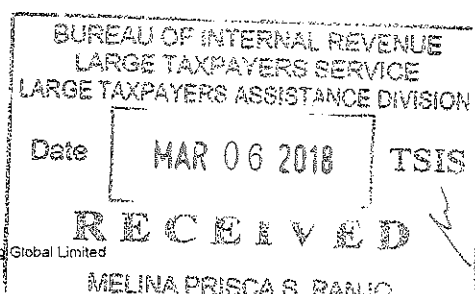
In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our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

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

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

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

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

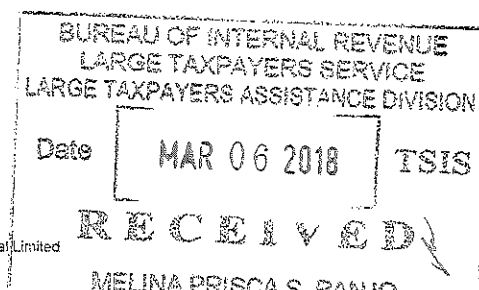


Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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





Building a better
working world

- 5 -

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

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

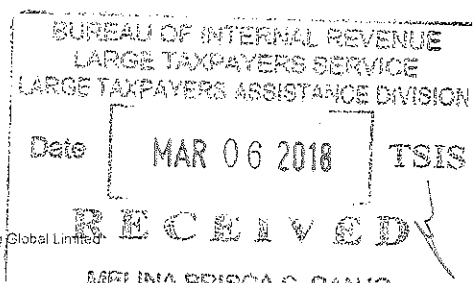
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law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

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

SYCIP GORRES VELAYO & CO.

Mariecris N. Barbaso
Partner
CPA Certificate No. 97101
SEC Accreditation No. 1513-A (Group A),
October 6, 2015, valid until October 5, 2018
Tax Identification No. 202-065-716
BIR Accreditation No. 08-001998-108-2015,
March 4, 2015, valid until March 3, 2018
PTR No. 6621229, January 9, 2018, Makati City

February 14, 2018

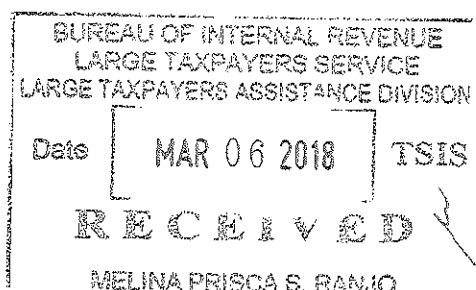


NLEX CORPORATION
(Formerly Manila North Tollways Corporation)
(A Subsidiary of Metro Pacific Tollways North Corporation
(Formerly Metro Pacific Tollways Development Corporation))
AND A SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

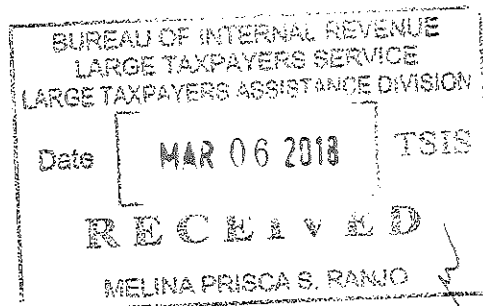
	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	P2,715,210,842	P389,912,852
Investments in unit investment trust funds (Notes 12 and 30)	217,749,970	82,407,389
Receivables (Notes 7 and 16)	715,039,256	593,177,913
Inventories - at cost	112,594,013	91,176,361
Available-for-sale financial assets (Notes 12 and 30)	49,825,000	-
Other current assets (Note 13)	908,356,502	700,725,834
Total Current Assets	4,718,775,583	1,857,400,349
Noncurrent Assets		
Service concession assets (Note 8)	33,672,831,472	30,672,147,592
Property and equipment (Note 9)	180,556,890	134,971,360
Investment properties (Note 10)	128,980,520	41,443,879
Other intangible assets (Note 11)	10,314,314	18,258,492
Available-for-sale financial assets (Notes 12 and 30)	1,204,581,932	1,353,667,695
Pension asset (Note 23)	5,570,690	904,680
Deferred tax assets - net (Note 27)	-	645,104
Advances to contractors and other noncurrent assets (Note 28)	224,409,324	1,209,257,732
Total Noncurrent Assets	35,427,245,142	33,431,296,534
	P40,146,020,725	P35,288,696,883
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 14 and 16)	P3,272,383,362	P3,178,755,241
Long-term incentive plan payable within the next twelve months (Note 23)	193,442,315	-
Income tax payable	329,435,810	303,456,146
Dividends payable (Note 19)	1,840,000,000	-
Provisions (Note 15)	272,861,598	320,814,502
Current portion of long-term debt (Notes 17 and 30)	4,304,208,838	278,737,740
Total Current Liabilities	10,212,331,923	4,081,763,629
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 17 and 30)	16,136,387,307	18,543,924,749
Service concession fees payable (Notes 18 and 30)	2,521,429,127	2,335,916,229
Long-term incentive plan payable (Note 23)	-	129,442,315
Provisions (Note 15)	114,161,673	98,894,187
Deferred tax liabilities - net (Note 27)	505,726,589	486,884,747
Other noncurrent liabilities (Note 30)	250,023	253,292
Total Noncurrent Liabilities	19,277,954,719	21,595,315,519
Total Liabilities	29,490,286,642	25,677,079,148

(Forward)



	December 31	
	2017	2016
Equity		
Capital stock (Note 19)	₱1,776,000,000	₱1,776,000,000
Additional paid-in capital	3,749,711,168	3,749,711,168
Retained earnings (Note 19)	5,154,024,882	4,109,784,668
Other comprehensive loss reserve (Note 19)	(37,036,249)	(36,912,383)
Other reserve (Note 24)	13,034,282	13,034,282
Total Equity	10,655,734,083	9,611,617,735
	₱40,146,020,725	₱35,288,696,883

See accompanying Notes to Consolidated Financial Statements.



NLEX CORPORATION

(Formerly Manila North Tollways Corporation)

(A Subsidiary of Metro Pacific Tollways North Corporation

(Formerly Metro Pacific Tollways Development Corporation))

AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
OPERATING REVENUES			
Toll fees (net of discounts amounting to ₱154,788,618 in 2017, ₱136,344,787 in 2016, and ₱111,967,528 in 2015)	₱11,586,054,532	₱10,538,908,306	₱8,453,380,333
Sales of magnetic cards	6,071	5,000	13,482
Toll revenues	11,586,060,603	10,538,913,306	8,453,393,815
Non-toll revenues (Note 20)	174,378,189	157,434,640	150,063,733
Total revenues	11,760,438,792	10,696,347,946	8,603,457,548
COST OF SERVICES (Note 21)	(4,554,360,218)	(4,392,888,455)	(3,420,625,851)
GROSS PROFIT	7,206,078,574	6,303,459,491	5,182,831,697
CONSTRUCTION REVENUE (Note 8)	3,763,478,479	6,170,060,989	3,328,364,819
CONSTRUCTION COSTS (Note 8)	(3,763,478,479)	(6,170,060,989)	(3,328,364,819)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 22)	(845,452,952)	(726,169,402)	(708,962,366)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Note 26)	(523,371,725)	(442,912,617)	(622,295,149)
INTEREST INCOME (Note 25)	51,344,156	62,089,704	72,896,989
FOREIGN EXCHANGE GAIN (LOSS) - net	1,509,499	(254,488)	7,840,647
OTHER INCOME	66,245,716	10,479,541	5,957,455
INCOME BEFORE INCOME TAX	5,956,353,268	5,206,692,229	3,938,269,273
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	1,294,906,187	1,152,806,403	963,726,925
Deferred	17,206,867	(33,191,446)	(18,587,795)
	1,312,113,054	1,119,614,957	945,139,130
NET INCOME	₱4,644,240,214	₱4,087,077,272	₱2,993,130,143

See accompanying Notes to Consolidated Financial Statements

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS SERVICE DIVISION
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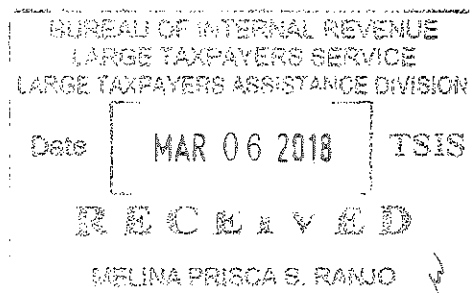


NLEX CORPORATION
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(Formerly Metro Pacific Tollways Development Corporation))
AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
NET INCOME	₱4,644,240,214	₱4,087,077,272	₱2,993,130,143
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Net gain on cash flow hedges (Notes 19 and 30)	-	-	3,775,752
Income tax effect (Notes 19 and 27)	-	-	(1,132,726)
	-	-	2,643,026
Loss on available-for-sale financial assets - net (Notes 12 and 19)	(418,469)	(1,661,917)	(78,828,116)
Income tax effect (Notes 19 and 27)	(1,507,674)	(1,192,620)	5,483,894
	(1,926,143)	(2,854,537)	(73,344,222)
	(1,926,143)	(2,854,537)	(70,701,196)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on defined benefit retirement plan (Notes 19 and 23)	2,574,682	(10,697,673)	6,692,099
Income tax effect (Notes 19 and 27)	(772,405)	3,209,302	(2,007,629)
	1,802,277	(7,488,371)	4,684,470
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(123,866)	(10,342,908)	(66,016,726)
TOTAL COMPREHENSIVE INCOME	₱4,644,116,348	₱4,076,734,364	₱2,927,113,417

See accompanying Notes to Consolidated Financial Statements.



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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Capital Stock (Note 19)	Additional Paid-in Capital	Retained Earnings (Note 19)	Other Comprehensive Loss Reserve (Note 19)	Other Reserve (Note 24)	Total Equity
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
Cash dividends (Note 19)	-	-	(3,600,000,000)	-	-	(3,600,000,000)
Net income	-	-	4,644,240,214	-	-	4,644,240,214
Other comprehensive loss (Note 19)	-	-	-	(123,866)	-	(123,866)
Total comprehensive income for the year	-	-	4,644,240,214	(123,866)	-	4,644,116,348
At December 31, 2017	₱1,776,000,000	₱3,749,711,168	₱5,154,024,882	₱37,036,249	₱13,034,282	₱10,655,734,083
At January 1, 2016	₱1,776,000,000	₱3,749,711,168	₱2,622,707,396	₱26,569,475	₱11,789,439	₱8,133,638,528
Cash dividends (Note 19)	-	-	(2,600,000,000)	-	-	(2,600,000,000)
Equity contribution - executive stock option plan (Note 24)	-	-	-	-	1,244,843	1,244,843
Net income	-	-	4,087,077,272	-	-	4,087,077,272
Other comprehensive loss (Note 19)	-	-	-	(10,342,908)	-	(10,342,908)
Total comprehensive income for the year	-	-	4,087,077,272	(10,342,908)	-	4,076,734,364
At December 31, 2016	₱1,776,000,000	₱3,749,711,168	₱4,109,784,668	₱36,912,383	₱13,034,282	₱9,611,617,735
At January 1, 2015	₱1,776,000,000	₱3,749,711,168	₱2,052,153,253	₱39,447,251	₱10,544,596	₱7,627,856,268
Cash dividends (Note 19)	-	-	(2,422,576,000)	-	-	(2,422,576,000)
Equity contribution - executive stock option plan (Note 24)	-	-	-	-	1,244,843	1,244,843
Net income	-	-	2,993,130,143	-	-	2,993,130,143
Other comprehensive loss (Note 19)	-	-	-	(66,016,726)	-	(66,016,726)
Total comprehensive income for the year	-	-	2,993,130,143	(66,016,726)	-	2,927,113,417
At December 31, 2015	₱1,776,000,000	₱3,749,711,168	₱2,622,707,396	₱26,569,475	₱11,789,439	₱8,133,638,528

See accompanying Notes to Consolidated Financial Statements.

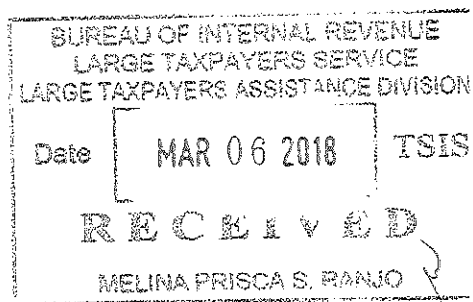


NLEX CORPORATION
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(Formerly Metro Pacific Tollways Development Corporation))
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CONSOLIDATED STATEMENTS OF CASH FLOWS

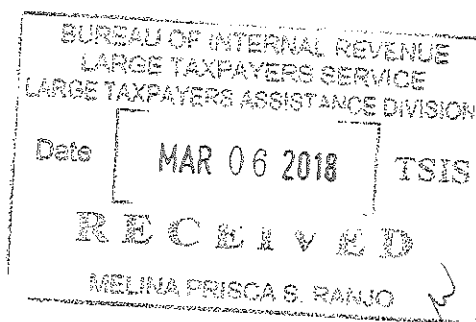
	Years Ended December 31		
	2017	2016	2015
OPERATING ACTIVITIES			
Income before income tax	₱5,956,353,268	₱5,206,692,229	₱3,938,269,273
Adjustments to reconcile income before income tax to net cash flows:			
Amortization of service concession assets (Notes 8 and 21)	762,794,599	615,120,463	575,097,888
Interest expense and other finance costs (Note 26)	523,371,725	442,912,617	622,295,149
Movements in:			
Provisions	(67,990,132)	66,899,069	69,538,725
Pension asset	(2,091,328)	453,411	(2,789,680)
Long-term incentive plan expense (Note 23)	64,000,000	58,964,008	48,735,905
Depreciation of property and equipment (Notes 9, 21 and 22)	51,942,568	29,978,498	38,025,416
Interest income (Note 25)	(51,344,156)	(62,089,704)	(72,896,989)
Amortization of other intangible assets (Notes 11 and 22)	11,861,791	5,924,711	10,954,056
Gain on disposal of available-for-sale financial assets (Note 12)	(578,407)	(4,699,640)	(2,032,346)
Unrealized foreign exchange gain - net	(57,001)	(245,495)	(2,477,153)
Gain on disposals of property and equipment (Note 9)	(22,664)	(861,043)	(506,685)
Executive stock option plan expense (Notes 23 and 24)	-	1,244,843	1,244,843
Working capital changes:			
Decrease (increase) in:			
Receivables	(116,165,350)	(30,697,442)	134,045,636
Inventories	(21,417,652)	(19,783,221)	(23,588,656)
Other current assets	700,561,686	(221,944,766)	(447,713,191)
Increase (decrease) in:			
Accounts payable and other current liabilities	88,986,503	887,319,612	235,070,699
Due to related parties	833,430	-	-
Long-term incentive plan payable	-	-	(98,257,610)
Income tax paid	(1,268,926,523)	(1,108,005,705)	(876,414,152)
Net cash flows from operating activities	6,632,112,357	5,867,182,445	4,146,601,128

(Forward)



	Years Ended December 31		
	2017	2016	2015
INVESTING ACTIVITIES			
Interest received	P45,648,163	P63,725,811	P70,466,549
Acquisition of available-for-sale financial assets (Note 12)	(5,882,500,287)	(7,063,921,689)	(5,407,332,256)
Decrease (increase) in other noncurrent assets	95,848,408	(129,950,093)	(9,895,766)
Additions to:			
Service concession assets (Note 8)	(3,573,526,690)	(6,031,216,910)	(6,550,150,015)
Property and equipment (Note 9)	(98,825,702)	(45,382,933)	(31,071,973)
Investment properties (Note 10)	(87,536,641)	(40,341,498)	-
Other intangible assets (Note 11)	(3,917,613)	(7,501,925)	(5,465,571)
Proceeds from:			
Sale of available-for-sale financial assets (Note 12)	5,854,947,596	8,394,068,882	8,955,539,952
Sale of property and equipment (Note 9)	1,320,268	2,371,906	1,977,918
Maturity of investments in bonds (Note 12)	-	200,000,000	250,000,000
Net cash flows used in investing activities	(3,648,542,498)	(4,658,148,449)	(2,725,931,162)
FINANCING ACTIVITIES (Note 33)			
Proceeds from loans (Note 17)	2,000,000,000	2,000,000,000	3,000,000,000
Payments of:			
Dividends (Note 19)	(1,760,000,000)	(4,022,576,000)	(2,193,472,000)
Loans	(402,102,309)	(1,012,102,309)	(1,954,602,309)
Interest expense and other finance costs	(482,015,091)	(427,123,627)	(559,630,299)
Debt issue costs (Note 17)	(14,211,470)	(26,888,808)	-
Net cash flows used in financing activities	(658,328,870)	(3,488,690,744)	(1,707,704,608)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,325,240,989	(2,279,656,748)	(287,034,642)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	57,001	245,495	2,477,153
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)	389,912,852	2,669,324,105	2,953,881,594
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	P2,715,210,842	P389,912,852	P2,669,324,105

See accompanying Notes to Consolidated Financial Statements.



NLEX CORPORATION

(Formerly Manila North Tollways Corporation)

(A Subsidiary of Metro Pacific Tollways North Corporation

(Formerly Metro Pacific Tollways Development Corporation))

AND A SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

General

NLEX Corporation (NLEX Corp. or the Parent Company) (formerly Manila North Tollways Corporation or MNTC) 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” 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. As at February 14, 2018, the Plan and Articles of Merger are being reviewed by the SEC.

Metro Pacific Tollways North Corporation (MPTNC) (formerly Metro Pacific Tollways Development Corporation), 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.

The consolidated financial statements as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were authorized for issuance by the Parent Company's BOD on February 14, 2018, as reviewed and recommended for approval by the Parent Company's Audit Committee.

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 Tupo 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 completed in June 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 February 14, 2018.

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 at February 14, 2018, the construction of the NLEX-SLEX Connector Road has not yet started.

2. Service Concession Arrangements

Supplemental Toll Operation Agreement (STOA) for the Manila-North Expressway

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

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

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

The PNCC franchise expired on May 1, 2007. Pursuant to the STOA, the TRB issued the necessary TOC for the NLEX in order to allow the continuation of the Concession. As further discussed in Note 28, NLEX Corp. pays a certain amount to PNCC.

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

Upon expiry of the concession period, NLEX Corp. shall hand-over the project roads to the Grantor without cost, free from any and all liens and encumbrances and fully operational and in good working



condition, including any and all existing land required, works, toll road facilities and equipment found therein directly related to and in connection with the operation of the toll road facilities.

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

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

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

Agreements covering the SCTEX

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

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

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



In consideration for the assignment by BCDA to NLEX Corp. of its rights to and interests in SCTEX, NLEX Corp. paid BCDA an upfront cash of ₱3.5 billion (inclusive of VAT) upon effectivity of the BA (the Upfront Payment). NLEX Corp. shall also pay BCDA monthly concession fees amounting to 50% of the Audited Gross Toll Revenues of SCTEX for the relevant month from effective date to October 30, 2043. NLEX Corp. shall gross up the concession fees by the 12% VAT. The Company recorded concession fees of ₱931.6 million, ₱791.5 million and ₱132.1 million in 2017, 2016 and 2015, respectively, which is included under "Cost of services" account in the consolidated statements of income (see Note 21).

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

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

NLEX-SLEX Connector Road Concession Agreement

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

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

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

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



Legal title to the NLEX-SLEX Connector Road, including all assets and other improvements constructed therein and all additional and/or enhancement works contributed by NLEX Corp. during the concession period, shall remain with NLEX Corp. until the termination date. At the end of the concession period or upon the termination of the concession agreement, the NLEX-SLEX Connector Road, including all rights, title and interest in the aforesaid assets, shall be turned over to DPWH or to its successor-in-interest conformably with law, and in all cases in accordance with and subject to the terms and conditions of the Concession Agreement. NLEX Corp. shall be prohibited from transferring, alienating, selling, or otherwise disposing the NLEX-SLEX Connector Road.

Pursuant to the Concession Agreement, NLEX Corp. shall preserve the asset so it can be handed back to DPWH in a manner that complies with the pavement performance standards specified in the concession agreement and that all the building and equipment necessary to operate the expressway remain functional and in good condition that is equivalent to prudent industry practice. NLEX Corp. must also manage the maintenance of the assets so that there is a residual asset life that complies with the residual life standards stated in the concession agreement at the end of the concession period. As at February 14, 2018, the construction of the NLEX-SLEX Connector Road has not yet started.

3. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs) as issued by the Financial Reporting Standards Council (FRSC).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017.

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

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

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



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

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended PFRSs which were adopted as at January 1, 2017. Adoption of these pronouncements did not have any significant impact to the Company's financial statements unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Company has provided the required information in Note 33 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Current versus Noncurrent Classification of Assets and Liabilities

The Company presents assets and liabilities in the consolidated balance sheet based on current or noncurrent classification.

An asset is current when it is:

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

All other assets are classified as noncurrent.



A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

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

Cash and Cash Equivalents

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

Financial Assets and Financial Liabilities

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

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at FVPL.

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

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, inclusive of directly attributable transaction costs.

The Company has no financial assets and financial liabilities at FVPL and HTM investments as at December 31, 2017 and 2016.

Subsequent Measurement. The subsequent measurement of financial assets and financial liabilities depends on their classification as described below:

a. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of income. The losses arising from



impairment are recognized in the consolidated statement of income under general and administrative expenses.

Loans and receivables include cash and cash equivalents, receivables (excluding advances to officers and employees), and restricted cash (included in "Other current assets") and refundable deposits (included in "Other noncurrent assets" account in the consolidated balance sheet) (see Notes 6, 7 and 13).

b. AFS Financial Assets

AFS financial assets include equity and debt instruments. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at FVPL. Debt instruments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized as other comprehensive income (OCI) in "Other comprehensive loss reserve" account, net of related deferred tax until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. Interest earned on the investments is reported as interest income using the EIR method.

As at December 31, 2017 and 2016, the Company's AFS financial assets consist of unit investment trust funds (UITFs); investments in notes of the ROP and fixed rate retail treasury bonds; long-term negotiable certificate of deposits (LTNCDs); and fixed rate corporate bonds of First Metro Investment Corporation (FMIC), Manila Electric Company (Meralco), and Philippine Long Distance Telephone Company (PLDT) (see Note 12).

c. Loans and Borrowings

All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs (referred to herein as "debt issue costs"). After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method.

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

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

This category includes accounts payable and other current liabilities, dividends payable, rental deposits (included in "Other noncurrent liabilities" account in the consolidated balance sheet), long-term debt and service concession fees payable (see Notes 14, 17, 18, 19 and 30).

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is



not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

'Day 1' Profit or Loss

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

Impairment of Financial Assets

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

a. Financial Assets Carried at Amortized Cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of income. The assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If a write-off is later recovered, any amount formerly charged is credited to the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is



recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

b. AFS Financial Assets

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income) is removed from OCI and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized directly in OCI.

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

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

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

Derecognition of Financial Assets and Liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e., removed from the Company's consolidated balance sheet) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.



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

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in the consolidated statement of income.

Derivatives and Hedge Accounting

Freestanding Derivatives. The Company uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified primarily either as (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) hedge of a net investment in a foreign operation. The Company designated and accounted for certain derivatives under cash flow hedges. The Company did not designate any of its derivatives as fair value hedges or hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

In cash flow hedges, changes in the fair value of a hedging instrument that qualifies as highly effective cash flow hedge are included in equity under "Other comprehensive loss reserve" account, net of related deferred tax. The ineffective portion is immediately recognized in the consolidated statement of income.

If the hedged cash flow results in the recognition of an asset or a liability, gains and losses initially recognized in equity are transferred from equity to consolidated statement of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect the consolidated statement of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no



longer expected to occur, any net cumulative gain or loss previously reported in equity is charged against the consolidated statement of income.

For derivatives that are not designated as effective accounting hedges, any gains or losses arising from changes in fair value of derivatives are recognized directly in the consolidated statement of income.

Fair Value Measurement

The Company measures financial instruments such as AFS financial assets at fair value at each balance sheet date.

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

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

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

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

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

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

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

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



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

- | | |
|--|------------------------|
| ▪ Disclosures for valuation methods, significant estimates and assumptions | Notes 4, 10, 12 and 30 |
| ▪ Quantitative disclosures of fair value measurement hierarchy | Note 30 |
| ▪ Investment properties | Note 10 |
| ▪ Financial instruments (including those carried at amortized cost) | Notes 12 and 30 |

Inventories

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

Advances to Contractors and Consultants

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

Service Concession Arrangements

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

Revenue and Cost Recognition. The Company recognizes and measures construction revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs. When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value. The revenue and cost from these services are recognized based on the percentage of completion measured principally on the basis of estimated completion of a physical proportion of the contract works, and by reference to the actual costs incurred to date over the estimated total cost of the project.

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

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



commercial operations of the said infrastructure asset. Following initial recognition, the service concession assets are carried at cost less accumulated amortization and any impairment losses.

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

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

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

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

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

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

Property and Equipment

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

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

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

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



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

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

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

Investment Properties

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

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

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

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

Other Intangible Assets (Software Cost)

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

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



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

Impairment of Nonfinancial Assets

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

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

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

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

Provisions

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



Equity

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

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

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

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably, regardless of when the payment is received. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding VAT, discounts and rebates. The Company has concluded that it is acting as principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

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

- Revenue from toll fees is recognized upon the sale of toll tickets. Toll fees received in advance, through transponders or magnetic cards, are recognized as income upon the holders' availment of the toll road services, net of discounts or rebates. The unused portion of toll fees received in advance is reflected as "Unearned toll revenue" in the consolidated balance sheet.
- Revenue from sale of magnetic cards is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, normally upon delivery.
- Construction revenue and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.
- Income from utility facility contracts, toll service facilities (TSF) and advertising, included in "Non-toll revenues" account in the consolidated statement of income, are recognized in accordance with the terms of the agreement.
- Interest income is recognized as the interest accrues using the effective interest method.
- Rental revenue is accounted for on a straight-line basis over the lease term.
- Service revenue, included in "Non-toll revenues" account in the consolidated statement of income, is recognized as services are rendered in accordance with the terms of the agreements.
- Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability that can be measured reliably. This includes gain on disposal of property and equipment.



Cost and Expenses Recognition

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

Operating Lease

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

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

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

Company as Lessee. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

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

Foreign Currency-denominated Transactions and Translations

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

Borrowing Costs

Borrowing costs are capitalized as part of service concession assets if they are directly attributable to the acquisition and construction of the assets. Capitalization of borrowing costs commences when the activities to prepare for the construction of the assets are in progress and expenditures and borrowing costs are being incurred, until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.



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

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

Defined Benefit Plan

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

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

Defined benefit costs comprise the following:

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

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

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

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

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



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

Employee Leave Entitlement

Employee entitlements to annual leave are recognized as a liability when earned by the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Share-based Payment

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

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

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

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

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

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

Long-term Employee Benefits

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



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

Taxes

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

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

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

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with its investment in a subsidiary, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with its investment in a subsidiary, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

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

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



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

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

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

- a. When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- b. When receivables and payables are stated with the amount of VAT included.

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

Contingencies

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

Events after the Balance Sheet Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

Service Concession Arrangements. Philippine Interpretation IFRIC 12, outlines an approach to account for contractual arrangements arising from entities providing public services. Arrangements



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

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

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

The Company also recognizes construction revenues and costs in accordance with PAS 11. It measures contract revenue at the fair value of the consideration received or receivable. Given that NLEX Corp. has subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in consolidated statements of income amounted to ₱3,763.5 million, ₱6,170.1 million, and ₱3,328.4 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 8).

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability. The Company recognizes a provision following PAS 37, as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱247.1 million and ₱314.0 million as at December 31, 2017 and 2016, respectively (see Note 15).

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

Estimates and Assumptions

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

Allowance for Doubtful Accounts. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectability. An evaluation of the receivables



using specific method, designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year. There were no provisions under collective assessment in 2017, 2016 and 2015.

Receivables (excluding advances to officers and employees) amounted to ₱704.4 million and ₱577.9 million as at December 31, 2017 and 2016, respectively. Allowance for doubtful accounts amounted to ₱26.4 million and ₱24.9 million as at December 31, 2017 and 2016, respectively (see Note 7).

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

In 2017, 2016 and 2015, the Company reported amortization of service concession assets amounting to ₱762.8 million, ₱615.1 million, and ₱575.1 million, respectively (see Notes 8 and 21). The carrying values of the service concession assets as at December 31, 2017 and 2016 amounted to ₱33,672.8 million and ₱30,672.1 million, respectively (see Note 8).

Impairment of Nonfinancial Assets. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the concession period and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to service concession assets not yet available for use recognized by the Company. The key assumptions used to determine the recoverable amount are disclosed and further explained in Note 8.

There was no impairment loss recognized in the consolidated statements of income in 2017, 2016 and 2015. The carrying values of the Company's service concession assets not yet available for use amounted to ₱10,417.2 million and ₱8,773.7 million as at December 31, 2017 and 2016, respectively (see Note 8).

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

Deferred tax assets are recognized on deductible temporary differences and the carryforward benefits of net operating loss carry-over (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of NOLCO can be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the expected future results of operations.



Deferred tax assets amounted to ₱912.8 million and ₱870.6 million as at December 31, 2017 and 2016, respectively (see Note 27).

Retirement Costs. The cost of defined benefit retirement plan and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuations involve making various assumptions about discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date. Further details about the assumptions used are given in Note 23.

Pension asset amounted to ₱5.6 million and ₱0.9 million as at December 31, 2017 and 2016, respectively (see Note 23).

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

LTIP payable amounted to ₱193.4 million and ₱129.4 million as at December 31, 2017 and 2016, respectively (see Note 23).

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

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

Provisions (current and noncurrent) amounted to ₱387.0 million and ₱419.7 million as at December 31, 2017 and 2016, respectively (see Note 15).

Contingencies. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the Company's consolidated financial statements (see Note 32).

5. Operating Segment Information

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

The Company's performance is evaluated based on net income for the year; earnings before interest, taxes and depreciation and amortization (EBITDA); EBITDA margin; core income; and core income



margin. Net income for the year is measured consistent with the net income in the consolidated statements of income.

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

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

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

The revenues, net income, assets, liabilities, and other information of the Company's operations as at and for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Net toll revenues	₱11,586,054,532	₱10,538,908,306	₱8,453,380,333
Other income	240,672,403	163,219,541	154,002,324
Total revenues	11,826,726,935	10,702,127,847	8,607,382,657
Operating and maintenance costs	(3,534,911,746)	(3,663,871,264)	(2,694,832,558)
Operating expenses	(745,944,612)	(625,204,430)	(613,837,616)
EBITDA	7,545,870,577	6,413,052,153	5,298,712,483
Financing costs	(444,619,744)	(354,728,002)	(480,832,163)
Core income before depreciation, amortization and provisions	7,101,250,833	6,058,324,151	4,817,880,320
Depreciation, amortization and provisions*	(2,366,443,346)	(1,900,818,231)	(1,737,541,182)
Core income	4,734,807,487	4,157,505,920	3,080,339,138
Nonrecurring items	(90,567,273)	(70,428,648)	(87,208,995)
Net income	₱4,644,240,214	₱4,087,077,272	₱2,993,130,143
EBITDA margin for the year	65%	61%	63%
Core income margin for the year	41%	39%	36%
Net income margin for the year	40%	39%	35%
Total assets	₱40,146,020,725	₱35,288,696,883	
Total liabilities	29,490,286,642	25,677,079,148	
Total equity	10,655,734,083	9,611,617,735	

Other disclosures:

Capital expenditure (consists of additions to service concession assets, property and equipment, investment properties and other intangible assets)

₱3,763,806,646 ₱6,124,443,266

* Includes provision for current and deferred taxes.



The following table shows the reconciliation of EBITDA to consolidated net income for the years ended December 31, 2017, 2016 and 2015.

	2017	2016	2015
EBITDA	₱7,545,870,577	₱6,413,052,153	₱5,298,712,483
Amortization of service concession assets (see Note 21)	(762,794,599)	(615,120,463)	(575,097,888)
Interest expense and other finance costs (see Note 26)	(523,371,725)	(442,912,617)	(622,295,149)
Provision for heavy maintenance (see Note 21)	(215,471,251)	(113,971,317)	(150,819,004)
Interest income (see Note 25)	51,344,156	62,089,704	72,896,989
Depreciation of property and equipment	(37,189,855)	(25,001,484)	(29,069,236)
Amortization of other intangible assets (see Note 22)	(11,861,791)	(5,924,711)	(10,954,056)
Gain on sale on AFS financial assets	(42,427)	4,699,640	2,032,346
Nonrecurring items:			
Provisions	(4,185,067)	(3,737,064)	(5,101,457)
Foreign exchange gain - net	1,509,498	(254,488)	7,840,647
Other nonrecurring items	(87,454,248)	(66,227,124)	(49,876,402)
Income before income tax	5,956,353,268	5,206,692,229	3,938,269,273
Provision for (benefit from) income tax (see Note 27):			
Current	1,294,906,187	1,152,806,403	963,726,925
Deferred	17,206,867	(33,191,446)	(18,587,795)
	1,312,113,054	1,119,614,957	945,139,130
Net income	₱4,644,240,214	₱4,087,077,272	₱2,993,130,143

The following table shows the reconciliation of the consolidated core income to the net income for the years ended December 31, 2017, 2016 and 2015.

	2017	2016	2015
Core income for the year	₱4,734,807,487	₱4,157,505,920	₱3,080,339,138
Provisions	(4,185,067)	(3,737,064)	(5,101,457)
Foreign exchange gain (loss) - net	1,072,042	(254,488)	7,840,647
Other nonrecurring items	(87,454,248)	(66,437,096)	(89,948,185)
Net income	₱4,644,240,214	₱4,087,077,272	₱2,993,130,143

6. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand and in banks	₱181,262,438	₱35,649,031
Short-term deposits as cash equivalents	2,533,948,404	354,263,821
	₱2,715,210,842	₱389,912,852

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



Interest earned from cash and cash equivalents amounted to ₱9.0 million, ₱20.6 million, and ₱19.1 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 25).

As at December 31, 2017 and 2016, the Company had nil and ₱5.0 billion of available undrawn committed term loan facilities, respectively.

7. Receivables

This account consists of:

	2017	2016
Trade receivables:		
Related parties (see Note 16)	₱375,858,264	₱304,124,441
Third parties	97,716,113	59,666,237
Advances to DPWH	179,535,742	180,361,049
Interest receivables	20,003,187	14,307,194
Advances to officers and employees (see Note 16)	10,641,020	15,317,943
Due from related parties (see Note 16)	5,982,581	3,812,414
Other receivables	51,741,514	40,527,225
	<u>741,478,421</u>	<u>618,116,503</u>
Less allowance for doubtful accounts	<u>26,439,165</u>	<u>24,938,590</u>
	<u>₱715,039,256</u>	<u>₱593,177,913</u>

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

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

Interest receivables are collectible within three to six months.

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

Other receivables are noninterest-bearing and are collectible within a year. As at December 31, 2017 and 2016, other receivables include those receivables from motorists who caused accidental damage to NLEX properties from day-to-day operations amounting to ₱43.6 million and ₱38.2 million, respectively.



The movements in the allowance for individually assessed impaired receivables in 2017 and 2016 are as follows:

	2017		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱3,053,951	₱21,884,639	₱24,938,590
Provision for doubtful accounts (see Note 22)	150,646	1,349,929	1,500,575
Balance at end of year	₱3,204,597	₱23,234,568	₱26,439,165

	2016		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱2,389,832	₱11,772,227	₱14,162,059
Provision for doubtful accounts (see Note 22)	664,119	10,112,412	10,776,531
Balance at end of year	₱3,053,951	₱21,884,639	₱24,938,590

8. Service Concession Assets

The movements in this account follow:

	MNEP	SCTEX	NLEX-SLEX Connector Road	Total
Cost:				
At January 1, 2016	₱26,133,955,768	₱3,177,555,625	₱-	₱29,311,511,393
Additions	5,602,509,835	378,504,587	2,507,847,423	8,488,861,845
At December 31, 2016	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
Accumulated amortization:				
At January 1, 2016	₱6,501,741,058	₱11,364,125	₱-	₱6,513,105,183
Amortization (see Note 21)	540,223,703	74,896,760	-	615,120,463
At December 31, 2016	7,041,964,761	86,260,885	-	7,128,225,646
Amortization (see Note 21)	654,699,389	108,095,210	-	762,794,599
At December 31, 2017	₱7,696,664,150	₱194,356,095	₱-	₱7,891,020,245
Net book value:				
At December 31, 2017	₱26,805,146,789	₱4,144,926,959	₱2,722,757,724	₱33,672,831,472
At December 31, 2016	24,694,500,842	3,469,799,327	2,507,847,423	30,672,147,592

MNEP

Additions during 2017 and 2016 pertain mainly to lane widening project on Segments 2 and 3 (portions of Phase I); civil works construction for Segment 10 (portion of Phase II); and fixed operating equipment (FOE) design, supply and installation on Segment 10 (portion of Phase II). Additions also include the pre-construction costs of Segment 8.2, portion of Phase II.

Borrowing costs capitalized amounted to ₱653.8 million and ₱653.7 million for the years ended December 31, 2017 and 2016, respectively. The interest rates used to determine the amount of borrowing costs eligible for capitalization ranges from 5.0% to 5.8% in 2017 and 2016.



The concession term for fully operational Phase I and Segments 8.1 and 9 of Phase II of the MNEP is until December 31, 2037. As at December 31, 2017 and 2016, the remaining concession term is 20 years and 21 years, respectively.

As at February 14, 2018, Segment 10, portion of Phase II, with a carrying amount of ₱7,694.5 million and ₱6,265.9 million as at December 31, 2017 and 2016, respectively, has not yet started its tollway operation.

SCTEX

As discussed in Note 2, NLEX Corp. took over from BCDA the management, operation and maintenance of the SCTEX on October 27, 2015. Additions during 2017 and 2016 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. As at December 31, 2017 and 2016, the remaining concession term is 26 years and 27 years, respectively.

NLEX-SLEX Connector Road

As discussed in Note 2, NLEX Corp. and DPWH signed the Concession Agreement for the NLEX-SLEX Connector Road on November 23, 2016. Additions during 2017 pertain to pre-construction costs of ₱29.4 million. Additions during 2016 pertain mainly to the present value of the service concession fees payable of ₱2,318.8 million and pre-construction costs of ₱171.9 million.

Borrowing costs capitalized amounted to ₱185.5 million and ₱17.1 million for the years ended December 31, 2017 and 2016, respectively (see Note 18). The borrowing rates used to determine the amount of borrowing costs eligible for capitalization is 7.1% in 2017 and 2016.

The expected concession period for NLEX-SLEX Connector Road is until 2055, which is 37 years after the expected issuance by the DPWH of the NTP to start the construction of the NLEX-SLEX Connector Road.

Impairment Testing of Service Concession Assets Not Yet Available for Use

For the purposes of impairment testing related to an intangible asset (service concession asset) not yet available for use under the requirements of PAS 36, *Impairment of Assets*, the Company has performed the analysis by comparing the recoverable amount and the carrying amount of the service concession assets as at reporting date.

As at December 31, 2017 and 2016, the total carrying amount of Segment 10 (portion of Phase II of MNEP) and NLEX-SLEX Connector Road which are not yet available for use amounted to ₱10,417.2 million and ₱8,773.7 million, respectively.

The recoverable amount of Segment 10 (portion of Phase II of MNEP) and NLEX-SLEX Connector Road have been determined based on a value in use computation using the cash flow projections from most recent financial budgets and forecast of NLEX Corp. For the impairment testing conducted, average traffic volume growth rates used were 1.2% to 2.3% and the pre-tax discount rates applied range from 10.07% to 10.21%, which was based on the weighted average cost of capital with estimated premium of 2.0% over cost of equity. The average forecast period used in the computation is 20 years for Segment 10 and 39 years for NLEX-SLEX Connector Road. The forecast period is greater than 5 years as management can reliably estimate the cash flow for the entire duration of the concession period.



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

9. 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, 2016	₱94,201,454	₱74,604,932	₱156,357,220	₱325,163,606
Additions	22,500	23,086,472	22,273,961	45,382,933
Disposals	–	(9,827,443)	(3,469,102)	(13,296,545)
At December 31, 2016	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
Accumulated depreciation:				
At January 1, 2016	₱36,514,894	₱47,143,850	₱120,427,074	₱204,085,818
Depreciation (see Notes 21 and 22)	3,572,702	10,292,564	16,113,232	29,978,498
Disposals	–	(8,376,549)	(3,409,133)	(11,785,682)
At December 31, 2016	40,087,596	49,059,865	133,131,173	222,278,634
Depreciation (see Notes 21 and 22)	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
Net book value:				
At December 31, 2017	₱71,671,778	₱46,857,453	₱62,027,659	₱180,556,890
At December 31, 2016	54,136,358	38,804,096	42,030,906	134,971,360

Proceeds from the sale of property and equipment amounted to ₱1.3 million, ₱2.4 million, and ₱2.0 million in 2017, 2016, and 2015, respectively. Gain on disposal of property and equipment amounted to ₱0.02 million, ₱0.9 million and ₱0.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱166.2 million and ₱139.4 million as at December 31, 2017 and 2016, respectively.

As at December 31, 2017 and 2016, there are no items of property and equipment with liens or encumbrances or used as security of any outstanding loan.



10. Investment Properties

Details of this account are as follows:

	2017	2016
Land	₱117,401,719	₱37,761,269
Land improvements	11,578,801	3,682,610
Total	₱128,980,520	₱41,443,879

In 2017 and 2016, NVC purchased parcels of land located in Valenzuela City from certain land owners. A parcel of land acquired in 2016 is presently the site of a service facility while the other parcels of land acquired in 2017 and 2016, respectively, are being developed as a service facility and/or a property for lease with business proponents.

As discussed in Note 28, the land acquired with a service facility was leased to RDL Fuel Point, Inc. Rental income earned from this investment property amounted to ₱4.3 million in 2017 and 2016 (see Note 20).

Fair value of investment properties

As at December 31, 2016, the fair value of investment properties acquired in 2016 amounting to ₱50.3 million is based on valuation performed by an accredited independent appraiser. A valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied.

	Valuation Technique	Significant unobservable input	Range (Weighted Average)
Land and land improvements	Direct Sales Comparison Approach	Price per square meter (sqm)	₱6,200 per sqm

The Market Data (or Direct Sales Comparison) Approach is an appraisal technique in which the market value estimate is predicated based upon prices paid in actual market transactions and current listings, the former fixing the lower limit of value in a static or advancing market (price wise), and fixing the higher limit of value in a declining market; and the latter fixing the higher limit in any market. It is a process of correlation and analysis of similar recently sold properties.

The reliability of this technique is dependent upon: (a) the degree of comparability of each property with the property under appraisal; (b) the time of the sale; (c) the verification of the sale data, and; (d) the absence of unusual conditions affecting the sale. The weight given to this approach is dependent on the availability of recent confirmed listings/sales of properties considered comparable to the property under appraisal. These listings/sold properties are compared to the subject in key units of comparison. Appropriate adjustments are made for differences between the subject and the comparables, resulting in adjusted sales values for each of the comparables. These adjusted values are then reconciled for a value conclusion by the Sales Comparison Data Grid.

The Market Data (or Direct Sales Comparison) Approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property. The reliability of this method depends on the number of comparables utilized and their overall similarity to the property being appraised.

Significant increases (decreases) in estimated price per sqm in isolation would result in a significantly higher (lower) fair value.



The determination of the fair value of investment properties is categorized under Level 3 fair value hierarchy measurement.

The fair value of the land acquired in August 2017 is based on its acquisition price. This parcel of land is being developed for the NLEX Drive and Dine Project (see Note 28).

While the fair value of the investment properties was not determined as at December 31, 2017, the Company believes that there were no conditions present in 2017 that would significantly reduce either the fair value of the investment properties from that determined on December 31, 2016 or the acquisition cost of the land acquired in 2017.

The Company has no restriction on the realizability of its investment properties and no obligation to either purchase, construct or develop, or for repairs, maintenance and enhancements.

11. Other Intangible Assets

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

	2017	2016
Cost:		
Balance at the beginning of the year	P106,535,415	P99,033,490
Additions	3,917,613	7,501,925
Disposal	(455,240)	-
Balance at end of the year	109,997,788	106,535,415
Accumulated amortization:		
Balance at beginning of year	88,276,923	82,352,212
Amortization (see Note 22)	11,861,791	5,924,711
Disposal	(455,240)	-
Balance at end of the year	99,683,474	88,276,923
Net book value	P10,314,314	P18,258,492

12. Available-for-sale Financial Assets

Details of AFS financial assets are shown below:

Maturity Date	Interest Rate	2017		2016	
		Fair Value	Principal Amount	Fair Value	Principal Amount
UITFs					
Short-term		P217,749,970	P217,221,409	P82,407,389	P82,221,409
ROP Retail Treasury Bonds					
April 11, 2020	4.25%	100,112,000	100,000,000	-	-
August 15, 2023	3.25%	520,796,160	565,100,000	524,017,230	565,100,000
		620,908,160	665,100,000	524,017,230	565,100,000
Fixed Rate Treasury Notes					
May 23, 2018	2.13%	49,825,000	50,000,000	246,600,000	250,000,000
July 19, 2019	4.75%	11,301,872	11,230,000	11,179,465	11,230,000
August 20, 2020	3.38%	19,495,400	20,000,000	20,560,000	20,000,000
		80,622,272	81,230,000	278,339,465	281,230,000

(Forward)



Maturity Date	Interest Rate	2017		2016	
		Fair Value	Principal Amount	Fair Value	Principal Amount
LTNCD					
PNB - June 12, 2020	4.13%	₱50,498,500	₱50,000,000	₱49,613,000	₱50,000,000
Metrobank - November 21, 2021	4.25%	48,499,000	50,000,000	48,603,000	50,000,000
		98,997,500	100,000,000	98,216,000	100,000,000
Corporate Bonds					
FMIC - August 10, 2019	5.75%	51,079,000	50,000,000	48,781,000	50,000,000
Meralco - December 12, 2020 (see Note 16)	4.38%	198,956,000	200,000,000	197,300,000	200,000,000
PLDT - February 6, 2021 (see Note 16)	5.23%	203,844,000	200,000,000	207,014,000	200,000,000
		453,879,000	450,000,000	453,095,000	450,000,000
		₱1,472,156,902	₱1,513,551,409	₱1,436,075,084	₱1,478,551,409

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 are invested in various financial instruments such as money market securities, bonds and equities, which are normally available to bigger 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 based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources.

The movements in this account follow:

	2017	2016
Balance at beginning of year	₱1,436,075,084	₱2,940,548,994
Additions	5,882,500,287	7,063,921,689
Maturity	—	(200,000,000)
Sale of AFS financial assets	(5,846,000,000)	(8,366,733,682)
Changes in fair value during the year (see Note 19)	8,529,127	25,673,283
Recycling to profit or loss (see Note 19)	(8,947,596)	(27,335,200)
Balance at end of year	₱1,472,156,902	₱1,436,075,084
Current	₱267,574,970	₱82,407,389
Noncurrent	1,204,581,932	1,353,667,695
	₱1,472,156,902	₱1,436,075,084

The fair value is based on the quoted market price of the financial instruments as at December 31, 2017 and 2016. The movements in the net unrealized gain (loss) on fair value change in AFS financial assets under "Other comprehensive loss reserve" account for the years ended December 31, 2017, 2016 and 2015 follow:

	2017	2016	2015
Balance at beginning of year	(₱39,194,024)	(₱37,532,107)	₱41,296,009
Changes in fair value during the year	8,529,127	25,673,283	11,121,533
Recycling to profit or loss*	(8,947,596)	(27,335,200)	(89,949,649)
Balance at end of year	(39,612,493)	(39,194,024)	(37,532,107)
Tax effects of items taken directly in equity (see Note 27)	(43,141)	1,464,533	2,657,153
	(₱39,655,634)	(₱37,729,491)	(₱34,874,954)

* Includes gain on sale of AFS amounting to ₱8,369,189 and ₱22,635,560 in 2017 and 2016, respectively, that was deducted from borrowing costs capitalized to service concession assets.



13. Other Current Assets

Details of other current assets follow:

	2017	2016
Restricted cash (see Note 28)	P321,000,000	P-
Input VAT	318,515,410	412,113,258
Deferred input VAT	152,582,388	186,898,381
Advances to suppliers (see Note 16)	60,582,643	29,911,065
Prepayments	52,286,554	67,638,138
Creditable tax	18,769,968	19,545,453
	923,736,963	716,106,295
Less allowance for non-recoverability of creditable tax	(15,380,461)	(15,380,461)
	P908,356,502	P700,725,834

Prepayments include prepaid insurance covering the service concession assets of the Company.

14. Accounts Payable and Other Current Liabilities

This account consists of:

	2017	2016
Trade payables:		
Related parties (see Note 16)	P151,778,036	P135,325,540
Third parties	788,543,395	171,054,098
Accrued expenses:		
Related parties (see Note 16)	381,959,364	362,310,718
Third parties	1,098,528,736	1,899,350,895
Retention payable:		
Related parties (see Note 16)	13,090,888	19,776,883
Third parties	545,511,744	315,671,166
Output VAT	163,555,157	141,308,092
Withholding taxes payable	85,633,460	93,142,828
Interest payable	28,314,769	24,517,438
Unearned toll revenue	1,883,284	2,571,857
Due to related parties (see Note 16)	833,430	-
Unearned rental income (see Note 28)	-	2,132,223
Others	12,751,099	11,593,503
	P3,272,383,362	P3,178,755,241

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



Accrued expenses consist of:

	2017	2016
Construction costs	P749,593,043	P1,551,445,903
Operator's fee (see Note 16)	307,065,152	253,612,988
Professional fees	112,852,747	94,300,662
Concession fees (see Note 2)	102,864,022	87,422,800
PNCC fee	60,483,648	52,539,032
Operating and maintenance cost	58,233,647	61,249,421
Advertising and marketing expenses (see Note 16)	36,567,994	52,599,331
Outside services (see Note 16)	13,261,969	18,668,329
Toll collection and medical services	8,268,476	6,494,316
Repairs and maintenance (see Note 16)	8,073,559	7,405,068
Salaries and employee benefits	1,237,466	27,206,476
Management fees (see Note 16)	-	17,851,424
Project insurance	-	12,806,822
Others	21,986,377	18,059,041
	P1,480,488,100	P2,261,661,613

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

Interest payable is settled within three to six months.

15. Provisions

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2016	P263,252,488	P76,201,950	P339,454,438
Additions (see Notes 21 and 22)	127,647,874	29,537,324	157,185,198
Accretion (see Note 26)	14,957,803	-	14,957,803
Payments	(91,888,750)	-	(91,888,750)
At December 31, 2016	313,969,415	105,739,274	419,708,689
Additions (see Notes 21 and 22)	241,327,802	85,500,489	326,828,291
Accretion (see Note 26)	18,045,843	-	18,045,843
Payments	(326,221,568)	(51,337,984)	(377,559,552)
At December 31, 2017	P247,121,492	P139,901,779	P387,023,271
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
At December 31, 2016:			
Current	P228,915,410	P91,899,092	P320,814,502
Noncurrent	85,054,005	13,840,182	98,894,187
	P313,969,415	P105,739,274	P419,708,689



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

Other provisions include 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.

16. Related Party Disclosures

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



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

Related Party	Relationship	Management Fees (see Note 22)		Operator's Fee (see Note 21)		Outside Services (see Note 21)		Repairs and Maintenance (see Note 21)		Communication, Light and Water (see Notes 21 and 22)		Advertising and Marketing Expenses (see Note 22)		Representation and Travel Expenses (see Note 22)		Income from Advertising (see Note 20)		Income from Utility Facilities (see Note 20)	
		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
MPTC	Intermediate Parent Company	₱60,702,628	-	-	-	-	-	-	-	-	-	₱182,868,860	-	-	-	-	-	-	-
		60,702,628	-	-	-	-	-	-	-	-	-	42,966,485	-	-	-	-	-	-	-
		60,702,628	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MPTNC	Parent Company	11,936,599	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		11,936,599	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		11,936,599	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TMC	Subsidiary of MPTNC	-	-	1,528,987,544	2,518,278	62,350,900	227,878	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	2,001,498,970	-	6,234,952	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	1,741,674,430	-	5,524,377	-	-	-	-	-	-	-	-	-	-	-	-	-
Easytrip Services Corp. (ESC)	Subsidiary of MPTC	-	-	-	68,821,203	-	-	-	-	-	-	632,556	-	-	-	100,000	-	-	-
		-	-	-	67,861,426	-	-	-	-	-	-	-	-	-	-	920,000	-	-	-
		-	-	-	61,167,420	-	-	-	-	-	-	-	-	-	-	60,000	-	-	-
Smart Communications Inc. (Smart)	Associate of FPC	-	-	-	-	-	1,808,087	-	-	-	-	138,142	-	-	-	18,422,000	-	-	373,855
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	43,480,000	-	-	357,756
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	72,850,000	-	-	342,350
PLDT, Inc. (PLDT)	Associate of FPC	-	-	-	-	516,418	3,283,959	-	-	-	-	-	-	14,650	-	730,000	-	-	2,164,959
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,009,000	-	-	6,628,069
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,423,099
Digital Mobile Philippines, Inc. (Digitel)	Associate of FPC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manila Electric Company (Meralco)	Associate of MPIC	-	-	-	-	-	6,167,930	-	-	-	-	9,701	-	-	-	-	-	-	360,000
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maynilad	Subsidiary of MPIC	-	-	-	-	-	95,022	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total		₱72,639,227	₱1,528,987,544	₱71,339,481	₱62,867,318	₱11,582,876	₱183,649,259	₱14,650	₱19,252,000	₱2,898,814	₱19,252,000	₱14,650	₱183,649,259	₱14,650	₱19,252,000	₱2,898,814	₱19,252,000	₱2,898,814	
		72,639,227	2,001,498,970	67,861,426	6,234,952	5,975,142	42,966,485	-	45,409,000	6,985,825	45,409,000	-	42,966,485	-	45,409,000	6,985,825	45,409,000	6,985,825	
		72,639,227	1,741,674,430	61,167,420	5,524,377	-	-	-	80,489,000	2,765,449	80,489,000	-	-	-	80,489,000	2,765,449	80,489,000	2,765,449	



Outstanding balances of receivables from/payables to related parties are carried in the consolidated balance sheets under the following accounts:

Related Party	Relationship	Advances to Contractors and Consultants (see Note 13)	Trade Receivables ⁽²⁾ (see Note 7)	Due from Related Parties ⁽¹⁾ (see Note 7)	Accounts Payable and Other Current Liabilities ⁽²⁾ (see Note 14)	Terms	Conditions
MPTC	Intermediate Parent Company	2017 2016	₱ - -	₱410,469 188,934	₱101,258,268 64,272,100	(1) On demand; noninterest-bearing (2) 30-45 days; noninterest-bearing	Unsecured; no impairment
MPTNC	Parent Company	2017 2016	- -	- 1,496	2,806,084 161,459	(1) On demand; noninterest-bearing (2) 30-45 days; noninterest-bearing	Unsecured; no impairment
MPCALA Holdings, Inc. (MHI)	Subsidiary of MPTNC	2017 2016	- -	1,945,658 1,437,464	- -	On demand; noninterest-bearing	Unsecured; no impairment
TMC	Subsidiary of MPTNC	2017 2016	1,040,290 43,010	501,126 481,152	406,369,493 343,641,076	(1) On demand; noninterest-bearing (2) 30-45 days; noninterest-bearing	Unsecured; no impairment
Cavitex Infrastructure Corp. (CIC)	Subsidiary of MPTC	2017 2016	- -	1,288,843 1,604,368	- 69,300	On demand; noninterest-bearing	Unsecured; no impairment
ESC	Subsidiary of MPTC	2017 2016	332,502,752 246,967,216	99,000 99,000	7,975,955 89,360,507	(1) On demand; noninterest-bearing (2) 7 days; noninterest-bearing	Unsecured; no impairment
Indra Philippines, Inc. (Indra)	Associate of MPIC	2017 2016	- -	6,273,074 493,728	28,715,707 19,776,883	Within one year; noninterest-bearing	Unsecured; no impairment
Smart	Associate of FPC	2017 2016	36,379,572 44,949,254	- -	244,951 129,035	30-45 days; noninterest-bearing	Unsecured; no impairment
PLDT	Associate of FPC	2017 2016	778,450 7,057,761	- -	289,860 -	30-45 days; noninterest-bearing	Unsecured; no impairment
Digitel	Associate of FPC	2017 2016	5,107,200 5,107,200	- -	1,400 2,781	30-45 days; noninterest-bearing	Unsecured; no impairment
Meralco	Associate of MPIC	2017 2016	- -	15,405,542 6,727,892	- -	Within one year; noninterest-bearing	Unsecured; no impairment
Maynilad	Subsidiary of MPIC	2017 2016	50,000 -	- -	- -	Within one year; noninterest-bearing	Unsecured; no impairment
Metro Pacific Tollways Management Services, Inc.	Subsidiary of MPTC	2017 2016	- -	1,455,819 -	- -	Within one year; noninterest-bearing	Unsecured; no impairment
Cebu Cordova Link	Subsidiary of MPTC	2017 2016	- -	10,194 -	- -	On demand; noninterest-bearing	Unsecured; no impairment
Expressways Corporation	Parent Company of MPIC	2017 2016	- -	271,472 -	- -	On demand; noninterest-bearing	Unsecured; no impairment
Total		2017 2016	₱21,736,616 7,279,620	₱5,982,581 3,812,414	₱547,661,718 517,413,141		



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

Transactions with Parent Companies of NLEX Corp.

MPTC

- MPTC performs managerial and financial advisory services for NLEX Corp. in 2017, 2016, and 2015. On January 1, 2014, NLEX Corp. and MPTC renewed their Management Services Agreement where NLEX Corp. shall pay MPTC a fixed monthly fee of ₱3.7 million (exclusive of VAT) for the services rendered by MPTC. The agreement is effective January 1, 2014, and shall remain in effect for twelve (12) months. In 2017, 2016 and 2015, MPTC bills NLEX Corp. a fixed monthly fee of ₱5.1 million (exclusive of VAT) for the managerial and financial advisory services it performs to NLEX Corp.
- In 2017 and 2016, MPTC billed NLEX Corp. for its share in the compensation, bonuses and other benefits of the NLEX Road Warriors Philippine Basketball Association team.

MPTNC

- In 2017, 2016, and 2015, MPTNC billed NLEX Corp. for various expenses paid in behalf of NLEX Corp. as well as the latter's share in common expenses.

Transactions with Other Related Parties

TMC

NLEX

- TMC, a subsidiary of MPTNC, provides services to NLEX Corp. as operator to the existing NLEX, and Segment 7 under the Operations and Management Agreement (O&M) entered into by NLEX Corp. and TMC on July 6, 2001. The O&M contains the terms and conditions for the operation and maintenance by TMC of the existing NLEX and subsequently, of Segment 7, and sets forth the scope of its services. Under the O&M, NLEX Corp. pays TMC a minimum fixed annual amount of ₱605.4 million for the existing NLEX and ₱38.8 million for Segment 7, to be escalated on a quarterly basis plus a variable component, which took effect upon start of commercial operations. The O&M, which also provides for certain bonuses and penalties as described in the O&M, shall be effective for the entire concession term.
- On May 27, 2010, pursuant to the O&M and the TRB's approval to integrate the operations period of Phase I and Segment 8.1, portion of Phase II of the MNEP, and to extend the concession term, NLEX Corp. and TMC agreed to extend the O&M to cover Segment 8.1 from June 1, 2010 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee for the operations and maintenance of Segment 8.1 in the amount of ₱33.6 million effective in June 2010.
- On December 10, 2012, pursuant to the O&M and the TRB's approval to open and operate the Balagtas Interchange as an integral part of Phase I of the MNEP, NLEX Corp. and TMC agreed that the scope of the O&M shall correspondingly cover the Balagtas Interchange from June 25, 2012 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee for the operations and maintenance of the Balagtas Interchange in the amount of ₱15.6 million effective in 2012. On July 6, 2015, NLEX Corp. and TMC agreed to reduce the base fee for Balagtas Interchange from ₱15.6 million to ₱13.7 million to take into account the



reduction in operational and maintenance costs of the Sta. Rita Interchange. The Balagtas Interchange is a 1.5-km stretch connecting Plaridel to NLEX.

- In 2012, NLEX Corp. also added the new Bocaue Interchange Northbound Exit to the scope of TMC's operations and maintenance contract at the proposed annual fee of ₱7.7 million. On June 22, 2015, pursuant to the O&M, NLEX Corp. gave a formal notice to TMC that the scope of O&M shall correspondingly cover the Bocaue Interchange Northbound Exit from July 29, 2012 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee of ₱7.7 million. It has been further agreed that the base fee may be escalated after the lapse of one (1) year from July 2012.
- In 2014, in view of the latest publication of the National Statistics Office (NSO) for CPI values issued in July 2011, with different commodity grouping compared with those stipulated in the O&M, NLEX Corp. and TMC agreed to amend the base fee, effective January 9, 2012 as follows:
 - ₱1,312.6 million for the existing NLEX;
 - ₱84.2 million for Segment 7;
 - ₱6.9 million for Dau Interchange; and
 - ₱32.9 million for Segment 8.1.

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

- On March 15, 2015, NLEX Corp. engaged TMC to operate and maintain Segment 9, portion of Phase II of MNEP, for a proposed annual fee of ₱31.6 million (inclusive of VAT) until December 31, 2037. On May 13, 2016, pursuant to the O&M and TRB's letter dated March 18, 2015, giving NLEX Corp. the authority to operate and maintain Segment 9, NLEX Corp. gave a notice to TMC that the scope of O&M shall correspondingly cover Segment 9, from March 19, 2015 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee of ₱31.6 million (inclusive of VAT). NLEX Corp. and TMC further agreed that the Segment 9 base fee may be escalated after the lapse of one (1) year from March 19, 2015.
- On February 24, 2017, pursuant to the O&M, NLEX Corp. and TMC agreed to the new base fee amounting to ₱1,136.8 million (exclusive of VAT) for NLEX, Segment 7, Dau Interchange, Segment 8.1, Balagtas Interchange, Bocaue Interchange Northbound Exit and Segment 9 effective on February 9, 2017.
- On February 6, 2018, in view of the forthcoming merger between NLEX Corp. and TMC, and pursuant to the O&M, NLEX Corp. and TMC agreed to further reduce the base fee to ₱823.1 million (exclusive of VAT) for NLEX, Segment 7, Dau Interchange, Segment 8.1, Balagtas Interchange, Bocaue Interchange Northbound Exit, Segment 9 and SCTEX, effective January 10, 2018.

SCTEX

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



ESC

- On December 5, 2007, NLEX Corp. engaged the services of ESC, a subsidiary of MPTC, to assist NLEX Corp. in increasing the usage of the electronic toll collection (ETC) facility along the NLEX which ended on April 30, 2010. On November 24, 2010, NLEX Corp. and ESC signed the Supplemental Agreement to the Service Agreement extending the services of ESC as ETC service provider for another eight years effective on May 1, 2010 with a five year extension. In accordance with the Supplemental Agreement, NLEX Corp. will pay ESC an annual fixed fee of ₱14.0 million for Class 1 vehicles and annual fixed fee of ₱5.0 million for Class 2 and Class 3 vehicles, which are to be maintained and escalated every year for labor index and CPI. NLEX Corp. shall also pay for variable fees of ₱0.75 or ₱2.5 per transaction for Class 1 vehicles depending on the number of transactions achieved during the year compared with prior year; and ₱3.0 and ₱4.0 per transactions for Class 2 and Class 3, respectively, which are also to be maintained and escalated every year for labor index and CPI.

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

Indra

- On June 14, 2013, NLEX Corp. entered into a Contract Agreement with Egis Projects Philippines Inc. (EPPI) and Indra Consortium for the design, supply, installation, testing and commissioning of the FOE for Segment 9 of Phase II. The total contract price of €1.3 million (₱77.5 million) shall be fixed lump sum, inclusive of VAT. Segment 9 has been substantially completed and has started tollway operation on March 19, 2015.
- On May 8, 2015, NLEX Corp. entered into a Contract Agreement with EPPI and Indra Consortium for the design, supply, installation, testing and commissioning of the FOE for Segment 10, part of Phase II of the MNEP. The total contract amount is €1.8 million (₱92.7 million), inclusive of VAT. The target completion of the works shall be within 2 years from contract date.
- On August 7, 2015, NLEX Corp. issued a letter of acceptance to EPPI and Indra Consortium relating to the revised proposal dated August 3, 2015 for the design, supply, installation, testing and commissioning of the FOE for the NLEX-SCTEX integration project. The revised contract price amounted to €10.2 million (₱507.2 million). The project was completed on March 15, 2016.

PLDT, Smart and Digital

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



- NLEX Corp. and PLDT entered into an agreement in relation to the installation of Fiber Optic Cable (FOC) along SFEX on August 24, 2016. Pursuant to the agreement, PLDT shall pay an annual fee of ₱0.2 million starting September 3, 2016 which shall be escalated annually using the inflation rate as determined by the National Economic and Development Authority but in no case lower than 5%. The contract shall be effective for a period of 5 years from the date of its execution and may be renewed or extended upon mutual agreement by NLEX Corp. and PLDT.
- On January 5, 2011, NLEX Corp. and Smart (a subsidiary of PLDT) signed a Utility Facilities Contract where NLEX Corp. provides Smart an access for the construction, operation and maintenance of a cell site inside the NLEX right of way for an annual fee of ₱0.3 million which shall then be escalated annually to 4.5% starting on the fourth year of the contract and every year thereafter. The contract is effective from April 26, 2010 for a period of five (5) years which may be renewed or extended upon mutual agreement by NLEX Corp. and Smart.

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

- On March 26, 2012, NLEX Corp. and Smart agreed on the terms of the grant to Smart of exclusive rights to name the NLEX-Mindanao Avenue Cloverleaf as a Smart Connect Interchange and put up outdoor advertising structures near the interchange. The annual package is based on a predetermined timetable of when the official road signs are progressively built. The base price is from ₱175.0 million to ₱228.2 million and may increase depending on the final features and characteristics of the cloverleaf. This agreement shall take effect from April 1, 2012 until April 30, 2017, unless pre-terminated or renewed by mutual written agreement of the parties. The agreement was terminated on April 30, 2017.
- In 2017, 2016 and 2015, NLEX Corp. entered into advertising arrangements with Smart and Digitel (a subsidiary of PLDT) related to various advertising mediums, which include rental, material production, installation and maintenance at several locations along NLEX. In 2015, the advertising arrangement with Digitel has ended.

Meralco

- The Company was billed by Meralco for its electric consumption in its head office; in Segment 9, portion of Phase II of MNEP, and for its drainage system in Balintawak and Valenzuela.
- As at December 31, 2017, NLEX Corp. has advances to Meralco for its new electric line applications for Segment 9, portion of Phase II of MNEP, and Balintawak and Valenzuela drainage system. These advances are either refundable or consumable upon activation of the electric lines in Segment 9 and Balintawak and Valenzuela drainage system.

Maynilad

- The Company was billed by Maynilad for its water consumption in its head office.



Other Transactions

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

	2017	2016	2015
Short-term employee benefits	₱91,399,101	₱96,657,884	₱90,576,679
LTIP expense (see Note 23)	64,000,000	58,964,008	48,735,905
Retirement expense (see Note 23)	11,502,652	9,059,351	10,924,834
ESOP expense (see Notes 23 and 24)	-	1,244,843	1,244,843
	₱166,901,753	₱165,926,086	₱151,482,261

- NLEX Corp. acts as a surety or co-obligor with certain NLEX Corp. officers for the payment of valid corporate expenses through the use of corporate credit cards at specified approved amounts ranging from ₱0.04 million to ₱0.4 million.
- The Company paid directors fees amounting to ₱0.8 million, ₱0.7 million and ₱0.5 million in 2017, 2016 and 2015, respectively, recorded under "General and administrative expenses" account in the consolidated statements of income (see Note 22).
- Advances to officers and employees has an outstanding balance of ₱10.6 million and ₱15.3 million as at December 31, 2017 and 2016, respectively (see Note 7).
- The Company has existing investment in corporate notes of Meralco and PLDT totaling ₱402.8 million and ₱404.3 million as at December 31, 2017 and 2016, respectively (see Note 12).

17. Long-term Debt

This account consists of:

	2017	2016
Peso-denominated Notes, Loans and Bonds:		
Series A Notes	₱4,897,616,998	₱4,949,719,307
Term Loan Facilities	8,650,000,000	7,000,000,000
Fixed-rate Bonds	7,000,000,000	7,000,000,000
	20,547,616,998	18,949,719,307
Less unamortized debt issue costs	107,020,853	127,056,818
	20,440,596,145	18,822,662,489
Less current portion of long-term debt - net of unamortized debt issue costs of ₱13,408,160 in 2017 and ₱23,364,569 in 2016	4,304,208,838	278,737,740
	₱16,136,387,307	₱18,543,924,749



The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱107.0 million and ₱127.1 million as at December 31, 2017 and 2016, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2017	2016
Balance at beginning of year	₱127,056,818	₱147,239,671
Amortization during the year* (see Notes 8 and 26)	(34,247,435)	(32,071,661)
Debt issue costs incurred during the year	14,211,470	11,888,808
Balance at end of year	₱107,020,853	₱127,056,818

* Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱12,808,080 and ₱12,158,913 in 2017 and 2016, respectively.

Series A Notes

On April 15, 2011, NLEX Corp. entered into a Corporate Notes Facility Agreement with various local financial institutions for fixed-rate unsecured notes amounting to ₱6.2 billion, with tenors ranging from 5 years, 7 years and 10 years ("Series A Notes"). Weighted average fixed interest rate on the Series A Notes is 7.22% per annum. Debt issue costs incurred in the availment of the Series A Notes amounted to ₱141.9 million in 2011.

Term Loan Facilities

The Insular Life Assurance Company, Ltd. (Insular) and the Philippine American Life and General Insurance Company (Philam). On December 12, 2011, NLEX Corp. entered into a Term Loan Facility Agreement for a ₱1.0 billion fixed-rate term loan facility from Insular and Philam. The loan facility has a final maturity date of 15 years, with two bullet repayment tranches of ₱500.0 million each after 10 and 15 years from availment date. Average fixed interest rate on the loan facility is 7.10% per annum. Debt issue cost incurred in the availment of the fixed-rate term loans amounted to ₱8.1 million.

On November 20, 2015, NLEX Corp. issued a notice of prepayment effective on December 15, 2015 for the loans availed from Insular and Philam, amounting to ₱500.0 million each. The prepayment penalty amounting to ₱30.0 million was recognized as part of "Interest expense and other finance costs" (see Note 26).

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

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

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

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



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

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

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

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

On July 24, 2017, the Company opted not to extend the availability period of the undrawn amount of the term loan facility. On August 9, 2017, Unionbank, billed NLEX Corp. for the commitment fee of ₱12.1 million equivalent to 0.25% per annum of the undrawn amount, computed from January 29, 2016 up to July 24, 2017. This commitment fee was recognized as part of "Interest expense and other finance costs" (see Note 26).

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

Fixed-rate Bonds

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

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



Compliance with Loan Covenants

As at December 31, 2017 and 2016, NLEX Corp. is in compliance with the required financial ratios and other loan covenants (see Note 29). NLEX Corp.'s long-term debt are unsecured as at December 31, 2017 and 2016.

18. Service Concession Fees Payable

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

	Amount
At January 1, 2016	₱-
Additions	2,318,800,856
Accretion (see Note 8)	17,115,373
At January 1, 2017	2,335,916,229
Accretion (see Note 8)	185,512,898
At December 31, 2017	₱2,521,429,127

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

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

The undiscounted estimated future periodic payments, excluding the effect of the CPI, is ₱8,510.4 million.

19. Equity

Capital Stock

Details of common shares of the Parent Company as at December 31, 2017 and 2016 follow:

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

Retained Earnings

Accumulated equity in net earnings of the subsidiary

A portion of the consolidated retained earnings corresponding to the net earnings of the subsidiary amounting to ₱5.1 million and ₱0.7 million as at December 31, 2017 and 2016, respectively, is not available for dividend declaration by the Parent Company. The accumulated equity in net earnings becomes available for dividends by the Parent Company until declared by the subsidiary.



Cash dividends

The Parent Company's BOD declared the following cash dividends in 2017, 2016 and 2015:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
July 20, 2017	August 3, 2017	September 2, 2017	₱99.09	₱1,760,000,000
December 18, 2017	January 2, 2018	January 24, 2018	103.60	1,840,000,000
July 8, 2016	July 19, 2016	August 18, 2016	70.38	1,250,000,000
December 15, 2016	December 25, 2016	December 28, 2016	76.01	1,350,000,000
July 23, 2015	July 13, 2015	August 12, 2015	56.31	1,000,000,000
December 17, 2015	December 28, 2015	January 27, 2016	80.10	1,422,576,000

Unpaid dividends of ₱1,840.0 million and ₱1,422.6 million as at December 31, 2017 and 2015 were subsequently paid in January 2018 and 2016, respectively.

Other Comprehensive Loss Reserve

	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, 2017	(₱39,194,024)	₱1,464,533	₱1,167,297	(₱350,189)	(₱36,912,383)
Recycling to profit or loss* (see Note 12)	(418,469)	(1,507,674)	-	-	(1,926,143)
Remeasurement gain (see Note 23)	-	-	2,574,682	(772,405)	1,802,277
Balance at December 31, 2017	(₱39,612,493)	(₱43,141)	₱3,741,979	(₱1,122,594)	(₱37,036,249)
Balance at January 1, 2016	(₱37,532,107)	₱2,657,153	₱11,864,970	(₱3,559,491)	(₱26,569,475)
Recycling to profit or loss* (see Note 12)	(1,661,917)	(1,192,620)	-	-	(2,854,537)
Remeasurement loss (see Note 23)	-	-	(10,697,673)	3,209,302	(7,488,371)
Balance at December 31, 2016	(₱39,194,024)	₱1,464,533	₱1,167,297	(₱350,189)	(₱36,912,383)

* Net of changes in fair value during the year.

	Cash Flow Hedge	Income Tax Related to Cash Flow Hedge	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, 2015	(₱3,775,752)	₱1,132,726	₱41,296,009	(₱2,826,741)	₱5,172,871	(₱1,551,862)	₱39,447,251
Net movement in cash flow hedge (see Note 30)	3,775,752	(1,132,726)	-	-	-	-	2,643,026
Recycling to profit or loss* (see Note 12)	-	-	(78,828,116)	5,483,894	-	-	(73,344,222)
Remeasurement gain (see Note 23)	-	-	-	-	6,692,099	(2,007,629)	4,684,470
Balance at December 31, 2015	₱-	₱-	(₱37,532,107)	₱2,657,153	₱11,864,970	(₱3,559,491)	(₱26,569,475)

* Net of changes in fair value during the year.



20. Non-toll Revenues

Details of non-toll revenues follow:

	2017	2016	2015
Income from advertising (see Note 16)	₱98,277,947	₱106,466,110	₱112,313,888
Income from TSF	41,650,548	36,414,084	32,661,844
Income from utility facilities (see Note 16)	3,127,412	7,836,678	5,088,001
Rental income (see Note 10)	4,307,205	4,307,205	–
Service revenue	27,015,077	2,410,563	–
	₱174,378,189	₱157,434,640	₱150,063,733

Service revenue pertains to the traffic management services, supply and application of pavement markings of NVC to various customers.

21. Cost of Services

This account consists of:

	2017	2016	2015
Operator's fee (see Note 16)	₱1,528,987,544	₱2,001,498,970	₱1,741,674,430
Concession fees (see Note 2)	931,554,970	791,493,044	132,146,972
Amortization of service concession assets (see Note 8)	762,794,599	615,120,463	575,097,888
PNCC fee (see Note 28)	571,525,093	527,740,201	482,149,955
Provision for heavy maintenance (see Note 15)	215,471,251	113,971,317	150,819,004
Repairs and maintenance (see Note 16)	209,594,390	77,200,629	108,201,070
Outside services (see Note 16)	81,266,336	72,496,308	64,279,224
Insurance	76,414,846	78,074,708	52,976,575
Salaries and employee benefits (see Note 23)	46,550,029	51,244,292	53,303,999
Toll collection and medical services	27,056,449	25,484,409	17,636,666
Depreciation of property and equipment (see Note 9)	17,517,022	4,977,014	8,956,180
Others (see Note 16)	85,627,689	33,587,100	33,383,888
	₱4,554,360,218	₱4,392,884,455	₱3,420,625,851



22. General and Administrative Expenses

This account consists of:

	2017	2016	2015
Advertising and marketing expenses (see Note 16)	₱225,106,556	₱135,303,974	₱220,221,143
Salaries and employee benefits (see Notes 15, 16, 23 and 24)	224,262,714	190,906,315	184,339,652
Professional fees	81,289,362	93,149,171	38,683,191
Taxes and licenses	74,298,362	62,504,339	57,258,388
Management fees (see Note 16)	72,639,227	72,639,227	72,639,227
Depreciation of property and equipment (see Note 9)	34,425,546	25,001,484	29,069,236
Representation and travel (see Note 16)	34,106,956	31,245,455	27,495,494
Provisions (see Note 15)	31,274,789	29,537,324	5,101,457
Outside services	13,452,613	21,802,034	23,201,107
Amortization of other intangible assets (see Note 11)	11,861,791	5,924,711	10,954,056
Repairs and maintenance	7,762,093	13,649,163	6,837,414
Communication, light and water (see Note 16)	7,316,492	10,428,199	10,251,450
Training and development costs	5,978,446	5,042,927	5,416,536
Office supplies	5,002,650	4,301,753	2,365,137
Rentals	2,161,328	1,612,882	1,168,873
Provision for doubtful accounts (see Note 7)	1,500,575	10,776,531	4,278,862
Directors' fees (see Note 16)	830,000	695,000	530,000
Miscellaneous	12,183,452	11,648,913	9,151,143
	₱845,452,952	₱726,169,402	₱708,962,366

23. Personnel Cost and Employee Benefits

This account consists of:

	2017	2016	2015
Salaries expense	₱176,563,038	₱165,166,190	₱169,520,573
LTIP	64,000,000	58,964,008	48,735,905
Retirement expense	13,547,673	10,772,390	13,256,495
ESOP expense (see Note 24)	—	1,244,843	1,244,843
Other employee benefits	16,702,032	6,003,176	4,885,835
	₱270,812,743	₱242,150,607	₱237,643,651
Cost of services (see Note 21)	₱46,550,029	₱51,244,292	₱53,303,999
General and administrative expenses (see Note 22)	224,262,714	190,906,315	184,339,652
	₱270,812,743	₱242,150,607	₱237,643,651



LTIP

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

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

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

The total cost of the LTIP recognized by the Company in 2017, 2016 and 2015 included in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statements of income amounted to ₱64.0 million, ₱59.0 million and ₱48.7 million, respectively. Total long-term incentive plan payable amounted to ₱193.4 million and ₱129.4 million as at December 31, 2017 and 2016, respectively. The outstanding long-term incentive plan payable as at December 31, 2017 will be settled in the next twelve months.

Retirement Costs

NLEX Corp. has a funded noncontributory defined benefit retirement plan covering all of its regular and full time employees. The plan provides for a lump sum benefit payment upon retirement. Contributions and costs are determined in accordance with the actuarial study made for the plan which is normally obtained every two years. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out as at December 31, 2017 by a certified actuary.

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

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



Changes in pension asset in 2017 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2017	(P135,712,706)	P136,617,386	P904,680
Net benefit income (cost) in statement of consolidated statement of income:			
Current service cost	(13,591,640)	-	(13,591,640)
Net interest	(6,595,638)	6,639,605	43,967
	(20,187,278)	6,639,605	(13,547,673)
Benefits paid	834,285	(834,285)	-
Remeasurement gain (loss) in other comprehensive income (see Note 19):			
Return on plan assets (excluding amount included in net interest)	-	(3,611,099)	(3,611,099)
Actuarial changes arising from changes in financial assumptions	6,669,056	-	6,669,056
Actuarial changes due to experience adjustment	(483,275)	-	(483,275)
	6,185,781	(3,611,099)	2,574,682
Contributions	-	15,639,001	15,639,001
At December 31, 2017	(P148,879,918)	P154,450,608	P5,570,690

Changes in pension asset in 2016 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2016	(P110,939,146)	P122,994,910	P12,055,764
Net benefit income (cost) in statement of consolidated statement of income:			
Current service cost	(11,325,749)	-	(11,325,749)
Net interest	(5,092,107)	5,645,466	553,359
	(16,417,856)	5,645,466	(10,772,390)
Benefits paid	73,647	(73,647)	-
Remeasurement gain (loss) in other comprehensive income (see Note 19):			
Return on plan assets (excluding amount included in net interest)	-	(2,268,322)	(2,268,322)
Actuarial changes arising from changes in financial assumptions	2,679,135	-	2,679,135
Actuarial changes due to experience adjustment	(11,108,486)	-	(11,108,486)
	(8,429,351)	(2,268,322)	(10,697,673)
Contributions	-	10,318,979	10,318,979
At December 31, 2016	(P135,712,706)	P136,617,386	P904,680



Changes in pension asset in 2015 are as follows:

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2015	(₱126,819,299)	₱129,393,284	₱2,573,985
Net benefit income (cost) in consolidated statement of income:			
Current service cost	(13,361,771)	–	(13,361,771)
Net interest	(5,186,909)	5,292,185	105,276
	(18,548,680)	5,292,185	(13,256,495)
Benefits paid	26,416,340	(26,416,340)	–
Remeasurement gain (loss) in other comprehensive income (see Note 19):			
Return on plan assets (excluding amount included in net interest)	–	(1,320,394)	(1,320,394)
Actuarial changes arising from changes in financial assumptions	4,496,060	–	4,496,060
Actuarial changes arising from changes in demographic assumptions	(525,026)	–	(525,026)
Actuarial changes due to experience adjustment	4,041,459	–	4,041,459
	8,012,493	(1,320,394)	6,692,099
Contributions	–	16,046,175	16,046,175
At December 31, 2015	(₱110,939,146)	₱122,994,910	₱12,055,764

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

The actual return on plan assets amounted to ₱3.0 million, ₱3.4 million and ₱4.0 million in 2017, 2016 and 2015, respectively.

NLEX Corp. expects to contribute ₱17.9 million in 2018.

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

	2017		2016		2015	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Investments in:						
Government securities	₱105,770,543	68.48%	₱72,305,424	52.93%	₱76,878,679	62.51%
Debt securities	28,200,145	18.26%	34,170,670	25.01%	39,818,321	32.37%
UITFs	17,440,754	11.29%	3,811,041	2.79%	–	–
Equity securities	1,648,000	1.07%	1,625,600	1.19%	–	–
Cash and cash equivalents	483	–	21,900,203	16.03%	2,544,126	2.07%
Loans/notes receivable	–	–	–	–	2,600,000	2.11%
Receivables and others	1,390,683	0.90%	2,804,448	2.05%	1,153,784	0.94%
	₱154,450,608	100.00%	₱136,617,386	100.00%	₱122,994,910	100.00%

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



The plan assets consist of the following:

- Investments in government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 2.13% to 7.88% per annum and have maturities from 2018 to 2031.
- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 4.63% to 6.27% per annum and have maturities from 2019 to 2024.
- Investment in equity securities consist of non-voting perpetual preferred shares Series A of GTCHI amounting to ₱1.6 million as at December 31, 2017. Gain on change in the fair value of the equity securities amounted to ₱48,000 in 2017.
- As at December 31, 2017 and 2016, cash and cash equivalents include regular savings and time deposits, which bear interest of ranging 1.25% to 3.47% per annum.
- As at December 31, 2015, loans and notes receivables consist of unsecured subordinated note of an unaffiliated company amounting to ₱2.6 million, which bears interest of 6.73% per annum.
- Other financial assets held by the plan are primarily accrued interest income from cash and cash equivalents, investments in UITFs, and investments in debt securities.

The principal assumptions used to determine accrued retirement costs as at December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Discount rate	5.67%	4.86%	4.59%
Salary increase rate	7.00%	7.00%	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2017 and 2016, assuming if all other assumptions were held constant:

		Amount
Discount rate	2017	
	(Actual + 1.00%)	6.67% (₱141,838,834)
	(Actual - 1.00%)	4.67% 157,285,034
	2016	
	(Actual + 1.00%)	5.86% 126,890,914
	(Actual - 1.00%)	3.86% (146,178,372)
Salary increase rate	2017	
	(Actual + 1.00%)	8.00% ₱156,651,368
	(Actual - 1.00%)	6.00% (142,168,335)
	2016	
	(Actual + 1.00%)	8.00% 145,344,195
	(Actual - 1.00%)	6.00% (127,335,282)

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of NLEX Corp.'s defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. NLEX Corp.'s current strategic investment strategy consists of 99.59% of debt instruments and 0.41% cash.



The average duration of the defined benefit obligation as at December 31, 2017 and 2016 is 14 years and 15 years, respectively.

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

	2017	2016
Less than 1 year	₱58,997,935	₱37,985,441
More than 1 year to 5 years	28,206,997	38,188,286
More than 5 years to 10 years	86,822,503	94,485,721
More than 10 years to 15 years	128,014,395	79,026,306
More than 15 years to 20 years	72,982,410	110,873,443
More than 20 years	256,496,989	290,308,553

24. Share-based Payment Plan

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

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

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

On October 14, 2013, MPIC has granted options in respect of 120,000,000 common shares of MPIC to its directors and senior management officers of MPIC and to selected management committee members of MPTC Group (includes the Company). Of the total shares granted, 14,000,000 common shares were allocated to MPTC Group. The stock options will expire on October 15, 2018. With respect to the stock options granted to MPIC subsidiaries, said stock options will vest as follows: 50% on October 14, 2014 and 50% on October 14, 2015.

A summary of the Company's stock option activity received from MPIC and related information for the years ended December 31, 2017, 2016 and 2015 follows:

	2013 Grant	
	Number of Shares	Exercise Price
Outstanding at December 31, 2017, 2016 and 2015	4,000,000	₱4.60
Exercisable at:		
December 31, 2017	4,000,000	₱4.60
December 31, 2016	4,000,000	4.60



The weighted average remaining contractual life for the 2013 share options outstanding as at December 31, 2017 and 2016 is 0.8 year and 1.8 years, respectively.

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

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

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

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

ESOP expense, recognized by the Company in “Salaries and employee benefits” account under “General and administrative expenses” in the consolidated statements of income amounted to nil in 2017 and ₱1.2 million in 2016 and 2015, respectively (see Notes 22 and 23).

Carrying value of the ESOP, recognized under “Other reserve” in the consolidated statement of changes in equity, amounted to ₱13.0 million, ₱13.0 million and ₱11.8 million as at December 31, 2017, 2016 and 2015, respectively.

25. Interest Income

Sources of interest income follow:

	2017	2016	2015
Cash and cash equivalents (see Note 6)	₱8,974,924	₱20,600,148	₱19,108,129
AFS financial assets	42,293,468	40,128,011	53,776,152
Others	75,764	1,361,545	12,708
	₱51,344,156	₱62,089,704	₱72,896,989



26. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	2017	2016	2015
Interest expense on:			
Loans (see Notes 17 and 30)	₱470,433,620	₱405,396,398	₱546,748,317
Provision for heavy maintenance (see Note 15)	16,112,360	13,355,182	11,939,460
Deferred lease income	7,588	7,148	–
Finance costs:			
Amortization of debt issue costs (see Note 17)	21,439,355	19,912,748	28,791,928
Commitment fee (see Note 17)	12,141,577	–	–
Lenders' fees	2,979,762	3,726,452	3,998,564
Bank charges	257,463	514,689	816,880
Loan prepayment fees (see Note 17)	–	–	30,000,000
	₱523,371,725	₱442,912,617	₱622,295,149

27. Income Taxes

The provision for (benefit from) income tax for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Current:			
Regular corporate income tax	₱1,284,804,724	₱1,140,798,359	₱949,581,001
Final tax on interest income from banks	10,101,463	12,008,044	14,145,924
	1,294,906,187	1,152,806,403	963,726,925
Deferred	17,206,867	(33,191,446)	(18,587,795)
	₱1,312,113,054	₱1,119,614,957	₱945,139,130

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

	2017	2016
Deferred tax assets:		
Service concession fees payable	₱756,428,738	₱700,774,869
Provision for heavy maintenance	67,751,608	85,657,300
LTIP payable	58,032,694	38,832,694
Accrued expenses and provisions	16,733,310	28,642,907
Unamortized past service cost	5,915,176	7,036,469
Allowance for doubtful accounts	7,931,749	7,481,577
Deferred lease income	39,084	42,341

(Forward)



	2017	2016
Fair value changes on AFS financial assets (see Note 12)	P-	P1,464,533
Unearned rental income	-	639,667
	912,832,359	870,572,357
Deferred tax liabilities:		
Present value of concession fees capitalized as service concession assets	(756,428,738)	(700,774,869)
Difference in amortization of service concession assets	(641,896,621)	(636,952,861)
Unamortized realized foreign exchange losses capitalized	(17,811,727)	(18,702,313)
Pension asset	(1,671,207)	(271,404)
Accrued rental income	(649,237)	-
Fair value changes on AFS financial assets (see Note 12)	(43,141)	-
Present value of rental deposits	(41,177)	(36,904)
Unrealized foreign exchange gain	(17,100)	(73,649)
	(1,418,558,948)	(1,356,812,000)
Deferred tax liabilities - net	(P505,726,589)	(P486,239,643)

Reflected in the consolidated balance sheet as follows:

	2017	2016
Deferred tax assets - net	P-	P645,104
Deferred tax liabilities - net	(505,726,589)	(486,884,747)
	(P505,726,589)	(P486,239,643)

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

As at December 31, 2015, NVC has NOLCO of P277,690 that can be claimed as deduction for future taxable income and will expire in year 2018. In 2016, NVC applied its 2015 NOLCO as tax credit against its income tax due. The deferred tax asset on NOLCO of P83,307 as at December 31, 2015 was not recognized since management believes that it is more likely than not that these will not be realized in the future.

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

	2017	2016	2015
Income before income tax	P5,956,353,268	P5,206,692,229	P3,938,269,273
Income tax computed at statutory tax rate of 30%	1,786,905,980	1,562,007,669	1,181,480,782
Add (deduct) the tax effects of:			
Effect of optional standard deduction	(475,867,879)	(443,264,106)	(228,320,466)
Interest income already subjected to final tax	(15,380,518)	(18,218,447)	(21,865,284)

(Forward)



	2017	2016	2015
Nondeductible expenses and others	₱6,354,008	₱7,081,797	(₱301,826)
Final tax on interest income	10,101,463	12,008,044	14,145,924
Provision for income tax	₱1,312,113,054	₱1,119,614,957	₱945,139,130

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

The Company opted to avail of the OSD for the taxable years 2017, 2016 and 2015.

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

	2017	2016	2015
Balance at beginning of year	₱486,239,643	₱521,447,771	₱542,379,105
Provision for (benefit from) income tax during the year recognized in the consolidated statements of income	17,206,867	(33,191,446)	(18,587,795)
Income tax effect during the year recognized in the consolidated statements of comprehensive income (see Note 19)	2,280,079	(2,016,682)	(2,343,539)
Balance at end of year	₱505,726,589	₱486,239,643	₱521,447,771

28. Significant Contracts and Commitments

PNCC Fee

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

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

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



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

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

The Company recorded PNCC fee amounting to ₱571.5 million, ₱527.7 million and ₱482.1 million in 2017, 2016 and 2015, respectively (see Note 21).

Construction of Segment 10, part of Phase II of the Project

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

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

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

Construction of the 5.65 km fully-elevated segment is now underway. Project is estimated to be completed in June 2018.

As at December 31, 2017, the balance of the escrow account is presented as "Restricted Cash" under "Other current assets" (see Note 13).

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 I 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 ₱21.7 million and ₱195.5 million as at December 31, 2017 and 2016, respectively.



NLEX-SCTEX Integration Agreement

On February 5, 2015, NLEX Corp. and BCDA executed the Integration Agreement relating to the TCS integration of the NLEX-SCTEX that will involve the adoption of an advanced common transit ticket system which will make operations more efficient and enhance motorists' convenience. The total project cost including civil works, FOE design supply and installation, and independent design checker and certification engineer amounted to ₱786.1 million and completed in March 2016 (see Note 8).

Lease Contract

On January 1, 2016, NVC, as lessor, entered into a contract of lease with RDL Fuel Point, Inc, as lessee, covering a parcel of land adjacent to the NLEX and is presently the site of a service facility. The lease term shall be for 14 years starting from January 1, 2016, unless earlier terminated or otherwise extended by the parties in writing. The amount of the rent for the first 2 years shall be ₱3.6 million per year (inclusive of VAT). On the third year of the lease and every year thereafter, the rent shall be escalated by 5%. The lessee shall likewise pay the lessor additional fees based on the sales proceeds of the service facility.

Upon signing of the lease contract, the lessee paid an advance rent amounting to ₱7.2 million which shall be applied equally for the first 2 years. The lessee also paid security deposit amounting to ₱0.3 million which shall be returned to the lessee after the expiration or termination of the lease contract.

Unearned rental income related to the advance rent amounted to nil and ₱2.1 million as at December 31, 2017 and 2016, respectively (see Note 14).

As at December 31, 2017 and 2016, the minimum lease receivables are as follows:

	2017	2016
Within one year	₱3,375,000	₱3,214,286
After one year but not more than five years	19,581,456	18,649,005
After five years	30,763,846	35,071,297
	<u>₱53,720,302</u>	<u>₱56,934,588</u>

NLEX Drive and Dine Project

In 2017, NVC entered into a contract agreement with R.D. Policarpio & Co., Inc. for the design and construction of the NLEX Drive and Dine Project (see Note 10).

On October 6, 2017, an advance payment was made by NVC to the contractor amounting to ₱29.9 million (inclusive of VAT). The NLEX Drive and Dine Project is estimated to commence operations on the third quarter of 2018.

29. Financial Risk Management Objectives and Policies

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



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

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not significantly exposed to interest rate risk since the Company's interest-bearing financial instruments, particularly its long-term debt, bears fixed interest rates as at December 31, 2017 and 2016. In accordance with its interest rate management policy, the Company converted its outstanding loans into fixed-rate debt, effectively locking in the interest rate on its loan obligations and reducing exposure to interest rate fluctuations.

To further reduce its cash flow interest rate risk exposure, the Company entered into a series of derivative transactions, in particular, interest rate swaps. The Company also constantly monitors fluctuation of interest rates in order to manage interest rate risks.

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

December 31, 2017						
	Interest Rate	Within the Year ('000)	2-3 Years ('000)	4-5 Years ('000)	More than 5 Years ('000)	Total ('000)
Cash and cash equivalents ^(a)	0.10%-4.50%	₱2,656,157	₱-	₱-	₱-	₱2,656,157
AFS financial assets	2.13%-6.00%	50,000	431,230	250,000	565,100	1,296,330
Restricted cash ^(b)	1.00%	321,000	-	-	-	321,000
		₱3,027,157	₱431,230	₱250,000	₱565,100	₱4,273,487
Fixed-rate loans:						
Series A-7	7.27%	₱3,957,617	₱-	₱-	₱-	₱3,957,617
Series A-10	7.70%	10,000	20,000	910,000	-	940,000
Term-loan facility	5.00%-5.80%	350,000	700,000	700,000	6,900,000	8,650,000
Fixed-rate bonds	5.07%-5.50%	-	-	4,400,000	2,600,000	7,000,000
		₱4,317,617	₱720,000	₱6,010,000	₱9,500,000	₱20,547,617

^(a) Excluding cash on hand

^(b) Included under "Other current assets" account in the consolidated balance sheets

December 31, 2016						
	Interest Rate	Within the Year ('000)	2-3 Years ('000)	4-5 Years ('000)	More than 5 Years ('000)	Total ('000)
Cash and cash equivalents ^(a)	0.10%-4.00%	₱331,603	₱-	₱-	₱-	₱331,603
AFS financial assets	1.63%-6.00%	-	311,230	520,000	565,100	1,396,330
Restricted cash ^(b)	1.00%	-	889,000	-	-	889,000
		₱331,603	₱1,200,230	₱520,000	₱565,100	₱2,616,933
Fixed-rate loans:						
Series A-7	7.27%	₱42,102	₱3,957,617	₱-	₱-	₱3,999,719
Series A-10	7.70%	10,000	20,000	920,000	-	950,000
Term-loan facility	5.00%-5.80%	250,000	500,000	500,000	5,750,000	7,000,000
Fixed-rate bonds	5.07%-5.50%	-	-	4,400,000	2,600,000	7,000,000
		₱302,102	₱4,477,617	₱5,820,000	₱8,350,000	₱18,949,719

^(a) Excluding cash on hand

^(b) Included under "Other noncurrent assets" account in the consolidated balance sheets.

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the above table are noninterest-bearing and are therefore not subject to cash flow interest rate risk.



Credit Risk

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

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

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

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

The Company's credit risk is concentrated on AFS financial assets (including UITFs) covering at least 59% and 49% of the Company's financial assets, except cash and cash equivalents, as at December 31, 2017 and 2016, respectively. The table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account of any collateral, credit enhancements and other credit risk mitigation techniques.

	December 31, 2017	December 31, 2016
Cash and cash equivalents ^(a)	₱2,656,156,532	₱331,602,950
UITFs	217,749,970	82,407,389
Receivables ^(b)	704,398,236	577,859,970
AFS financial assets	1,254,406,932	1,353,667,695
Refundable deposits ^(c)	3,694,561	3,694,561
Restricted cash ^(d)	321,000,000	889,000,000
Total credit risk exposure	₱5,157,406,231	₱3,238,232,565

^(a) Excluding cash on hand.

^(b) Excluding advances to officers and employees.

^(c) Included in "Other noncurrent assets" account in the consolidated balance sheets.

^(d) Included in "Other current assets" and "Other non-current assets" account in the consolidated balance sheets in 2017 and 2016, respectively.

Cash and cash equivalents and AFS financial assets (including UITFs) are placed with reputable local and international banks and companies and Philippine Government which meet the standards of the Company's BOD.



As at December 31, 2017 and 2016, the aging analysis of past due but not impaired trade receivables follows. All other financial assets of the Company are neither past due nor impaired as at December 31, 2017 and 2016.

Year	Neither Past	Past Due but not Impaired					Total	Total
	Due nor Impaired	<31 Days	31-60 Days	61-90 Days	91-180 Days	Over 180 Days		
2017	₱327,497,430	₱45,299,302	₱9,262,264	₱11,771,623	₱35,963,493	₱42,749,048	₱145,045,730	₱472,543,160
2016	261,417,478	11,135,229	41,126,262	10,338,069	8,075,166	28,644,523	99,319,249	360,736,727

The tables below show the credit quality of the Company's financial assets based on their historical experience with the corresponding third parties:

December 31, 2017				
	Neither Past	Past Due but	Impaired	Total
	Due nor	not Impaired		
	Impaired -			
	High-grade			
Cash and cash equivalents ^(a)	₱2,656,156,532	₱-	₱-	₱2,656,156,532
UITFs	217,749,970	-	-	217,749,970
Receivables:				
Trade receivables	327,497,430	145,045,730	3,204,597	475,747,757
Advances to DPWH	179,535,742	-	-	179,535,742
Interest receivables	20,003,187	-	-	20,003,187
Due from related parties	5,982,581	-	-	5,982,581
Other receivables	28,506,946	-	23,234,568	51,741,514
AFS financial assets	1,254,406,932	-	-	1,254,406,932
Refundable deposits ^(b)	3,694,561	-	-	3,694,561
Restricted cash ^(c)	321,000,000	-	-	321,000,000
	₱5,014,533,881	₱145,045,730	₱26,439,165	₱5,186,018,776

^(a) Excluding cash on hand.

^(b) Included in "Other noncurrent assets" account in the consolidated balance sheets.

^(c) Included under "Other current assets" account in the consolidated balance sheets

December 31, 2016				
	Neither Past	Past Due but	Impaired	Total
	Due nor	not Impaired		
	Impaired -			
	High-grade			
Cash and cash equivalents ^(a)	₱331,602,950	₱-	₱-	₱331,602,950
UITFs	82,407,389	-	-	82,407,389
Receivables:				
Trade receivables	261,417,478	99,319,249	3,053,951	363,790,678
Advances to DPWH	180,361,049	-	-	180,361,049
Interest receivables	14,307,194	-	-	14,307,194
Due from related parties	3,812,414	-	-	3,812,414
Other receivables	18,642,586	-	21,884,639	40,527,225
AFS financial assets	1,353,667,695	-	-	1,353,667,695
Refundable deposits ^(b)	3,694,561	-	-	3,694,561
Restricted cash ^(b)	889,000,000	-	-	889,000,000
	₱3,138,913,316	₱99,319,249	₱24,938,590	₱3,263,171,155

^(a) Excluding cash on hand.

^(b) Included in "Other noncurrent assets" account in the consolidated balance sheets.

With the exception of the impaired portion and past due accounts, all of the Company's financial assets are considered high-grade receivables since these are receivables from counterparties who are not expected to default in settling their obligations. These counterparties include reputable local and



international banks and companies and the Philippine government. Other counterparties also have corresponding collectibles from the Company for certain contracted services. The first layer of security comes from the Company's ability to offset amounts receivable from these counterparties against payments due to them.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2017 and 2016, the Company is not significantly exposed to foreign currency risk. The minimal exposure to foreign currency risk relates to the Company's foreign currency denominated cash and cash equivalents and accounts payables as at December 31, 2017 and 2016.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is not exposed to significant liquidity risk because of the nature of its operations which provides daily inflows of cash from toll collections. The Company is able to build up sufficient cash from operating revenues prior to the maturity of its payment obligations. The Company arranged additional short-term lines to boost its ability to meet short-term liquidity needs. The Company has short-term credit lines amounting to ₱14,872.0 million and ₱12,750.0 million as at December 31, 2017 and 2016, respectively, and cash and cash equivalents amounting to ₱2,715.2 million and ₱390.0 million as at December 31, 2017 and 2016, respectively, that are allocated to meet the Company's short-term liquidity needs.

The tables below summarize the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2017 and 2016 based on undiscounted payments:

	December 31, 2017				
	Within the Year	2-3 Years	4-5 Years	More than 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱2,715,210,842	₱-	₱-	₱-	₱2,715,210,842
UITFs	217,749,970	-	-	-	217,749,970
Receivables ^(a)	710,380,817	-	-	-	710,380,817
AFS financial assets ^(b)	100,355,867	527,394,473	273,388,981	597,648,190	1,498,787,511
Refundable deposits	-	-	-	3,694,561	3,694,561
Restricted cash	321,000,000	-	-	-	321,000,000
	₱4,064,697,496	₱527,394,473	₱273,388,981	₱601,342,751	₱5,466,823,701
Financial Liabilities					
Accounts payable and other current liabilities ^(c)	₱3,020,478,031	₱-	₱-	₱-	₱3,020,478,031
Dividends payable	1,840,000,000	-	-	-	1,840,000,000
Long-term debt ^(d)	5,077,667,726	2,483,606,168	7,180,023,115	10,990,588,136	25,731,885,145
Service concession fees payable	-	-	486,309,163	8,024,101,186	8,510,410,349
Rental deposits	-	-	-	267,857	267,857
	₱9,938,145,757	₱2,483,606,168	₱7,666,332,278	₱19,014,957,179	₱39,103,041,382

^(a) Excluding advances to officers and employees.

^(b) Including interest to be received.

^(c) Excluding statutory liabilities, unearned toll revenues and unearned rental income.

^(d) Including interest to be paid.



December 31, 2016

	Within the Year	2-3 Years	4-5 Years	More than 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱389,912,852	₱-	₱-	₱-	₱389,912,852
UITFs	82,407,389	-	-	-	82,407,389
Receivables ^(a)	577,859,970	-	-	-	577,859,970
AFS financial assets ^(b)	50,895,971	404,460,065	585,477,806	597,648,190	1,638,482,032
Refundable deposits	-	-	-	3,694,561	3,694,561
Restricted cash	-	889,000,000	-	-	889,000,000
	₱1,101,076,182	₱1,293,460,065	₱585,477,806	₱601,342,751	₱3,581,356,804
Financial Liabilities					
Accounts payable and other current liabilities ^(c)	₱2,939,600,242	₱-	₱-	₱-	₱2,939,600,242
Long-term debt ^(d)	1,409,598,803	6,165,684,725	7,137,934,352	9,844,549,546	24,557,767,426
Service concession fees payable	-	-	243,154,581	8,267,255,768	8,510,410,349
Rental deposits	-	-	-	124,936	124,936
	₱4,349,199,045	₱6,165,684,725	₱7,381,088,933	₱18,111,930,250	₱36,007,902,953

^(a) Excluding advances to officers and employees.

^(b) Including interest to be received.

^(c) Excluding statutory liabilities, unearned toll revenues and unearned rental income.

^(d) Including interest to be paid.

Capital Management

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

The Company's long-term debt to equity ratio stood at 1.92 times and 1.96 times for 2017 and 2016, respectively, indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2017	2016
Long-term debt	₱20,440,596,145	₱18,822,662,489
Total equity	10,655,734,083	9,611,617,735
Total capital	₱31,096,330,228	₱28,434,280,224
Debt to equity ratio	1.92 times	1.96 times

The Company continuously evaluates whether its capital structure can support its business strategy. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2017 and 2016.



30. 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 are reasonable approximate of fair values, by category as at December 31, 2017 and 2016 follows:

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
AFS financial assets:				
UITFs	₱217,749,970	₱217,749,970	₱82,407,389	₱82,407,389
Investment in treasury bonds and notes	701,530,432	701,530,432	802,356,695	802,356,695
Investment in corporate bonds	453,879,000	453,879,000	453,095,000	453,095,000
Investment in LTNCD	98,997,500	98,997,500	98,216,000	98,216,000
	₱1,472,156,902	₱1,472,156,902	₱1,436,075,084	₱1,436,075,084
Financial Liabilities				
Other financial liabilities:				
Long-term debt	₱20,440,596,145	₱20,246,309,035	₱18,822,662,489	₱19,049,957,430
Service concession fees payable	2,521,429,127	2,448,647,138	2,335,916,229	2,450,579,759
Rental deposits	124,033	120,076	123,013	117,192
	₱22,962,149,305	₱22,695,076,249	₱21,158,701,731	₱21,500,654,381

The management assessed that fair values of cash and cash equivalents, receivables, restricted cash, accounts payable and other current liabilities, 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:

AFS Financial Assets

The fair value of investment in treasury bonds and notes, corporate bonds and LTNCD is based on the quoted market price of the financial instruments as at December 31, 2017 and 2016. The fair value of the UITF is based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources as at December 31, 2017 and 2016.

Long-term Debt

For fixed peso-denominated notes and loans, except the fixed-rate bonds where the fair value is based on its quoted market price as at December 31, 2017 and 2016, estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2017 and 2016, the prevailing peso interest rates ranged from 3.6% to 7.2% and 3.0% to 6.4%, 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 2017 and 2016, the prevailing peso interest rates ranged from 4.5% to 7.2% and 4.0% to 6.9%, 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 2017 and 2016, the prevailing peso interest is 6.7% and 6.4%, respectively.



Fair Value Hierarchy

As at December 31, 2017 and 2016, the Company held the following financial instruments measured at fair value:

	2017	Level 1	Level 2	Level 3
Assets measured at fair value				
AFS financial assets:				
UITFs	₱217,749,970	₱-	₱217,749,970	₱-
Investment in treasury bonds and notes	701,530,432	169,432,400	532,098,032	-
Investment in corporate bonds	453,879,000	453,879,000	-	-
Investment 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	₱20,246,309,035	₱7,008,657,340	₱13,237,651,695	₱-
Service concession fees payable	2,448,647,138	-	-	2,448,647,138
Rental deposits	120,076	-	-	120,076
	₱22,695,075,702	₱7,008,657,340	₱13,237,651,695	₱2,448,767,214

	2016	Level 1	Level 2	Level 3
Assets measured at fair value				
AFS financial assets:				
UITFs	₱82,407,389	₱-	₱82,407,389	₱-
Investment in treasury bonds and notes	802,356,695	267,160,000	535,196,695	-
Investment in corporate bonds	453,095,000	453,095,000	-	-
Investment in LTNCD	98,216,000	98,216,000	-	-
	₱1,436,075,084	₱818,471,000	₱617,604,084	₱-

Liabilities for which fair values are disclosed

Other financial liabilities:				
Long-term debt	₱19,049,957,430	₱7,027,185,480	₱12,022,771,950	₱-
Service concession fees payable	2,450,579,759	-	-	2,450,579,759
Rental deposits	117,192	-	-	117,192
	₱21,500,654,381	₱7,027,185,480	₱12,022,771,950	₱2,450,696,951

During 2016, portions of the investment in treasury bonds and notes amounting to ₱524.0 million were transferred from Level 1 to Level 2.

Derivative Instruments

PNB Term Loan

On March 11, 2011, NLEX Corp. entered into a pay-fixed, receive-floating interest rate swap contract to hedge the variability of cash flows pertaining to the floating rate PNB Term Loan effective March 14, 2011. Under the swap, NLEX Corp. will receive semi-annual interest equal to six-months PDST-F plus 0.50% per annum spread and pay semi-annual fixed interest of 5.9% per annum, based on the amortizing principal balance of the PNB Term Loan, starting from June 15, 2011 until December 15, 2015. The interest rate swap effectively fixed the floating rate of the said loan over the duration of the agreement at 5.9% per annum.



The swap was designated as cash flow hedge at trade date. As at June 30, 2011, the effectiveness ratio was only 58.05% and the hedging relationship failed to meet the 80% to 125% hedge effectiveness criterion of PAS 39. As a result, the hedge was de-designated by the Company. The ₱39.0 million (gross of ₱10.7 million tax) deferred in equity representing the negative fair value change of the swap up to March 31, 2011 (the last testing date when the hedge was still effective) is being amortized over the term of the hedged loan and recognized under "Interest expense and other finance costs" account. As at December 31, 2017 and 2016, the unamortized amount deferred in equity amounted to nil (after amortization of ₱3.8 million in 2015).

Under cash flow hedge accounting, the effective portion of the change in fair values of the designated hedges are recognized directly in equity and recycled in earnings in the same periods during which the hedged transaction affects earnings.

On December 28, 2012, NLEX Corp. issued a notice for early termination of the interest rate swap transaction with PNB effective December 15, 2012.

Hedge Effectiveness of Cash Flow Hedges. The movement of the Company's cumulative translation adjustments on cash flow hedges under "Other comprehensive income (loss) reserve" account for the year ended December 31, 2015 follows (see Note 19):

	2015
Balance at beginning of year	(₱3,775,752)
Transferred to consolidated statement of income:	
Interest expense*	3,775,752
Balance at end of year	-
Tax effects of items taken directly to equity	-
	₱-

* Included in "Interest expense on loans" under "Interest expense and other finance costs" account (see Note 26).

31. Reclassification

Certain accounts in the 2016 and 2015 consolidated financial statements and supporting note disclosures have been reclassified to conform to the presentation used in the consolidated balance sheets as at December 31, 2017. This reclassification did not affect the total assets, total liabilities and total equity in the consolidated balance sheets as at December 31, 2016 and 2015 and the total comprehensive income in the consolidated statements of comprehensive income for the years ended December 31, 2016 and 2015.

The following are the effects of the reclassification in the 2016 consolidated balance sheet:

Account	As Previously Reported	Reclassification	As Reclassified
Other current assets	₱969,432,484	(₱268,706,650)	₱700,725,834
Advances to contractors and other non-current assets	940,551,082	268,706,650	1,209,257,732

Advances to contractors and consultants amounting to ₱268.7 million presented under "Other current assets" in the 2016 consolidated financial statements and supporting notes disclosures have been reclassified to "Advances to contractors and other noncurrent assets".



The following are the effects of the reclassification in the 2016 and 2015 consolidated statements of comprehensive income:

	Account	As Previously Reported	Reclassification	As Reclassified
2016	Professional fees	₱105,085,770	(₱11,936,599)	₱93,149,171
	Management fees	60,702,628	11,936,599	72,639,227
2015	Professional fees	50,619,790	(11,936,599)	38,683,191
	Management fees	60,702,628	11,936,599	72,639,227

Management fees due to MPTNC amounting to ₱11.9 million presented under “Professional fees” in the 2016 consolidated financial statements and supporting notes disclosures have been reclassified to “Management fees” (see Note 22).

32. Contingencies and Others

a. VAT

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

- The BIR issued a Formal Letter of Demand on March 16, 2009 requesting NLEX Corp. to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006.
- A Final Assessment Notice was received from the BIR dated November 15, 2009 assessing NLEX Corp. deficiency VAT plus penalties amounting to ₱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 remains 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.

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 December 31, 2017 and 2016, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2013 for NLEX, is approximately at ₱5.7 billion and ₱4.3 billion (VAT-exclusive), respectively.



- 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 February 14, 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.

33. Supplemental Cash Flow Information

Changes in liabilities arising from financing activities

	January 1, 2017	Cash flows	Non-cash changes			December 31, 2017
			Amortization of DIC	Interest accretion	Other	
Current portion of long-term debt (see Note 17)	₱278,737,740	(₱402,102,309)	₱23,740,348	₱-	₱4,404,208,838	₱4,304,208,838
Long-term debt-net of current portion (see Note 17)	18,543,924,749	1,985,788,530*	10,507,087	-	(4,404,208,838)	16,136,387,307
Interest payable	24,517,438	(482,015,091)	-	-	485,812,422	28,314,769
Dividends payable (see Note 19)	-	(1,760,000,000)	-	-	3,600,000,000	1,840,000,000
Service concession fees payable (see Note 18)	2,335,916,229	-	-	185,512,898	-	2,521,429,127
Total liabilities from financing activities	₱21,183,096,156	(₱658,328,870)	₱34,247,435	₱185,512,898	₱4,085,812,422	₱24,830,340,041

*Proceeds from loans of ₱2,000.0 million net of debt issue costs of ₱14.2 million

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



Non-cash investing activities

The following table shows the Company's significant non-cash investing activities and corresponding transaction amounts for the years ended December 31, 2017 and 2016:

	2017	2016
Additions to service concession asset and service concession fees payable pertaining to present value of concession fees recognized on effective date of the concession agreement (see Notes 8 and 18)	P= P2,318,800,856	
Additions to service concession asset and service concession fees payable pertaining to accretion of service concession fees payable (see Notes 8 and 18)	185,512,898	17,115,373
Additions to service concession asset pertaining to the transfer from deferred project cost (see Note 8)	-	132,205,353

34. Events after the Reporting Period

On February 14, 2018, the Company's Board of the Directors approved the shelf registration, public offer and issuance of fixed rate Philippine Peso-denominated bonds (the "Bonds") with an aggregate principal amount of up to P25.0 billion. The Bonds may be issued in one or more tranches within the shelf period, under such terms and conditions as may be determined by Company.

As at February 14, 2018, the Company is still in the process of finalizing the details of the issuance and shelf registration of the bonds.

35. Standards Issued but Not Yet Effective

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

Effective beginning on or after January 1, 2018

- 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.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.



The Company is currently assessing the potential effect of the amendments on its consolidated financial statements.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

Classification and measurement

Debt securities currently held as AFS under PAS 39 are expected to be classified as at fair value through other comprehensive income (FVOCI) as these are held both to collect contractual cash flows and to sell. Receivables are held to collect contractual cash flows and thus qualify for amortized cost measurement. However, the Company is still finalizing its assessment on whether the contractual cash flows of these debt financial assets are solely payments of principal and interest (SPPI) to be able to conclude that these instruments are eligible for amortized cost or FVOCI measurement. The investments in UITF are going to be reclassified from available-for-sale to financial assets at fair value through profit or loss. They do not meet the criteria to be classified as at amortized cost in accordance with PFRS 9 since their cash flows do not represent solely payments of principal and interest.

Impairment

The Company is currently assessing the impact of PFRS 9 on impairment.

Hedge accounting

The Company has no existing hedge relationships as at December 31, 2017.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

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



- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to 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 principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

Since the Company derives substantially all of its revenue from toll collections from the users of the NLEX and SCTEX, the Company believes that there is no material impact on the consolidated financial statements upon adoption of the standard.

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

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

The amendments should be applied retrospectively, with earlier application permitted.

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. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date



on which an entity initially recognizes the 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 Company does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Effective beginning on or after January 1, 2019

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

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- PFRS 16, *Leases*

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

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

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

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

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Company is currently assessing the impact of adopting PFRS 16.



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

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

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

The interpretation specifically addresses the following:

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

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

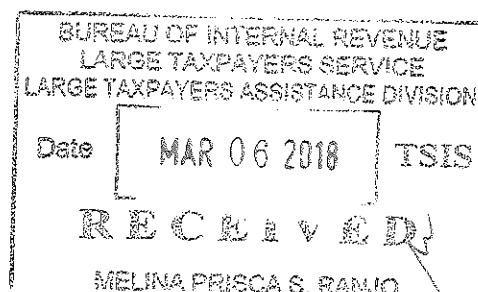
The Company is currently assessing the impact of adopting this interpretation.

Deferred effectivity

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

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

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





Building a better
working world

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Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
NLEX Corporation
NLEX Compound
Balintawak, Caloocan City

We have audited the consolidated financial statements of NLEX Corporation (formerly Manila North Tollways Corporation, a subsidiary of Metro Pacific Tollways North Corporation (formerly Metro Pacific Tollways Development Corporation)) and its subsidiary (the Company) as at and for the year ended December 31, 2017, on which we have rendered the attached report dated February 14, 2018.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the above Company has five (5) stockholders owning more than one hundred (100) shares each.

SYCIP GORRES VELAYO & CO.

Mariecris N. Barbaso

Mariecris N. Barbaso
Partner

CPA Certificate No. 97101

SEC Accreditation No. 1513-A (Group A),

October 6, 2015, valid until October 5, 2018

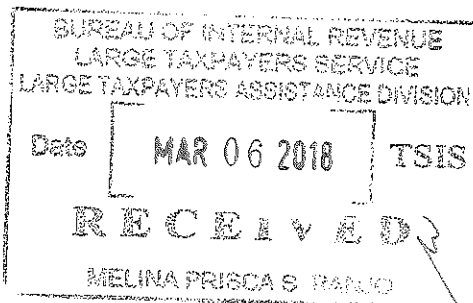
Tax Identification No. 202-065-716

BIR Accreditation No. 08-001998-108-2015,

March 4, 2015, valid until March 3, 2018

PTR No. 6621229, January 9, 2018, Makati City

February 14, 2018





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November 10, 2015 until November 9, 2018

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and Board of Directors
NLEX Corporation
NLEX Compound
Balintawak, Caloocan City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of NLEX Corporation (formerly Manila North Tollways Corporation, a subsidiary of Metro Pacific Tollways North Corporation (formerly Metro Pacific Tollways Development Corporation)) and its subsidiary (the Company) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A, and have issued our report thereon dated February 14, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Mariecris N. Barbano

Mariecris N. Barbano

Partner

CPA Certificate No. 97101

SEC Accreditation No. 1513-A (Group A),

October 6, 2015, valid until October 5, 2018

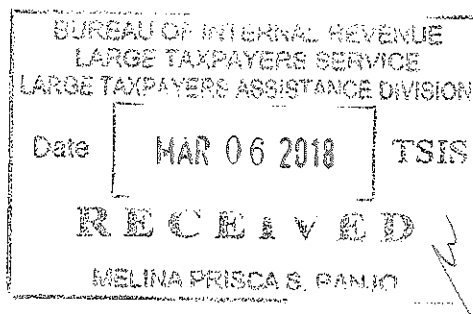
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The Stockholders and Board of Directors
NLEX Corporation
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Balintawak, Caloocan City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of NLEX Corporation (formerly Manila North Tollways Corporation, a subsidiary of Metro Pacific Tollways North Corporation (formerly Metro Pacific Tollways Development Corporation)) and its subsidiary (the Company) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A, and have issued our report thereon dated February 14, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Mariecris N. Barbaso
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February 14, 2018



**NLEX CORPORATION (FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
UNDER SRC RULE 68, AS AMENDED (2011)
DECEMBER 31, 2017**

Schedule	Title	Page
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I	List of Philippine Financial Reporting Standards (PFRSs) and Interpretations Effective as at December 31, 2017	S-1
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IV	Supplementary Schedules Required by Paragraph 6D, Part II	
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B	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	Not Applicable
C	Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements	S-11
D	Intangible Assets - Other Assets	S-12
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G	Guarantee Securities of Other Issuers	Not Applicable
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**NLEX CORPORATION
(FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY
SUPPLEMENTARY SCHEDULE REQUIRED
UNDER SRC RULE 68, AS AMENDED (2011)**

**List of Philippine Financial Reporting Standards (PFRSs) and
Interpretations Effective as at December 31, 2017**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements				
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
PFRS Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendment to PFRS 1: Meaning of 'Effective PFRSs'			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Amendments to PFRS 2: Definition of Vesting Condition	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*	Not Early Adopted		
PFRS 3 (Revised)	Business Combinations			✓
	Business Combinations - Accounting for Contingent Consideration in a Business Combination			✓
	Business Combinations - Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4*	Not Early Adopted		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Disclosures - Servicing Contracts			✓
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments*	Not Early Adopted		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 12: Clarification of the Scope of the Standard	✓		✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Fair Value Measurement - Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers*	Not Early Adopted		
PFRS 16	Leases*	Not Early Adopted		
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiatives	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendment to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of servicing equipment			✓
	Amendment to PAS 16: Property, Plant and Equipment - Revaluation Method – Proportionate Restatement of Accumulated Depreciation			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendment to PAS 16: Agriculture – Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*	Not Early Adopted		
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments	✓		
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities	✓		
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation / Amortization			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property	✓		
	Amendments to PAS 40: Transfers of Investment Property*	Not Early Adopted		
PAS 41	Agriculture			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 41: Agriculture - Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements	✓		
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 15	Agreements for the Construction of Real Estate*	Not Early Adopted		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration*	Not Early Adopted		
IFRIC 23	Uncertainty over Income Tax Treatments	Not Early Adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures	✓		
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

Effectivity of Amendments to PFRS 10 and PAS 28. Sale or Contribution of Assets between an Investor and its Associate or Joint Venture was deferred.

Note: Standards and interpretations tagged as "Not Applicable" are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2017.

NLEX CORPORATION
(FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY

Supplementary Schedules Required by Paragraph 4D, Part I
Under SRC Rule 68, As Amended (2011)

Financial Soundness Indicators

Financial Ratios	Formula	December 31, 2017	December 31, 2016
a) Current Ratio	$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$	0.46	0.46
b) Solvency Ratio	$\frac{\text{Net Profit after Tax (or NPAT) + Depreciation and amortization}}{\text{Total Liabilities}}$	0.19	0.18
c) Debt-to-Equity Ratio	$\frac{\text{Total Long-term Debt}}{\text{Total Stockholders' Equity}}$	1.92	1.96
d) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Stockholders' Equity}}$	3.77	3.67
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings before Interests and Taxes}}{\text{Net Interest Expense}}$	15.21	16.17
f) Net Profit Margin	$\frac{\text{NPAT}}{\text{Net Operating Revenues}}$	39.49%	38.21%
g) Return on Asset	$\frac{\text{NPAT}}{\text{Average Total Assets}}$	12.31%	12.35%
h) Return on Equity	$\frac{\text{NPAT}}{\text{Average Total Stockholders' Equity}}$	45.83%	46.06%

**RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION**

As at December 31, 2017

**NLEX Corporation
(Formerly Manila North Tollways Corporation)
and a Subsidiary**

NLEX Compound, Balintawak
Caloocan City

Items	Amount
Unappropriated Retained Earnings, beginning	₱4,110,411,823
Adjustment:	
Amount of recognized deferred tax assets	(868,425,816)
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning	3,241,986,007
Net income based on the face of audited financial statements	4,639,839,564
Less: Non-actual losses	
Deferred tax assets realized during the period	(44,367,460)
Net income actually earned during the period	4,595,472,104
Less:	
Dividend declarations during the period	(3,600,000,000)
TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND, END	₱4,237,458,111

**NLEX CORPORATION
(FORMERLY MANILA NORTH TOLLWAYS CORPORATION)
AND A SUBSIDIARY**

Supplementary Schedules Required by Paragraph 6D, Part II
Under SRC Rule 68, As Amended (2011)

As at December 31, 2017

SCHEDULE A – Financial Assets

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
Available-for-sale financial assets:				
Investment in Retail Treasury Bonds and Notes of the Philippines	₱746,330,000	₱701,530,432	₱701,530,432	₱28,260,128 ^(a)
Investment in Unit Investment Trust Fund (UITF)	217,221,409	217,749,970	217,749,970	8,947,596 ^(b)
Investment in Meralco Corporate Bonds	200,000,000	198,956,000	198,956,000	8,750,000 ^(c)
Investment in PLDT Corporate Bonds	200,000,000	203,844,000	203,844,000	10,450,000
Investment in Long-Term Negotiable Certificate of Deposits	100,000,000	98,997,500	98,997,500	4,187,500
Investment in FMIC Corporate Bonds	50,000,000	51,079,000	51,079,000	2,622,782
	₱1,513,551,409	₱1,472,156,902	₱1,472,156,902	₱63,218,006
Receivables^(d)				
Easytrip Services Corporation	₱–	₱332,601,752	₱–	₱–
Department of Public Works and Highways	–	179,535,742	–	–
Smart Communications Inc.	–	36,379,572	–	–
Various motorists	–	20,385,868	–	–
Interest receivable from various banks	–	20,003,187	–	–
Petron Corporation	–	17,757,443	–	–
Pampanga's Best, Inc.	–	9,544,800	–	–
Pilipinas Shell Petroleum Corporation	–	5,517,256	–	–
Digitel Mobile Philippines, Inc.	–	5,107,200	–	–
Others	–	77,565,416	–	–
	₱–	₱704,398,236	₱–	₱–

^(a) Includes interest income amounting to ₱3,226,942 which were deducted from borrowing costs capitalized as part of service concession asset.

^(b) Includes gain on sale of UITF amounting to ₱8,369,189, which were deducted from borrowing cost capitalized as part of service concession assets while the remaining amount of ₱578,407 was recognized as "Other income" in the statement of comprehensive income.

^(c) These were deducted from borrowing costs capitalized as part of service concession assets.

^(d) Excluding advances to officers and employees amounting to ₱10,641,020 as at December 31, 2017.

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AND A SUBSIDIARY**

Supplementary Schedules Required by Paragraph 6D, Part II
Under SRC Rule 68, As Amended (2011)

As at December 31, 2017

SCHEDULE C – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements

Deductions

Name and Designation of debtor	Balance at beginning of beginning of period	Additions	Amounts collected	Amounts written-off	Current	Not Current	Balance at end of period
NLEX Ventures Corporation	₱ 1,473,118	₱2,163,462	₱3,276,003	₱-	₱360,577	₱-	₱360,577

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SCHEDULE D – Intangible Assets – Other Assets

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Service Concession Assets:						
Cost	₱37,800,373,238	₱3,763,478,479	₱-	₱-	₱-	₱41,563,851,717
Accumulated Amortization	7,128,225,646	-	762,794,599	-	-	7,891,020,245
Carrying Value	30,672,147,592	3,763,478,479	762,794,599	-	-	33,672,831,472
Computer Software*:						
Cost	106,535,415	3,917,613	-	-	(455,240)	109,997,788
Accumulated Amortization	88,276,923	-	11,861,791	-	(455,240)	99,683,474
Carrying Value	18,258,492	3,917,613	11,861,791	-	-	10,314,314
TOTAL	₱30,690,406,084	₱3,767,396,092	₱774,656,390	₱-	₱-	₱33,683,145,786

* Computer software, presented as "Other intangible assets" account in the consolidated balance sheet pertains to the Company's accounting, reporting and asset management systems with estimated useful life of 5 years.

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SCHEDULE E – Long Term Debt

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term Debt" in related balance sheet	Interest rates, amounts or number of periodic installments, and maturity dates
SERIES-A NOTES				
<u>Series A-7 Notes</u> <ul style="list-style-type: none"> ▪ Robinsons Bank Corp. ▪ BDO Capital & Investment Corp. ▪ Philippine National Bank ▪ The Insular Life Assurance Company, Ltd. ▪ Security Bank Corporation ▪ Bank of the Philippine Islands 	P4,210,230,849	P3,952,082,167	P--	Interest rate: 7.2704% fixed interest per annum Payment terms: 7 years bullet-like repayment, minimal annual amortizations aggregating 6% between March 15, 2012 to March 15, 2017 and 94% on April 19, 2018 Maturity date: April 19, 2018
<u>Series A-10 Notes</u> <ul style="list-style-type: none"> ▪ BDO Capital & Investment Corp. ▪ The Insular Life Assurance Company, Ltd. ▪ Security Bank Corporation 	1,000,000,000	7,078,814	922,457,990	Interest rate: 7.7038% fixed interest per annum Payment terms: 10 years bullet-like repayment, minimal annual amortizations aggregating 9% between March 15, 2012 to March 15, 2020 and 91% on April 19, 2021 Maturity date: April 19, 2021
TERM LOAN FACILITIES				
<ul style="list-style-type: none"> ▪ The Insular Life Assurance Company, Ltd. 	200,000,000	–	198,935,592	Interest rate: 5.0303% fixed interest per annum Payment terms: 10-year final maturity, bullet repayment of P200 million on November 29, 2023 Maturity date: November 29, 2023
<ul style="list-style-type: none"> ▪ The Philippine American Life and General Insurance Assurance 	1,000,000,000	–	993,388,362	Interest rate: 5.7971% fixed interest per annum Payment terms: 15-year final maturity, bullet repayment of P1.0 billion on December 12, 2028 Maturity date: December 12, 2028

SCHEDULE IV

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Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term Debt" in related balance sheet	Interest rates, amounts or number of periodic installments, and maturity dates
<ul style="list-style-type: none"> ▪ Sun Life of Canada (Philippines), Inc. 	P800,000,000	P--	P795,804,781	<p>Interest rate: 5.2979% fixed interest per annum</p> <p>Payment terms: 10-year final maturity, bullet repayment of P800 million on October 11, 2023</p> <p>Maturity date: October 11, 2023</p>
<ul style="list-style-type: none"> ▪ Philippine National Bank 	5,000,000,000	246,296,695	4,477,569,222	<p>Interest rate: (a) First drawdown is subject to 5.0000% fixed interest per annum until December 15, 2020</p> <p>(b) For the remaining drawdown made until repricing date (which is December 15, 2020) shall be the higher of (i) 5-year PDST-R2 rate on the drawdown date plus a 1.0% per annum; and (ii) 5.0% per annum, which will be repriced after 5 years from drawdown date.</p> <p>(c) On date immediately after the repricing date and until termination, the applicable interest rate shall be the higher of (i) 5-year PDST-R2 rate plus a 1.0% per annum; and (ii) weighted average of the applicable interest rate for each drawdown.</p> <p>Payment terms: 10-year annual repayment of 5% of principal amount from December 15, 2017 to December 15, 2023; 65% payable on the last 2 annual periods (December 15, 2024 to December 10, 2025)</p> <p>Maturity date: December 10, 2025</p>
<ul style="list-style-type: none"> ▪ Union Bank of the Philippines 	2,000,000,000	98,751,162	1,792,032,909	<p>Interest rate: 5.4855% fixed interest per annum</p> <p>Payment terms: 10-year annual repayment starting February 3, 2016 for the first drawdown of P1.0 billion and December 19, 2016 for the second drawdown of P1.0 billion; undrawn amount shall be available for drawing in 1 or more availments on any banking day within one year from July 24, 2015 with an extension period up to July 24, 2017</p> <p>Maturity date: February 3, 2026</p>
FIXED-RATE BONDS				
<ul style="list-style-type: none"> ▪ BDO Capital & Investment Corporation 	4,400,000,000	-	4,375,558,922	<p>Interest rate: 5.07000% fixed interest per annum</p> <p>Payment terms: 7-year final maturity, bullet repayment of P4,400 million on March 31, 2021</p> <p>Maturity date: March 31, 2021</p>

SCHEDULE IV

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Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term Debt" in related balance sheet	Interest rates, amounts or number of periodic installments, and maturity dates
<ul style="list-style-type: none"> ▪ BDO Capital & Investment Corporation 	P2,600,000,000	P-	P2,580,639,529	<p>Interest rate: 5.50000% fixed interest per annum</p> <p>Payment terms: 10-year final maturity, bullet repayment of P2,600 million on March 31, 2024</p> <p>Maturity date: March 31, 2024</p>
TOTAL	P21,210,230,849	P4,304,208,838	P16,136,387,307	

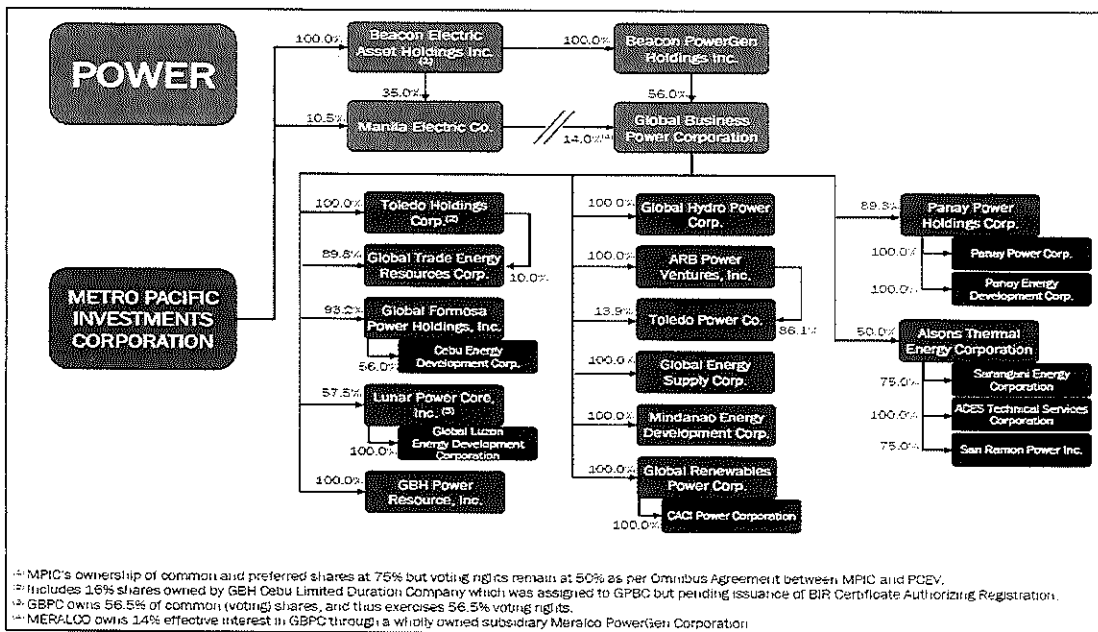
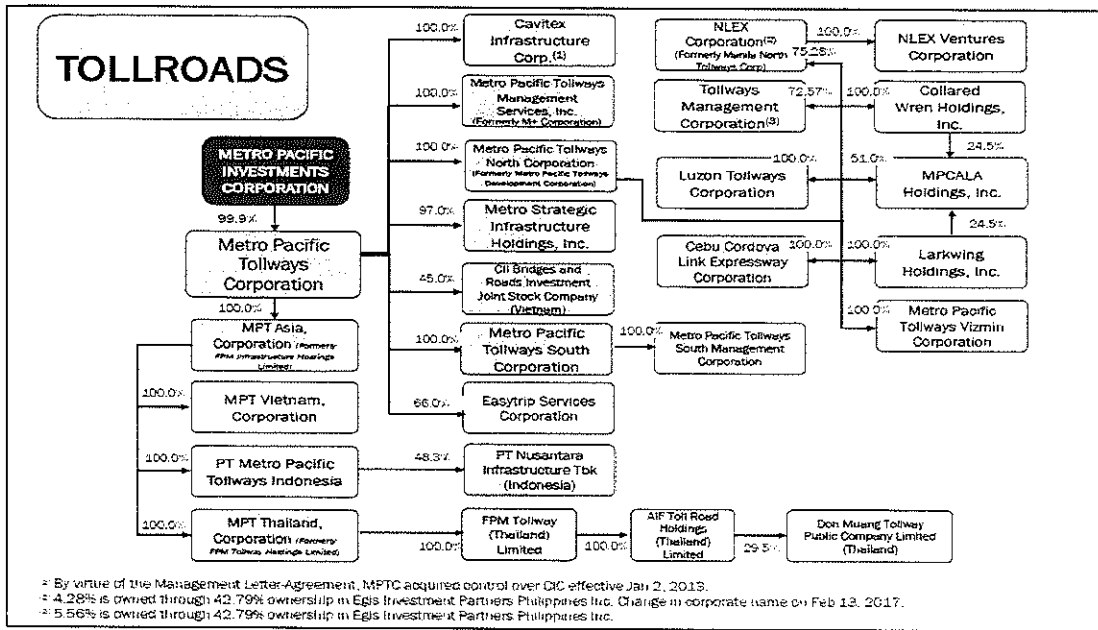
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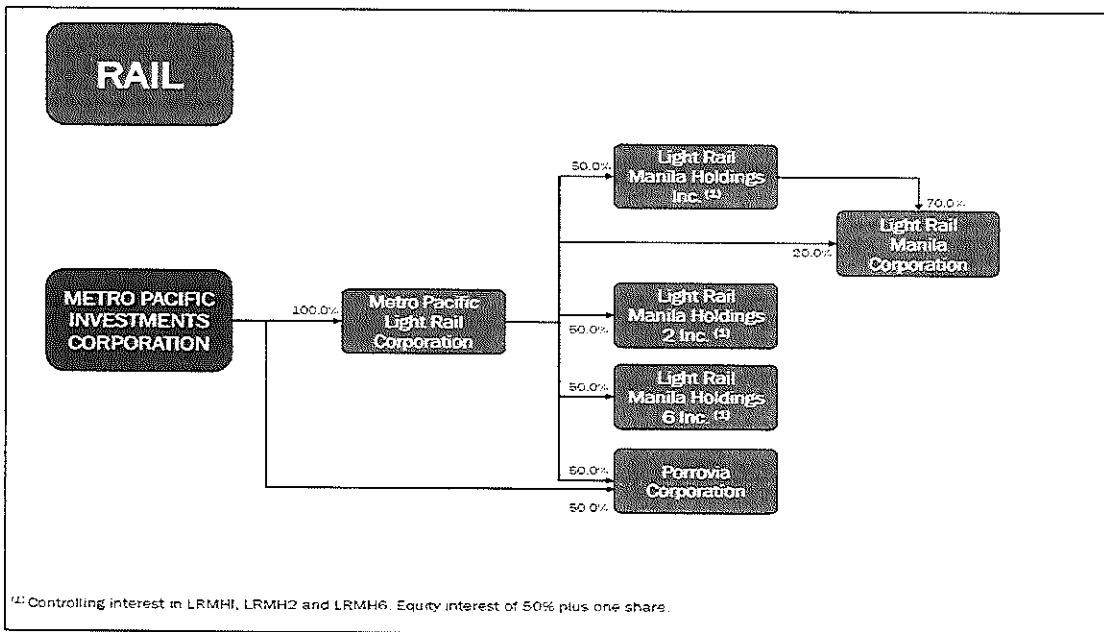
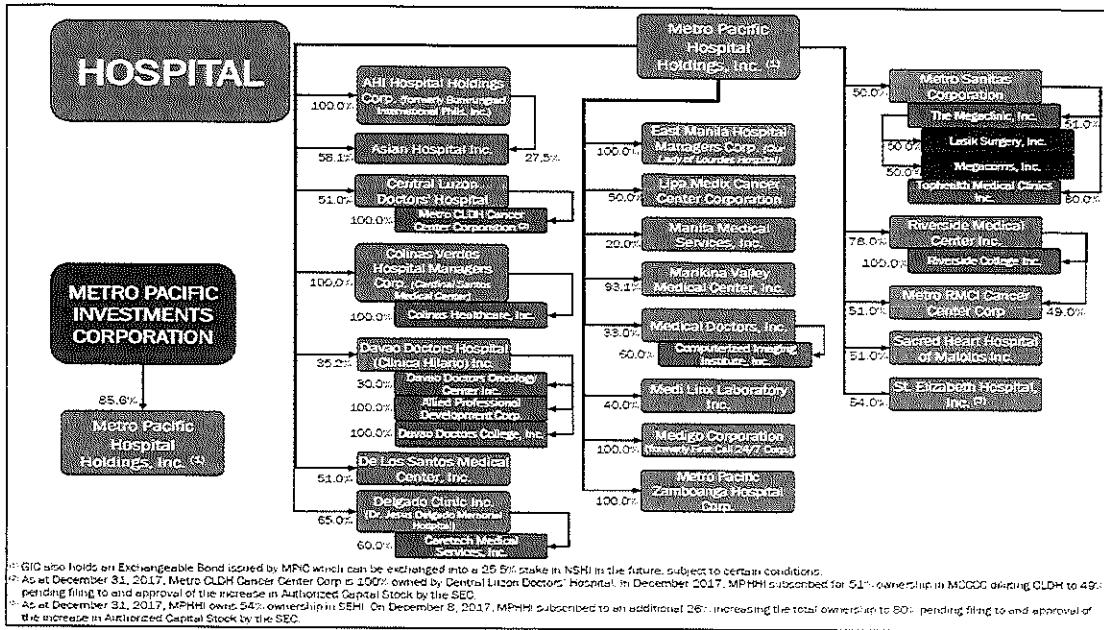
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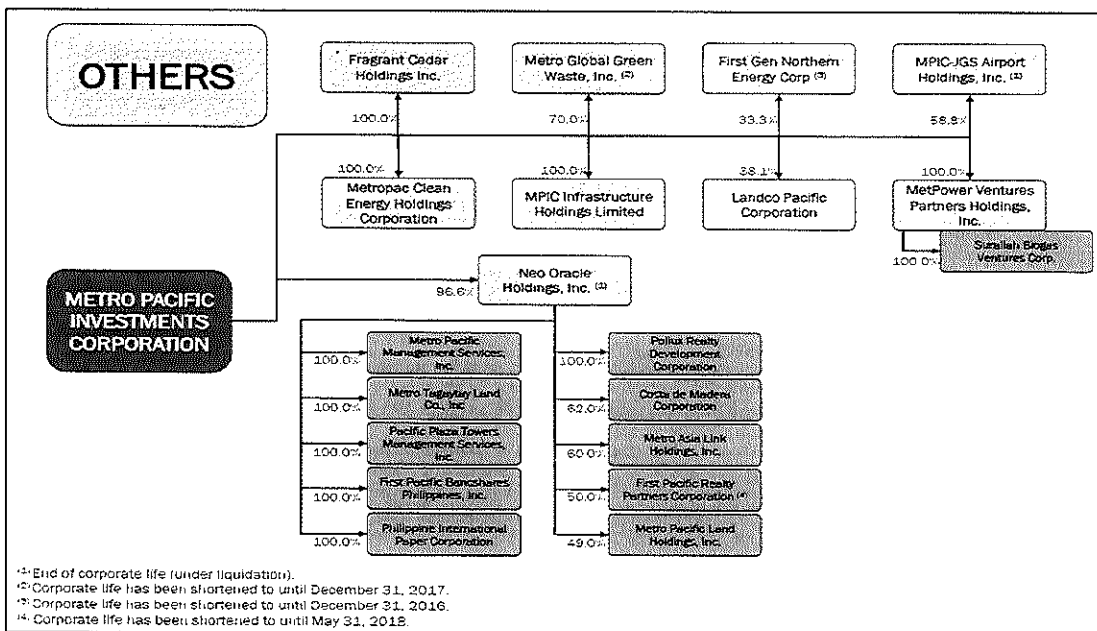
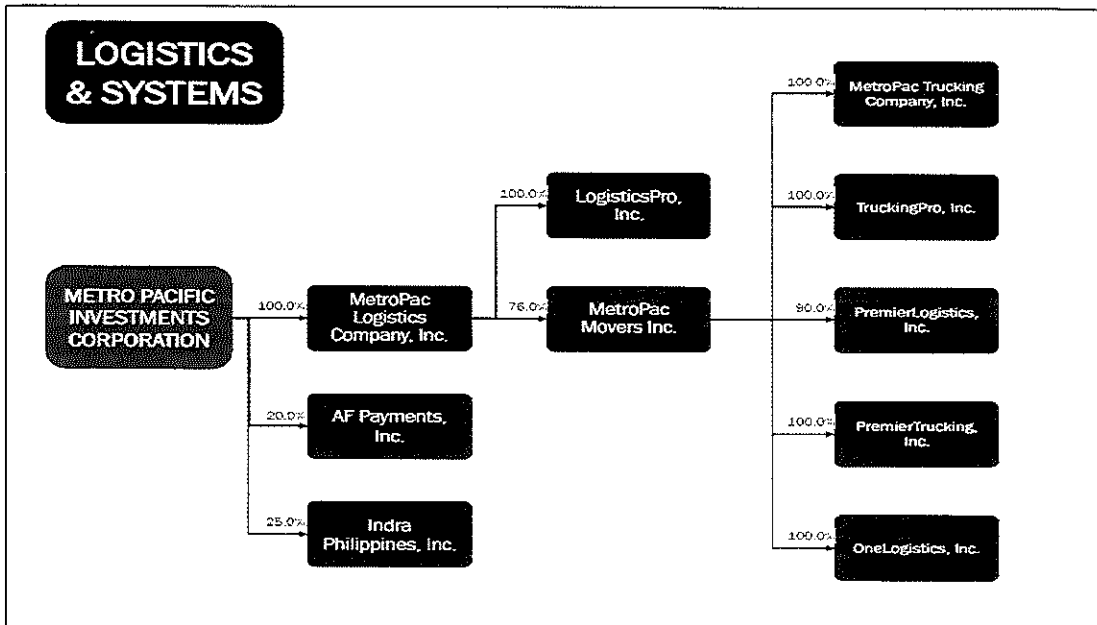
As at December 31, 2017

SCHEDULE H – Capital Stock

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common	40,000,000	17,760,000	None	14,385,590	21	None







(1) End of corporate life (under liquidation).
 (2) Corporate life has been shortened to until December 31, 2017.
 (3) Corporate life has been shortened to until December 31, 2016.
 (4) Corporate life has been shortened to until May 31, 2018.