

# COVER SHEET

for  
**SEC FORM 17-Q**

SEC Registration Number

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**COMPANY NAME**

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**PRINCIPAL OFFICE** (No. / Street / Barangay / City / Town / Province)

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Form Type	Department requiring the report	Secondary License Type, If Applicable
1 7 - Q		

**COMPANY INFORMATION**

Company's Email Address	Company's Telephone Number	Mobile Number
corpcomm@nlex.com.ph	479-3000 / 580-8900	-
No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
19	Any Day in May	December 31

**CONTACT PERSON INFORMATION**

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ms. Maria Theresa O. Wells	towells@nlex.com.ph	479-3000 / 580-8900	-

**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.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: September 30, 2017
2. Commission Identification Number: A1997-01451
3. BIR Tax Identification No: 004-984-946-000
4. Exact name of issuer as specified in its charter  
NLEX CORPORATION
5. Province, country or other jurisdiction of incorporation or organization  
METRO MANILA, PHILIPPINES
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office Postal Code  
NLEX COMPOUND, BALINTAWAK, CALOOCAN CITY 1400
8. Issuer's telephone number, including area code  
+632-479-3000 or +632-580-8900
9. Former name, former address and former fiscal year, if changed since last report  
N/A
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

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

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

Yes [ ] No [x]

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

N/A

12. Indicate by check mark whether the registrant:

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

Yes [x] No [ ]

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

Yes [x] No [ ]

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**PART I--FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**NLEX CORPORATION**  
**(Formerly Manila North Tollways Corporation)**  
**(A Subsidiary of Metro Pacific Tollways Development Corporation)**  
**AND A SUBSIDIARY**

**Interim Condensed Consolidated Financial Statements (Unaudited)**  
**September 30, 2017 and 2016**

**NLEX CORPORATION**  
**(Formerly Manila North Tollways Corporation)**  
**(A Subsidiary of Metro Pacific Tollways Development Corporation)**  
**AND A SUBSIDIARY**

**INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS**

	Unaudited September 30, 2017	Audited December 31, 2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	₱327,471,774	₱389,912,852
Restricted cash (Note 4)	321,000,000	-
Short-term deposits (Notes 11 and 25)	47,451,608	82,407,389
Receivables (Notes 5 and 14)	542,979,642	593,177,913
Inventories - at cost	102,044,360	91,176,361
Available-for-sale financial assets (Notes 11 and 25)	49,833,000	-
Other current assets (Note 10)	721,851,944	969,432,484
Total Current Assets	<b>2,112,632,328</b>	2,126,106,999
<b>Noncurrent Assets</b>		
Service concession assets (Note 6)	33,217,415,882	30,672,147,592
Property and equipment (Note 7)	173,316,400	134,971,360
Investment Properties (Note 8)	125,769,418	41,443,879
Other intangible assets (Note 9)	11,838,542	18,258,492
Available-for-sale financial assets (Notes 11 and 25)	1,212,808,505	1,353,667,695
Pension asset	-	904,680
Deferred tax assets - net	172,015	645,104
Other noncurrent assets	44,764,396	940,551,082
Total Noncurrent Assets	<b>34,786,085,158</b>	33,162,589,884
	<b>₱36,898,717,486</b>	₱35,288,696,883
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Note 12)	₱3,118,906,140	₱3,178,755,241
Long-term incentive plan	177,442,315	-
Income tax payable	299,058,956	303,456,146
Provisions (Note 13)	341,406,650	320,814,502
Current portion of long-term debt (Notes 15 and 25)	4,201,799,105	278,737,740
Total Current Liabilities	<b>8,138,613,166</b>	4,081,763,629
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Notes 15 and 25)	14,493,923,671	18,543,924,749
Long-term incentive plan payable	-	129,442,315
Service concession fees payable (Note 16)	2,479,078,038	2,335,916,229
Provisions (Note 13)	67,127,071	98,894,187
Deferred tax liabilities – net	468,203,179	486,884,747
Other noncurrent liabilities	6,584,805	253,292
Total Noncurrent Liabilities	<b>17,514,916,764</b>	21,595,315,519
Total Liabilities	<b>25,653,529,930</b>	25,677,079,148

(Forward)

	<b>Unaudited September 30, 2017</b>	Audited December 31, 2016
<b>Equity</b>		
Capital stock (Note 17)	<b>₱1,776,000,000</b>	₱1,776,000,000
Additional paid-in capital	<b>3,749,711,168</b>	3,749,711,168
Retained earnings	<b>5,737,209,962</b>	4,109,784,668
Other comprehensive income (loss) reserve (Note 17)	<b>(30,767,856)</b>	(36,912,383)
Other reserve	<b>13,034,282</b>	13,034,282
Total Equity	<b>11,245,187,556</b>	9,611,617,735
	<b>₱36,898,717,486</b>	₱35,288,696,883

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

**NLEX CORPORATION**  
**(Formerly Manila North Tollways Corporation)**  
**(A Subsidiary of Metro Pacific Tollways Development Corporation)**  
**AND A SUBSIDIARY**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

	Nine months ended September 30		Three months ended September 30	
	2017	2016	2017	2016
<b>OPERATING REVENUES</b>				
Toll fees – net of discount	<b>₱8,483,282,640</b>	₱7,783,582,289	<b>₱2,761,339,814</b>	₱2,504,421,811
Sales of magnetic cards	<b>4,598</b>	4,375	<b>893</b>	2,992
Toll revenues	<b>8,483,287,238</b>	7,783,586,664	<b>2,761,340,707</b>	2,504,424,803
Non-toll revenues (Note 18)	<b>121,535,318</b>	106,864,190	<b>38,652,005</b>	33,645,243
	<b>8,604,822,556</b>	7,890,450,854	<b>2,799,992,712</b>	2,538,070,046
<b>COST OF SERVICES</b> (Note 19)	<b>(3,356,904,112)</b>	(3,346,027,194)	<b>(1,135,108,747)</b>	(1,088,834,932)
<b>GROSS PROFIT</b>	<b>5,247,918,444</b>	4,544,423,660	<b>1,664,883,965</b>	1,449,235,114
<b>CONSTRUCTION REVENUE</b>				
(Note 6)	<b>3,088,695,582</b>	3,739,348,157	<b>1,054,878,037</b>	1,440,461,317
<b>CONSTRUCTION COSTS</b>				
(Note 6)	<b>(3,088,695,582)</b>	(3,739,348,157)	<b>(1,054,878,037)</b>	(1,440,461,317)
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 20)				
	<b>(591,235,580)</b>	(519,069,389)	<b>(184,506,214)</b>	(178,388,098)
<b>INTEREST EXPENSE AND OTHER FINANCE COSTS</b> (Note 23)				
	<b>(366,333,438)</b>	(342,304,185)	<b>(145,112,057)</b>	(110,595,046)
<b>INTEREST INCOME</b> (Note 22)				
	<b>37,946,113</b>	49,848,925	<b>12,891,543</b>	12,128,018
<b>FOREIGN EXCHANGE GAIN (LOSS) – Net</b>				
	<b>1,802,995</b>	(2,878,785)	<b>117,383</b>	1,315,363
<b>OTHER INCOME</b>				
	<b>3,743,982</b>	11,889,973	<b>427,963</b>	4,068,404
<b>INCOME (LOSS) BEFORE INCOME TAX</b>				
	<b>4,333,842,516</b>	3,741,910,199	<b>1,348,702,583</b>	1,177,763,755
<b>PROVISION FOR INCOME TAX</b>				
Current	<b>966,086,614</b>	847,246,610	<b>304,112,916</b>	268,663,951
Deferred	<b>(19,669,392)</b>	(30,845,521)	<b>5,450,487</b>	(13,122,934)
	<b>946,417,222</b>	816,401,089	<b>309,563,403</b>	255,541,017
<b>NET INCOME</b>	<b>₱3,387,425,294</b>	₱2,925,509,110	<b>₱1,039,139,180</b>	₱922,222,738

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

**NLEX CORPORATION**  
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**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

	Nine months ended September 30		Three months ended September 30	
	2017	2016	2017	2016
<b>NET INCOME</b>	<b>₱3,387,425,294</b>	<b>₱2,925,509,110</b>	<b>₱1,039,139,179</b>	<b>₱922,222,738</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>				
Gain (loss) on available-for-sale financial assets (Notes 11 and 25)	7,605,440	54,933,730	6,776,392	(9,844,168)
Income tax effect	(1,460,913)	(3,732,542)	(1,023,613)	(181,792)
	<b>6,144,527</b>	<b>51,201,188</b>	<b>5,752,779</b>	<b>(10,025,960)</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b>6,144,527</b>	<b>51,201,188</b>	<b>5,752,779</b>	<b>(10,025,960)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱3,393,569,821</b>	<b>₱2,976,710,298</b>	<b>₱1,044,891,958</b>	<b>₱912,196,778</b>

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



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**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)**

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income Reserve	Other Reserve	Total Equity
At January 1, 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			(1,760,000,000)			(1,760,000,000)
Net Income	–	–	3,387,425,294	–	–	3,387,425,294
Other comprehensive income (Note 17)	–	–	–	6,144,527	–	6,144,527
Total comprehensive income for the period	–	–	3,387,425,294	6,144,527	–	3,393,569,821
At September 30, 2017	₱1,776,000,000	₱3,749,711,168	₱5,737,209,962	(₱30,767,856)	₱13,034,282	₱11,245,187,556
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			(1,250,000,000)			(1,250,000,000)
Equity contribution - executive stock option plan	–	–	–	–	933,633	933,633
Net income	–	–	2,925,509,110	–	–	2,925,509,110
Other comprehensive income (Note 17)	–	–	–	51,201,188	–	51,201,188
Total comprehensive income for the period	–	–	2,925,509,110	51,201,188	–	2,976,710,298
At September 30, 2016	₱1,776,000,000	₱3,749,711,168	₱4,298,216,506	₱24,631,713	₱12,723,072	₱9,861,282,459

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

**NLEX CORPORATION**  
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**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>Nine Months Ended September 30</b>	
	<b>2017</b>	<b>2016</b>
<b>OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱4,333,842,516</b>	₱3,741,910,199
Adjustments to reconcile income before income tax to net cash flows:		
Amortization of service concession assets (Notes 6 and 19)	<b>543,427,292</b>	530,081,385
Interest expense and other finance costs (Note 23)	<b>366,333,438</b>	342,304,185
Long-term incentive plan expense	<b>48,000,000</b>	42,964,007
Interest income (Note 22)	<b>(37,946,113)</b>	(49,848,925)
Depreciation of property and equipment (Notes 7, 19 and 20)	<b>37,795,072</b>	20,728,188
Amortization of other intangible assets (Notes 9 and 20)	<b>8,955,402</b>	5,965,132
Deferred toll revenue realized	<b>(2,571,857)</b>	(1,646,827)
Unearned rental income realized	<b>(2,132,223)</b>	-
Amortization of deferred lease income	<b>(2,452)</b>	-
Movements in:		
Provisions	<b>(36,497,678)</b>	55,978,572
Pension asset / Accrued retirement costs	<b>7,238,645</b>	4,712,411
Executive stock option plan expense	-	933,633
Gain on disposals of property and equipment (Note 7)	<b>(17,754)</b>	(2,627,484)
Unrealized foreign exchange gain – net	<b>(252,648)</b>	(3,320,572)
Gain on sale of AFS financial assets	<b>(578,407)</b>	(4,699,640)
Working capital changes:		
Decrease (increase) in:		
Receivables	<b>51,424,004</b>	7,957,459
Inventories	<b>(10,867,999)</b>	(21,725,577)
Due from related parties	-	(2,808,897)
Advances to contractors and consultants	-	(277,260,512)
Input value added tax	-	68,036,154
Other current assets	<b>(60,027,537)</b>	65,852,517
Increase (decrease) in:	-	-
Accounts payable and other current liabilities	<b>(95,937,389)</b>	487,478,684
Unearned toll revenue	-	2,792,890
Unearned rental income	-	3,474,167
Income tax paid	<b>(970,483,804)</b>	(839,069,421)
<b>Net cash flows from operating activities</b>	<b>4,179,700,508</b>	4,178,161,728
<b>INVESTING ACTIVITIES</b>		
Interest received	<b>36,720,380</b>	49,787,333
Acquisition of available-for-sale financial assets (Note 11)	<b>(4,042,412,589)</b>	(4,986,390,995)
Decrease (increase) in other noncurrent assets	<b>895,786,686</b>	(135,108,416)
Additions to:		
Service concession assets (Note 6)	<b>(2,940,972,362)</b>	(3,748,491,927)
Property and equipment (Note 7)	<b>(77,437,715)</b>	(40,646,862)
Other intangible assets (Note 9)	<b>(2,535,452)</b>	(5,232,716)
Investment properties	<b>(84,325,539)</b>	(39,289,158)
Proceeds from:		
Sale of available-for-sale financial assets (Note 11)	<b>4,181,470,405</b>	5,445,507,193
Sale of property and equipment (Note 7)	<b>1,315,357</b>	9,358,937
Maturity of AFS financial assets (Note 11)	-	200,000,000
<b>Net cash flows used in investing activities</b>	<b>(2,032,390,829)</b>	(3,250,506,611)

(Forward)

**Nine Months Ended September 30**

	2017	2016
<b>FINANCING ACTIVITIES</b>		
Proceeds from loans	P-	P1,000,000,000
Payments of:		
Dividends	(1,760,000,000)	(2,672,576,000)
Interest	(297,901,096)	(302,559,605)
Long-term debt	(152,102,309)	(1,012,102,309)
Debt issue costs (Note 15)	-	(6,182,288)
Net cash flows used in financing activities	(2,210,003,405)	(2,993,420,202)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(62,693,726)	(2,065,765,085)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	252,648	3,320,572
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	389,912,852	2,669,324,105
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)</b>	P327,471,774	P606,879,592

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

**NLEX CORPORATION**  
**(Formerly Manila North Tollways Corporation)**  
**(A Subsidiary of Metro Pacific Tollways Development Corporation)**  
**AND A SUBSIDIARY**

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**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Corporate Information**

General

NLEX Corporation (NLEX Corp. or the Parent Company) (formerly Manila North Tollways Corporation or the Company) 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 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 BOD of NLEX Corp. approved the proposed merger between NLEX Corp. and TMC, with NLEX Corp. as the surviving corporation. On November 17, 2016, majority of the stockholders of NLEX Corp. confirmed and ratified the proposed merger between NLEX Corp. and TMC, with NLEX Corp. as the surviving corporation. As the surviving corporation, NLEX Corp.’s corporate existence shall continue and shall: (a) acquire all respective rights, businesses, assets and other properties of TMC, and (b) assume all the debts and liabilities of TMC.

On April 17, 2017, NLEX Corp. and TMC executed the Plan and Articles of Merger. The Plan and Articles of Merger are pending approval of the Securities and Exchange Commission (“SEC”).

The merger of NLEX Corp. and TMC 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 merger is expected to be completed by the last quarter of 2017.

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% owned by Metro Pacific Holdings, Inc. (MPHI) as at September 30, 2017. 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 September 30, 2017. 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 Company is NLEX Compound, Balintawak, Caloocan City.

### Toll Operations

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

The MNEP consists of three phases as follows:

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

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

Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLEX, had officially commenced tollway operation on June 5, 2010. Segment 9, a portion of Phase II, which is a 2.4 km-road connecting NLEX to the McArthur Highway, had officially commenced tollway operation on March 19, 2015. In May 2014, Segment 10, a portion of Phase II, which is a 5.76 km four-lane, elevated expressway that will start from the terminal of Segment 9 in Valenzuela City going to Circumferential Road 3 (C-3 Road) in Caloocan City above the alignment of Philippine National Railway (PNR) tracks, had commenced construction and is expected to be completed in the first half of 2018. The estimated cost of construction of Segment 10 is ₱10.5 billion. The remaining portion of Phase II is under pre-construction works while Phase III of the MNEP has not yet been started as at September 30, 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. Basis of Preparation and Changes to the Company's Accounting Policies**

### Basis of Preparation

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for the available-for-sale (AFS) financial assets which are measured at fair value, and prepared in accordance with Philippine Accounting Standard (PAS) 34, "Interim Financial Reporting". The interim condensed consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at and for the year ended December 31, 2016.

### Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2016, except for the adoption of new standards and interpretations effective as at January 1, 2017. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments apply for the first time in 2017, they do not have a material impact on the annual consolidated financial statements of the Company or the interim condensed consolidated financial statements of the Company. The nature and the impact of each new standard or amendment is described below:

- 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.

The adoption has no impact on the interim condensed consolidated financial statements.

- 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. The Company is not required to provide additional disclosures in its interim condensed consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended December 31, 2017.

- 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.

The Company applied the amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

### **3. Seasonality of Operations**

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

#### 4. Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents consists of:

	<b>September 30, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Cash on hand and in banks	<b>₱269,253,721</b>	₱35,649,031
Short-term deposits	<b>58,218,053</b>	354,263,821
	<b>₱327,471,774</b>	₱389,912,852

For purposes of the interim statements of cash flows for the nine months ended September 30, 2017 and 2016, cash and cash equivalents as at September 30 comprise of the following:

	<b>2017 (Unaudited)</b>	2016
Cash on hand and in banks	<b>₱269,253,721</b>	₱151,182,323
Short-term deposits	<b>58,218,053</b>	455,697,269
	<b>₱327,471,774</b>	₱606,879,592

#### *Restricted Cash*

As at September 30, 2017, restricted cash amounted to ₱321.0 million (see Note 24).

#### 5. Receivables

This account consists of:

	<b>September 30, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Trade receivables	<b>₱313,786,672</b>	₱363,790,678
Advances to Department of Public Works and Highways (DPWH)	<b>179,435,152</b>	180,361,049
Advances to officers and employees	<b>12,070,817</b>	15,317,943
Interest receivables	<b>15,532,927</b>	14,307,194
Due from related parties (see Note 14)	<b>3,527,093</b>	3,812,414
Other receivables	<b>45,066,146</b>	40,527,225
	<b>569,418,807</b>	618,116,503
Less allowance for doubtful accounts	<b>26,439,165</b>	24,938,590
	<b>₱542,979,642</b>	₱593,177,913

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

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

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

Interest receivables are collectible within three months to six months.

Other receivables are noninterest-bearing and are collectible within a year. As at September 30, 2017 and December 31, 2016, other receivables include those receivables from motorists who caused accidental damage to NLEX property from day-to-day operations amounting to ₱41.7 million and ₱38.2 million respectively.

Movement in the allowance for individually assessed impaired receivables for the nine months ended September 30, 2017 is as follows:

	Trade Receivables	Other Receivables	Total
Balance at beginning of period	₱3,053,951	₱21,884,639	₱24,938,590
Provision for doubtful accounts (see Note 20)	–	1,500,575	1,500,575
Balance at end of period	₱3,053,951	₱23,385,214	₱26,439,165

## 6. Service Concession Assets

The movements in this account follow:

	MNEP	SCTEX	NLEX-SLEX Connector Road	Total
<b>Cost:</b>				
At January 1, 2016 (Audited)	₱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 (Audited)	31,736,465,603	3,556,060,212	2,507,847,423	37,800,373,238
Additions	2,267,461,102	650,281,805	170,952,675	3,088,695,582
<b>At September 30, 2017 (Unaudited)</b>	<b>₱34,003,926,705</b>	<b>₱4,206,342,017</b>	<b>₱2,678,800,098</b>	<b>₱40,889,068,820</b>
<b>Accumulated amortization:</b>				
At January 1, 2016 (Audited)	₱6,501,741,058	₱11,364,125	₱–	₱6,513,105,183
Amortization	540,223,703	74,896,760	–	615,120,463
At December 31, 2016 (Audited)	7,041,964,761	86,260,885	–	7,128,225,646
Amortization (see Note 19)	468,272,057	75,155,235	–	543,427,292
<b>At September, 2017 (Unaudited)</b>	<b>₱7,510,236,818</b>	<b>₱161,416,120</b>	<b>₱–</b>	<b>₱7,671,652,938</b>
<b>Net book value</b>				
<b>At September 30, 2017 (Unaudited)</b>	<b>₱26,493,689,887</b>	<b>₱4,044,925,897</b>	<b>₱2,678,800,098</b>	<b>₱33,217,415,882</b>
At December 31, 2016 (Audited)	24,694,500,842	3,469,799,327	2,507,847,423	30,672,147,592

### MNEP

Additions in MNEP during the period was mostly from the on-going civil works construction on Segment 10, remaining works of the Segments 2 & 3 of the NLEX widening project and consultancy services for the other expansion projects including the pre-construction costs of Segments 8.2 and the C3-R10 of the Harbor Link project, portions of Phase II. Borrowing costs capitalized amounted to ₱492.8 million for the nine months ended September 30, 2017. The interest rate used to determine the amount of borrowing costs eligible for capitalization was 5.0% to 5.8% in 2017 and 2016.

### SCTEX

Additions in SCTEX mainly pertains to the rehabilitation works which involved upgrades in the pavement, fixed operating equipment, toll plaza expansion and other road furniture and structures.

### NLEX-SLEX Connector Road

Additions in NLEX-SLEX Connector Road pertains mainly to the accretion in the present value of periodic payments to DPWH in consideration for the acquisition of the right of way. Other additions include detailed engineering design, professional fees and general and administrative expenses.



## 7. Property and Equipment

The movements in this account follow:

	Building, Building Improvements and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Cost:				
At January 1, 2016 (Audited)	₱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 (Audited)	94,223,954	87,863,961	175,162,079	357,249,994
Additions	18,710,345	9,027,097	49,700,273	77,437,715
Disposals	–	(3,676,260)	(75,242)	(3,751,502)
<b>At September 30, 2017 (Unaudited)</b>	<b>₱112,934,299</b>	<b>₱93,214,798</b>	<b>₱224,787,110</b>	<b>₱430,936,207</b>
Accumulated depreciation:				
At January 1, 2016 (Audited)	₱36,514,894	₱47,143,850	₱120,427,074	₱204,085,818
Depreciation	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 (Audited)	40,087,596	49,059,865	133,131,173	222,278,634
Depreciation (see Notes 19 and 20)	2,858,793	9,849,350	25,086,929	37,795,072
Disposal	–	(2,378,657)	(75,242)	(2,453,899)
<b>At September 30, 2017 (Unaudited)</b>	<b>₱42,946,389</b>	<b>₱56,530,558</b>	<b>₱158,142,860</b>	<b>₱257,619,807</b>
Net book value:				
<b>At September 30, 2017 (Unaudited)</b>	<b>₱69,987,910</b>	<b>₱36,684,240</b>	<b>₱66,644,250</b>	<b>₱173,316,400</b>
At December 31, 2016 (Audited)	54,136,358	38,804,096	42,030,906	134,971,360

## 8. Investment Properties

The movements in this account follow:

	Land	Land Improvements	Total
At January 1, 2017 (Audited)	₱37,761,269	₱3,682,610	₱41,443,879
Additions	78,656,527	5,669,012	84,325,539
At September 30, 2017 (Unaudited)	<b>₱116,417,796</b>	<b>₱9,351,622</b>	<b>₱125,769,418</b>

## 9. Other Intangible Assets

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Cost:		
Balance at beginning of year	₱106,535,415	₱99,033,490
Additions	2,535,452	7,501,925
Disposals	(455,240)	–
Balance at end of period	<b>₱108,615,627</b>	₱106,535,415

(Forward)

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Accumulated amortization:		
Balance at beginning of year	₱88,276,923	₱82,352,212
Amortization (see Note 20)	8,955,402	5,924,711
Disposals	(455,240)	–
Balance at end of period	96,777,085	88,276,923
Net book value	₱11,838,542	₱18,258,492

#### 10. Other Current Assets

Details of other current assets follow:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Advances to contractors and consultants	₱234,739,731	₱298,617,715
Input VAT	345,848,508	412,113,258
Deferred Input VAT	135,444,404	186,898,381
Prepayments	4,741,611	67,638,138
Creditable Tax	16,458,151	19,545,453
	737,232,405	984,812,945
Less allowance for recoverability of creditable tax	15,380,461	15,380,461
	₱721,851,944	₱969,432,484

#### 11. Available-for-sale Financial Assets

Details of AFS financial assets are shown below:

Maturity Date	Interest Rate	September 30, 2017 (Unaudited)		December 31, 2016 (Audited)	
		Fair Value	Principal Amount	Fair Value	Principal Amount
<b>Unit investment Trust Fund (UITF)*</b>					
Short-term		₱47,451,608	₱47,221,409	₱82,407,389	₱82,221,409
<b>ROP Retail Treasury Bonds</b>					
April 11, 2020	4.25%	101,376,000	100,000,000	–	–
August 15, 2023	3.25%	531,250,510	565,100,000	524,017,230	565,100,000
		632,626,510	665,100,000	524,017,230	565,100,000
<b>Fixed Rate Treasury Notes</b>					
May 23, 2018	2.13%	49,833,000	50,000,000	246,600,000	250,000,000
July 19, 2019	4.75%	11,505,135	11,230,000	11,179,465	11,230,000
August 20, 2020	3.38%	19,841,600	20,000,000	20,560,000	20,000,000
		81,179,735	81,230,000	278,339,465	281,230,000
<b>Long-term Negotiable Certificate of Deposits (LTNCD)</b>					
PNB – June 12, 2020	4.13%	50,000,000	50,000,000	49,613,000	50,000,000
Metrobank – November 21, 2021	4.25%	48,133,500	50,000,000	48,603,000	50,000,000
		98,133,500	100,000,000	98,216,000	100,000,000
<b>Corporate Bonds</b>					
FMIC – August 10, 2019	5.75%	51,005,940	50,000,000	48,781,000	50,000,000
Meralco – December 12, 2020	4.38%	197,101,200	200,000,000	197,300,000	200,000,000
PLDT – February 6, 2021	5.23%	202,594,620	200,000,000	207,014,000	200,000,000
		450,701,760	450,000,000	453,095,000	450,000,000
		₱1,310,093,113	₱1,343,551,409	₱1,436,075,084	₱1,478,551,409

\* Presented as "Short-term deposits" in the interim balance sheets.

The movements in this account follow:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of year	P1,436,075,084	P2,940,548,994
Additions	4,042,412,589	7,063,921,689
Maturity	-	(200,000,000)
Sale of AFS financial assets	(4,176,000,000)	(8,366,733,682)
Gain (loss) on AFS financial assets during the year	7,605,440	(1,661,917)
Balance at end of year	<b>P1,310,093,113</b>	<b>P1,436,075,084</b>
Current	<b>P97,284,608</b>	<b>P82,407,389</b>
Noncurrent	<b>1,212,808,505</b>	<b>1,353,667,695</b>
	<b>P1,310,093,113</b>	<b>P1,436,075,084</b>

## 12. Accounts Payable and Other Current Liabilities

This account consists of:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Trade payables	P298,108,537	P306,379,638
Accrued expenses	2,020,536,374	2,261,661,613
Retention payable	523,658,093	335,448,049
Output value added tax	131,839,958	141,308,092
Withholding taxes payable	64,792,283	93,142,828
Interest payable	65,309,806	24,517,438
Unearned toll revenue	2,062,997	2,571,857
Unearned rental income	-	2,132,223
Others	12,598,092	11,593,503
	<b>P3,118,906,140</b>	<b>P3,178,755,241</b>

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

Accrued expenses consist of:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Construction costs	P884,476,813	P1,551,445,903
PNCC fee	426,500,822	52,539,032
Operator's fee	242,149,767	253,612,988
Professional fees	98,406,297	94,300,662
Concession fees	77,665,950	87,422,800
Repairs and maintenance	71,991,372	7,405,068
Operating and maintenance cost	66,625,229	61,249,421
Salaries and employee benefits	40,155,809	27,206,476
Advertising and marketing expenses	30,411,210	52,599,331
Management fees	22,160,062	17,851,424
Taxes and licenses	21,362,866	5,661,296

(Forward)

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Outside services	P13,301,691	P18,668,329
Purchases payable	7,453,686	11,291,777
Toll collection and medical services	7,060,416	6,494,316
Project insurance	6,420,730	12,806,822
Others	4,393,654	1,105,968
	<b>P2,020,536,374</b>	<b>P2,261,661,613</b>

Interest payable is settled within six months.

### 13. Provisions

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2016 (Audited)	P263,252,488	P76,201,950	P339,454,438
Additions	127,647,874	29,537,324	157,185,198
Accretion	14,957,803	-	14,957,803
Payments	(91,888,750)	-	(91,888,750)
At December 31, 2016 (Audited)	313,969,415	105,739,274	419,708,689
Additions (see Notes 19 and 20)	111,628,803	43,700,583	155,329,386
Accretion (see Note 23)	13,362,481	-	13,362,481
Payments	(156,758,401)	(23,108,434)	(179,866,835)
<b>At September 30, 2017 (Unaudited)</b>	<b>P282,202,298</b>	<b>P126,331,423</b>	<b>P408,533,721</b>

#### At September 30, 2017 (Unaudited):

Current	P228,915,410	P112,491,240	P341,406,650
Noncurrent	53,286,888	13,840,183	67,127,071
	<b>P282,202,298</b>	<b>P126,331,423</b>	<b>P408,533,721</b>

#### At December 31, 2016 (Audited):

Current	P228,915,410	P91,899,092	P320,814,502
Noncurrent	85,054,005	13,840,182	98,894,187
	<b>P313,969,415</b>	<b>P105,739,274</b>	<b>P419,708,689</b>

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

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

#### 14. 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.

	<b>September 30, 2017 (Unaudited)</b>	December 31, 2016 (Audited)
Due from Related Parties		
Tollways Management Corporation	<b>₱501,126</b>	₱481,152
Easytrip Services Corporation	<b>99,000</b>	99,000
MPTC	<b>285,218</b>	188,934
MPTDC	<b>(5,451)</b>	1,496
Cavitex Infrastructure Corp.	<b>692,802</b>	1,604,368
MPTMSI	<b>14,131</b>	–
CCLEC	<b>3,627</b>	–
MPCALA	<b>1,936,640</b>	1,437,464
	<b>₱3,527,093</b>	₱3,812,414

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

Related Party			Management Fees (see Note 20)	Professional Fees (Cost Sharing)	Operator's Fee (see Note 19)	Outside Services (see Note 19)	Repairs and Maintenance (see Note 19)	Communication, Light and Water (see Notes 19 and 20)	Advertising and Marketing Expenses (see Note 20)	Income from Advertising (see Note 18)	Income from Utility Facilities (see Note 18)
MPTC	Intermediate Parent Company	2017	<b>₱45,526,971</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱77,880,000</b>	<b>₱-</b>	<b>₱-</b>
		2016	45,526,971	-	-	-	-	-	13,891,685	-	-
MPTDC	Parent	2017	<b>8,952,449</b>	-	-	-	-	-	-	-	-
		2016	-	20,864,950	-	-	-	-	-	-	-
TMC	Associate of MPTDC	2017	-	-	<b>1,173,363,642</b>	<b>2,518,278</b>	<b>75,653,174</b>	<b>87,190</b>	-	-	-
		2016	-	-	1,500,218,744	-	5,592,143	319,393	-	-	-
Cavitex Infrastructure, Inc. (CIC)	Subsidiary of MPTC	2017	-	-	-	-	-	-	<b>31,500</b>	-	-
		2016	-	-	-	-	-	-	-	-	-
Easytrip Services Corp. (ESC)	Joint Venture of MPTDC	2017	-	-	-	<b>53,128,934</b>	-	-	<b>308,386</b>	<b>100,000</b>	-
		2016	-	-	-	49,276,621	-	-	316,767	100,000	-
Smart Communications Inc. (Smart)	Associate of FPC	2017	-	-	-	-	-	<b>1,378,621</b>	<b>110,950</b>	<b>18,082,000</b>	<b>373,855</b>
		2016	-	-	-	-	-	2,094,809	45,238	29,220,000	357,756
PLDT	Associate of FPC	2017	-	-	-	-	<b>516,418</b>	<b>2,127,691</b>	-	<b>730,000</b>	<b>1,812,947</b>
		2016	-	-	-	-	448,480	1,634,095	14,826	1,009,000	1,688,115
Indra Philippines, Inc. (INDRA)	Associate of MPIC	2017	-	-	-	-	<b>16,645,557</b>	-	-	-	-
		2016	-	-	-	-	-	-	-	-	-
Maynilad Water Services Inc,	Associate of MPIC	2017	-	-	-	-	-	<b>241,523</b>	-	-	-
		2016	-	-	-	-	-	263,536	-	-	-
Digitel	Associate of FPC	2017	-	-	-	-	-	-	-	-	-
		2016	-	-	-	-	-	36,022	1,741	-	-
Manila Electric Company (Meralco)	Associate of MPIC	2017	-	-	-	-	-	<b>4,286,373</b>	<b>9,701</b>	-	<b>360,000</b>
		2016	-	-	-	-	-	18,416,356	-	-	-
Total		2017	<b>₱54,479,420</b>	<b>₱-</b>	<b>₱1,173,363,642</b>	<b>₱55,647,212</b>	<b>₱92,815,149</b>	<b>₱8,121,398</b>	<b>₱78,340,537</b>	<b>₱18,912,000</b>	<b>₱2,546,802</b>
		2016	45,526,971	20,864,950	1,500,218,744	49,276,621	6,040,623	22,764,211	14,270,257	30,329,000	2,045,871

## 15. Long-term Debt

This account consists of:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Peso-denominated Notes and Loans:		
Series A Notes	₱4,897,616,998	₱4,949,719,307
Term Loan Facilities	6,900,000,000	7,000,000,000
Fixed-rate Bonds	7,000,000,000	7,000,000,000
	<b>18,797,616,998</b>	18,949,719,307
Less unamortized debt issue costs	<b>101,894,222</b>	127,056,818
	<b>18,695,722,776</b>	18,822,662,489
Less current portion of long-term debt - net of unamortized debt issue costs of ₱15,817,893 in 2017 and ₱23,364,569 in 2016	<b>4,201,799,105</b>	278,737,740
	<b>₱14,493,923,671</b>	₱18,543,924,749

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱101.9 million and ₱127.1 million as at September 30, 2017 and December 31, 2016, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of year	₱127,056,818	₱147,239,671
Amortization during the year* (see Note 23)	(25,162,596)	(32,071,661)
Debt issue costs incurred during the year	–	11,888,808
Balance at end of year	<b>₱101,894,222</b>	₱127,056,818

\*Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱9,453,409 in 2017 and ₱12,158,913 in 2016.

## 16. Service Concession Fees Payable

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
At January 1, 2017	₱2,335,916,229	₱–
Additions	–	2,318,800,856
Accretion	143,161,809	17,115,373
Balance at end of period	<b>₱2,479,078,038</b>	₱2,335,916,229

## 17. Equity

### Capital Stock

Details of shares of stock of the Company as at September 30, 2017 and December 31, 2016 follow:

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

### Other Comprehensive Income 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 (Audited)	(₱39,194,024)	₱1,464,533	₱1,167,297	(₱350,189)	(₱36,912,383)
Change in fair value of AFS (see Note 11)	7,605,440	(1,460,913)	-	-	6,144,527
Balance at September 30, 2017 (Unaudited)	(₱31,588,584)	₱3,620	₱1,167,297	(₱350,189)	(₱30,767,856)
Balance at January 1, 2016 (Audited)	(₱37,532,107)	₱2,657,153	₱11,864,970	(₱3,559,491)	(₱26,569,475)
Net movement in cash flow hedge	-	-	-	-	-
Change in fair value of AFS	54,933,730	(3,732,542)	-	-	51,201,188
Balance at September 30, 2016 (Unaudited)	₱17,401,623	(₱1,075,389)	₱11,864,970	(₱3,559,491)	₱24,631,713

## 18. Non-Toll Revenue

Details of non-toll revenue follow:

	For Nine Months Ended September 30	
	2017	2016
	(Unaudited)	
Income from advertising (see Note 14)	₱67,941,397	₱74,410,127
Income from toll service facilities (see Note 14)	31,583,889	26,460,005
Income from pavement marking services	15,576,613	-
Income from utility facilities	2,934,301	2,636,797
Others	3,499,118	3,357,261
	₱121,535,318	₱106,864,190

## 19. Cost of Services

Cost of services consists of:

	Nine Months Ended September 30	
	2017	2016
	(Unaudited)	
Operator's fee (see Note 14)	₱1,173,363,642	₱1,500,218,744
Concession fees	686,592,962	580,091,652
Amortization of service concession assets (see Note 6)	543,427,292	530,081,385
PNCC fee	418,398,989	390,448,382

(Forward)



	<b>Nine Months Ended September 30</b>	
	<b>2017</b>	<b>2016</b>
	<i>(Unaudited)</i>	
Repairs and maintenance (see Note 14)	<b>₱190,866,809</b>	₱50,820,581
Provision for heavy maintenance (see Note 13)	<b>99,668,574</b>	102,390,971
Outside services (see Note 14)	<b>61,401,485</b>	51,886,185
Insurance	<b>57,927,837</b>	51,837,198
Salaries and employee benefits	<b>34,345,879</b>	40,307,250
Toll collection and medical services	<b>20,447,249</b>	19,251,542
Depreciation (see Note 7)	<b>13,831,107</b>	3,907,056
Others	<b>56,632,287</b>	24,786,248
	<b>₱3,356,904,112</b>	₱3,346,027,194

## 20. General and Administrative Expenses

This account consists of:

	<b>Nine Months Ended September 30</b>	
	<b>2017</b>	<b>2016</b>
	<i>(Unaudited)</i>	
Salaries and employee benefits	<b>₱148,310,252</b>	154,771,221
Advertising and marketing expenses (see Note 14)	<b>110,605,143</b>	78,315,201
Taxes and licenses	<b>70,131,546</b>	59,440,735
Professional fees	<b>57,225,187</b>	69,727,339
Management fees (see Note 14)	<b>54,479,420</b>	45,526,971
Provisions (see Note 13)	<b>43,700,583</b>	2,855,374
Representation and travel	<b>29,856,714</b>	24,181,925
Depreciation of property and equipment (see Note 7)	<b>23,963,965</b>	16,821,132
Outside services	<b>10,477,094</b>	17,741,015
Amortization of other intangible assets (see Note 9)	<b>8,955,402</b>	5,965,133
Repairs and maintenance	<b>6,739,040</b>	10,333,518
Communication, light and water (see Note 14)	<b>5,536,143</b>	7,797,358
Training and development costs	<b>4,455,930</b>	3,837,638
Office supplies	<b>3,413,190</b>	3,878,762
Rental	<b>1,720,851</b>	1,160,543
Provisions for doubtful accounts (see Note 5)	<b>1,500,575</b>	8,126,897
Directors' fees	<b>590,000</b>	355,000
Miscellaneous	<b>9,574,545</b>	8,233,627
	<b>₱591,235,580</b>	₱519,069,389

## 21. Share-based Payment Plan

Executive stock options expense, recognized by the Company in "Salaries and employee benefits" account under "General and administrative expenses" in the unaudited interim statement of income amounted to nil and ₱0.9 million for the nine months ended September 30, 2017 and 2016, respectively.

Carrying value of the ESOP, recognized under "Other reserve" in the unaudited interim statement of changes in equity, amounted to ₱13.0 million as at September 30, 2017 and December 31, 2016, respectively.

## 22. Interest Income

Sources of interest income follow:

	Nine Months Ended September 30	
	2017	2016
	<i>(Unaudited)</i>	
Cash and cash equivalents	<b>₱6,340,135</b>	₱17,981,950
AFS financial assets	<b>31,605,978</b>	30,505,431
Others	-	1,361,544
	<b>₱37,946,113</b>	<b>₱49,848,925</b>

## 23. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	Nine Months Ended September 30	
	2017	2016
	<i>(Unaudited)</i>	
Interest expense on:		
Long-term debt	<b>₱336,298,265</b>	₱322,477,860
Provision for heavy maintenance (see Note 13)	<b>11,930,787</b>	1,155,869
Deferred Lease Income	<b>5,691</b>	-
Finance costs:		
Amortization of debt issue costs (see Note 15)	<b>15,709,187</b>	14,974,521
Lenders' fees	<b>2,162,788</b>	3,232,152
Bank charges	<b>226,720</b>	463,783
	<b>₱366,333,438</b>	<b>₱342,304,185</b>

## 24. Significant Contracts and Commitments

### **Construction of Segment 10, part of Phase II of MNEP**

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

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

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

As at September 30, 2017, the balance of the escrow account is presented as "Restricted cash" under current assets (see Note 4).

Construction of the 5.65km fully-elevated segment is now underway. Project is estimated to be completed within the first half of 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 1x2 to 2x2 lanes. It also covers the lane configuration of Candaba Viaduct from 2 to 3 lanes. The project was substantially completed and opened for public use in the latter part of May 2017.

## **25. Financial Assets and Financial Liabilities**

### **Fair values**

A comparison of carrying and fair values of all of the Company's financial instruments other than those with carrying amounts that is reasonable approximate of fair values by category as at September 30, 2017 and December 31, 2016 is as follows:

	September 30, 2017 (Unaudited)		December 31, 2016 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Asset</b>				
AFS financial assets:				
UITF*	<b>₱47,451,608</b>	<b>₱47,451,608</b>	₱82,407,389	₱82,407,389
Investment in treasury bonds and notes	<b>713,806,245</b>	<b>713,806,245</b>	802,356,695	802,356,695
Investment in corporate bonds	<b>450,701,760</b>	<b>450,701,760</b>	453,095,000	453,095,000
Investment in LTNCD	<b>98,133,500</b>	<b>98,133,500</b>	98,216,000	98,216,000
	<b>₱1,310,093,113</b>	<b>₱1,310,093,113</b>	₱1,436,075,084	₱1,436,075,084
<b>Financial Liabilities</b>				
Other financial liabilities:				
Long-term debt	<b>18,695,722,776</b>	<b>19,049,745,268</b>	₱18,822,662,489	₱19,049,957,430
Service concession fees payable	<b>2,479,078,038</b>	<b>2,655,041,919</b>	2,335,916,229	2,450,579,759
Rental deposits	<b>128,704</b>	<b>132,560</b>	123,013	117,192
	<b>₱21,174,929,518</b>	<b>₱21,704,919,747</b>	₱21,158,701,731	₱21,500,654,381

\* Presented as "Short-term deposits" in the interim balance sheets.

The management assessed that the fair values of cash and cash equivalents, receivables, due from related parties, short-term investments, restricted cash, accounts payable and other current liabilities 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 investments in treasury bonds and notes, corporate bonds and LTNCD is based on the quoted market price of the financial instruments as at September 30, 2017 and December 31, 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 September 30, 2017 and December 31, 2016.

### Long-term Debt

For fixed rate peso-denominated notes and loans, except the fixed-rate bonds where the fair value is based on its quoted market price as at September 30, 2017 and December 31, 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 3.1% to 6.2% 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 3.5% to 6.7% 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 5.7% and 6.4%, respectively.

### Fair Value Hierarchy

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

	September 30, 2017 (Unaudited)	Level 1	Level 2	Level 3
<b>Assets measured at fair value:</b>				
AFS financial assets:				
UITF*	₱47,451,608	₱-	₱47,451,608	₱-
Investment in treasury bonds and notes	713,806,245	69,674,600	644,131,645	-
Investment in corporate bonds	450,701,760	450,701,760	-	-
Investment in LTNCD	98,133,500	98,133,500	-	-
	<b>₱1,310,093,113</b>	<b>₱618,509,860</b>	<b>₱691,583,253</b>	<b>₱-</b>
<b>Liabilities for which fair values are disclosed:</b>				
Other financial liabilities:				
Long-term debt	₱19,049,745,268	₱6,982,165,560	₱12,067,579,708	₱-
Service concession fees payable	2,655,041,919	-	-	2,655,041,919
Rental deposits	132,560	-	-	132,560
	<b>₱21,704,919,747</b>	<b>₱6,982,165,560</b>	<b>₱12,067,579,708</b>	<b>₱2,655,174,479</b>

\*Presented as "Short-term deposits" in the consolidated balance sheets.

	December 31, 2016 (Audited)	Level 1	Level 2	Level 3
<b>Assets measured at fair value:</b>				
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	-	-
	<b>₱1,436,075,084</b>	<b>₱818,471,000</b>	<b>₱617,604,084</b>	<b>₱-</b>
<b>Liabilities for which fair values are disclosed:</b>				
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
	<b>₱21,500,654,381</b>	<b>₱7,027,185,480</b>	<b>₱12,022,771,950</b>	<b>₱2,450,696,951</b>

\*Presented as "Short-term deposits" in the consolidated balance sheets.

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements during the period ended September 30, 2017. During the year ended December 31, 2016, portions of the investment in treasury bonds and notes amounting to ₱524.0 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, as well as no availability of bid-offer on value date.

## 26. Contingencies and Others

### a. Value-Added Tax

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

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

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

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

### b. RPT

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

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

provincial treasurer of Bulacan issued a notice of realty tax delinquencies for the years 2006 to 2017 stating that it could apply the remedies provided under the law for the collection of delinquent taxes.

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

c. Toll Rate Adjustments

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

In 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).

In September 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).

Meantime, in February 2017, NLEX Corp., as petitioner, filed a Petition for Approval of Add On Authorized Toll Rates with Application for Provisional Relief praying for the approval of the Add On toll rate for the NLEX Closed System effective March 1, 2017 in view of NLEX Corp.'s investment on the NLEX Widening Project. In October 2017, the TRB provisionally approved an Add On toll rate for the NLEX Closed System. In November 2017, the TRB issued a Notice to Start Collection effective November 6, 2017. NLEX Corp. started collecting the adjusted authorized toll rate for the Closed System on November 6, 2017.

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

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

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

In a letter dated June 1, 2016, NLEX Corp. manifested that it is unable to agree to the Republic's counter-proposals and instead suggested that the parties consider the Singapore International Arbitration Center (SIAC) as the Appointing Authority and, for the same reasons of economy, expediency, and convenience, that Singapore be the seat of arbitration.

In a letter dated July 13, 2016, the Republic notified NLEX Corp. that it cannot accept the suggestion of SIAC as the Appointing Authority and reiterated its previous counter-proposal to have a Philippine-based institution as the Appointing Authority. However, the Republic accepted Singapore as the venue of arbitration.

In view of the differing positions of the Republic and NLEX Corp. on the matter of the Appointing Authority, on January 6, 2017, NLEX Corp., in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law, 1976 (1976 UNCITRAL Rules), requested the Secretary General of the Permanent Court of Arbitration (PCA) at The Hague, Netherlands to designate the Appointing Authority. The Appointing Authority shall be responsible for the appointment of the third member and presiding arbitrator of the arbitral tribunal. On February 6, 2017, the Secretary General of the PCA designated the Appointing Authority. On March 8, 2017, NLEX Corp. returned to the PCA the List of Prospective Presiding Arbitrators with its choice of candidates. On April 20, 2017, the Appointing Authority appointed Mr. Kap-You (Kevin) Kim as the presiding arbitrator.

On June 27, 2017, the initial case management conference was held in Singapore. To date, the Republic and NLEX Corp. are continuing their efforts towards the settlement of NLEX Corp's claims.

Meantime, on October 27, 2015, NLEX Corp. was granted the right and obligation to manage, operate, and maintain the SCTEX under the terms of the Business Agreement between the BCDA and NLEX Corp. and the STOA among the Republic, acting by and through the TRB, BCDA, and NLEX Corp. Under the agreements covering the SCTEX, a petition for adjustment of the authorized toll rate 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 petitions for toll rate adjustment remains pending.

- 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.

- 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.

## 27. Operating Segment Information

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

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

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

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

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

The revenues, net income and other information of the Company's operations for the nine months ended September 30, 2017 and 2016 are as follows:

	<b>Nine Months Ended September 30</b>	
	<b>(Unaudited)</b>	
	<b>2017</b>	<b>2016</b>
Net toll revenues	<b>₱8,483,282,640</b>	₱7,783,582,289
Other income	<b>125,326,325</b>	114,058,898
Total revenues	<b>8,608,608,965</b>	7,897,641,187
Operating and maintenance costs	<b>(2,706,166,258)</b>	(2,673,920,834)
Operating expenses	<b>(521,741,548)</b>	(503,121,263)
EBITDA	<b>5,380,701,159</b>	4,720,599,090
Financing costs	<b>(308,271,864)</b>	(281,231,554)
Core income before depreciation, amortization and provisions	<b>5,072,429,295</b>	4,439,367,536
Depreciation, amortization and provisions*	<b>(705,513,106)</b>	(670,723,488)
Core income before tax	<b>4,366,916,189</b>	3,768,644,048
Provision for income tax	<b>(938,468,326)</b>	(806,794,764)
Core income after tax	<b>3,428,447,863</b>	2,961,849,284
Nonrecurring items	<b>(41,022,569)</b>	(36,340,174)
Net income	<b>₱3,387,425,294</b>	₱2,925,509,110
EBITDA margin for the period	<b>63%</b>	61%
Core income margin for the period	<b>40%</b>	38%
Net income margin for the period	<b>40%</b>	38%

Other disclosures:

Capital expenditure (consists of additions to service concession assets, investment properties and equipment and other intangible assets)	<b>₱3,105,271,068</b>	₱3,833,660,663
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	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Total assets	P <b>36,898,717,486</b>	P35,288,696,883
Total liabilities	25,653,529,930	25,677,079,148
Total equity	<b>11,245,187,556</b>	9,611,617,735

*\*Excludes provision for current and deferred taxes.*

The following table shows the reconciliation of EBITDA to net income for the nine months ended September 30, 2017 and 2016.

	Nine Months Ended September 30 (Unaudited)	
	2017	2016
EBITDA	P <b>5,380,701,159</b>	P4,720,599,090
Interest expense and other finance costs (see Note 23)	<b>(366,333,438)</b>	(342,304,185)
Amortization of service concession assets (see Note 19)	<b>(543,427,292)</b>	(530,081,385)
Interest income (see Note 22)	<b>30,464,027</b>	40,242,600
Provision for heavy maintenance (see Note 19)	<b>(99,668,574)</b>	(102,390,971)
Depreciation of property and equipment	<b>(25,821,864)</b>	(18,842,481)
Amortization of other intangible assets (see Note 20)	<b>(8,955,402)</b>	(3,278,260)
Other Income (expenses)	<b>(42,427)</b>	4,699,640
Nonrecurring items:		
Provisions	<b>(42,358,754)</b>	(33,461,389)
Foreign exchange gain (loss) - net	<b>1,336,185</b>	(2,878,785)
Income before income tax	<b>4,325,893,620</b>	3,732,303,874
Provision for income tax:		
Current	<b>958,137,718</b>	837,640,285
Deferred	<b>(19,669,392)</b>	(30,845,521)
	<b>938,468,326</b>	806,794,764
Net income for the year	<b>P3,387,425,294</b>	P2,925,509,110

The following table shows the reconciliation of the core income to the net income for the nine months ended September 30, 2017 and 2016.

	2017 (Unaudited)	2016 (Audited)
Core income for the year	P <b>3,428,447,863</b>	P2,961,849,284
Provisions	<b>(42,358,754)</b>	(33,461,389)
Foreign exchange gain (loss) - net	<b>1,336,185</b>	(2,878,785)
Other nonrecurring items	--	-
Net income for the year	<b>P3,387,425,294</b>	P2,925,509,110

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

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

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

### Financial Highlights and Key Performance Indicators:

#### Statement of Income Data

In PhP Millions	Sep-17 (Unaudited)	Sep-16 (Unaudited)	Increase (Decrease)	
			Amount	%
Operating revenue	8,605	7,890	715	9
Cost of services	(3,357)	(3,346)	11	0
General and administrative expenses	(591)	(519)	72	14
Interest expense and other finance costs – net of interest income of Php38 million in 2017 and Php50 million in 2016	(328)	(292)	36	12
Foreign exchange gain (loss)	1	(3)	4	133
Other income (expenses)	4	12	(8)	(67)
Provision for income tax	(946)	(816)	130	16
Net income	3,387	2,926	461	16
Net income margin	39%	37%		

#### Balance Sheet Data:

In PhP Millions	September 2017	December 2016	Increase (Decrease)	
	(Unaudited)	(Unaudited)	Amount	%
Cash and cash equivalents	327	390	(63)	(16)
Total assets	36,899	35,289	1,610	5
Total liabilities	25,654	25,677	(23)	0
Total equity	11,245	9,612	1,633	17

### Business Overview

NLEX Corporation (formerly Manila North Tollways Corporation) holds the concession rights for the North Luzon Expressway (NLEX), Subic-Clark-Tarlac Expressway (SCTEX) and NLEX-SLEX Connector Road. It is primarily engaged in the business of building and operating toll roads within the scope of its concession. The company generates revenues mainly from toll fees collected from motorists plying the NLEX and SCTEX.

The NLEX currently spans approximately 95 kilometers or 511-lane kilometers and services an average of 233,332 vehicles per day for the nine months period ending September 30, 2017. The NLEX is the main infrastructure backbone that connects Metro Manila to Central and Northern Luzon.

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

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

As of September 30, 2017, the average daily traffic for NLEX during the year reached 233,332 daily entries, 7% higher than same period last year, while average daily traffic for SCTEX during the period reached 53,407 daily entries, 22% higher than same period of 2016. The increase in traffic from both NLEX and SCTEX operations during the period helped propel the Company’s toll revenues to Php8.5 billion, 9% or Php699 million higher than last year. As of September 30, 2017, net income amounted to Php3.4 billion, 16% or Php461 million higher than the same period last year.

On November 23, 2016, The Company 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.

### **Result of Operations**

The table below shows the revenues, expenses, other income (expenses), income (loss) before income tax, and net income (loss) for the nine months ended September 30, 2017 and 2016.

### **Statement of Income Data**

In Php Millions	Sep-17 (Unaudited)	Sep-16 (Unaudited)	Increase (Decrease)	
			Amount	%
Operating revenue	<b>8,605</b>	7,890	715	9
Cost of services	<b>(3,357)</b>	(3,346)	11	0
General and administrative expenses	<b>(591)</b>	(519)	72	14
Interest expense and other finance costs – net of interest income of Php38 million in 2017 and Php50 million in 2016	<b>(328)</b>	(292)	36	12
Foreign exchange gain (loss)	<b>1</b>	(3)	4	133
Other income (expenses)	<b>3</b>	12	(8)	(67)
Provision for income tax	<b>(946)</b>	(816)	130	16
Net income	<b>3,387</b>	2,926	461	16
Net income margin	<b>39%</b>	<b>37%</b>		

### **September 30, 2017 Compared to September 30, 2016**

#### **Revenues**

The following table shows the breakdown of revenues for the nine months ended September 30, 2017 and 2016 by revenue source:

In Php Millions	Sep-17 (Unaudited)		Sep-16 (Unaudited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Toll fees – net	8,483	99	7,784	99	699	9
Non-toll revenues	122	1	107	1	15	14
<b>Total revenues</b>	<b>8,605</b>	<b>100</b>	<b>7,890</b>	<b>100</b>	<b>715</b>	<b>9</b>

Total revenues for the period ending September 30, 2017 reached Php8.6 billion, 9% or Php715 million higher than same period last year due to the steady increase in traffic in both the NLEX and SCTEX and steady revenue contributions from its non-toll business operations.

Non-toll revenues grew by Php15 million this period or 14%, from Php107 million to Php122 million due to increase in royalty fees, utility facility fees and other non-toll initiatives.

### **Cost of Services**

As of September 30, 2017, the cost of services amounted to Php3.4 billion, slightly lower by Php11 million lower than the previous year. The table below explains the details of costs of services for the nine-months ended September 30, 2017 and 2016.

In PHP Millions	September 2017 (Unaudited)		September 2016 (Unaudited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Operator's fee	1,173	35	1,500	45	(327)	(22)
Concession fee	687	20	580	17	107	18
Amortization of service concession asset	543	16	534	16	9	2
PNCC fee	418	12	391	12	27	7
Repairs and maintenance	191	6	51	2	140	275
Provision for heavy maintenance	100	3	102	3	(2)	(2)
Outside services	61	2	52	2	9	17
Project insurance	58	2	52	2	6	12
Toll collection and medical services	20	1	19	0	1	5
Others	106	3	65	1	41	63
<b>Total cost of services</b>	<b>3,357</b>	<b>100</b>	<b>3,346</b>	<b>100</b>	<b>11</b>	<b>0</b>

Operator's fee significantly decreased by 22% or Php327 million year-on-year due to the re-negotiated fees with the service provider covering the operation and maintenance services.

PNCC fees increased by 7% to Php418 million from Php391 million during the same period last year due to the increase in NLEX toll revenues during the period. Concession fees paid to BCDA amounted to Php687 million during the nine-month period, higher by Php107 million due to the increase in SCTEX toll revenues.

Repairs and maintenance for the three quarters was at Php191 million, higher by Php140 million versus last year due to the replacement of fixed operating equipment in the toll plazas, which include the replacement of antennae for electronic toll collection, and the upgrade of the closed-circuit television system along the NLEX and SCTEX.

Other costs amounting to Php106 million comprise of costs relating to real property tax on toll road facilities, salaries relating to toll operations and equipment and depreciation expense of advertising structures installed in the NLEX.

### **General and Administrative Expenses**

In Php Millions	Sept-17 (Unaudited)		Sept-16 (Unaudited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Salaries & employees' benefits	148	25	155	30	(7)	(5)
Advertising and marketing expenses	111	19	78	15	33	42
Taxes and Licenses	70	12	59	11	11	19
Professional fees	57	10	70	13	(13)	(19)
Management fees	55	9	46	9	9	20
Representation and travel	30	5	24	5	6	25
Depreciation & amortization	24	4	17	3	7	41
Outside Services	11	2	18	3	(7)	(39)
Repairs and maintenance	7	1	10	2	(3)	(30)
Others	78	13	42	9	36	86
<b>Total general &amp; administrative expenses</b>	<b>591</b>	<b>100</b>	<b>519</b>	<b>100</b>	<b>72</b>	<b>14</b>

For the three quarters of 2017, general and administrative expenses amounted to Php591 million, 14% or Php72 million higher than last year. The increase was mainly driven by higher taxes and licenses, advertising and marketing expenses, depreciation of office equipment, office supplies, representation, transportation and training and development costs.

Advertising and marketing expenses increased by 42% or Php33 million from Php78 million in 2016, while taxes and licenses increased by 19% at Php70 million, higher by Php11 million from the same period last year respectively.

### **Interest and Financing Costs**

Interest expense and other finance costs (net of interest income) amounted to Php328 million for the nine months ended September 30, 2017, Php36 million or 12% higher than the same period in 2016. The increase was attributed to interest expense charge to operations, as a result of the completion of the NLEX Lane Widening Project. Previously, interest expense was capitalized during the construction stage of the project.

Interest expense from loan facilities used for on-going expansion projects such as Segment 10 are capitalized. Total capitalized borrowing costs as of September 30, 2017 amounted to Php492.8 million.

The table below shows the breakdown of interest expense and other finance costs for the nine months ended September 30, 2017 and 2016:

In Php Millions	September 2017 (Unaudited)		September 2016 (Unaudited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
<b>Interest and Financing Costs:</b>						
Interest expense	348	95	324	95	24	7
Amortization of debt issue costs	16	4	15	4	1	7
Financing and other charges	2	1	3	1	(1)	(33)
<b>Total interest and financing costs</b>	<b>366</b>	<b>100</b>	<b>342</b>	<b>100</b>	<b>24</b>	<b>7</b>
<b>Interest Income:</b>						
Cash and cash equivalent	6	16	18	36	(12)	(67)
AFS financial assets and others	32	84	32	64	0	0
<b>Total interest income</b>	<b>38</b>	<b>100</b>	<b>50</b>	<b>100</b>	<b>(12)</b>	<b>(24)</b>
<b>Net interest expense</b>	<b>328</b>		<b>292</b>		<b>36</b>	<b>12</b>

## **Net Income**

As of September 30, 2017, net income reached Php3.4 billion, 16% or Php461 million higher than the Php2.9 billion recorded during the same period of 2016 due to higher toll revenues in the NLEX and SCTEX.

## **Balance Sheet**

In Php Millions	September 2017	December 2016	Increase (Decrease)	
	(Unaudited)	(Unaudited)	Amount	%
Cash and cash equivalents	327	390	(63)	(16)
Total assets	36,899	35,289	1,610	5
Total liabilities	25,654	25,677	(23)	0
Total equity	11,245	9,612	1,633	17

### *September 30, 2017 Compared to December 31, 2016*

#### Assets

Cash and cash equivalents reached Php327 million as of September 30, 2017, 16% or Php63 million lower compared to the Php390 million in December 31, 2016 as a result of regular progress payments for ongoing construction projects.

Receivables reached Php543 million as of September 30, 2017, slightly lower by nearly 8% or Php50 million than the Php593 million in December 31, 2016. The decline was attributed to collections of receivables mainly related to non-toll revenues during the period.

Inventories reached Php102 million, up by 12% or Php11 million compared to the December 31, 2016 balance due to the increase in purchases of spare parts to ensure full functionality of toll lanes.

Other current assets amounted to Php721 million, below by 26% or Php248 million compared to last year. These comprise of unamortized balance of project insurance and deferred input value added tax, among others.

Service concession asset increased to Php33.2 billion from Php30.7 billion as the Company continued to invest in the expansion and enhancement of both the NLEX and the SCTEX.

#### **Liabilities and Stockholder's Equity**

Accounts payable and other current liabilities reached Php3.1 billion, slightly lower compared to the Php3.2 billion posted on December 31, 2016 balance, mainly due to payments in the ordinary course of business.

Long-term debt reached Php14.5 billion as of September 30, 2017, down by 22% or Php4.0 billion compared to the Php18.5 billion in December 31, 2016. The decline was attributed to the re-classification of long-term debt from non-current to current liabilities representing loan maturities by first quarter of 2018.

As of September 30, 2017, retained earnings amounted to Php5.7 billion, 39% or Php1.6 billion higher compared to the Php4.1 billion recorded in December 31, 2016.

## Key Financial Indicators

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

		<b>September 2017</b>	December 2016
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<b>0.26</b>	0.52
Debt-to-equity (DE) ratio	$\frac{\text{Interest Bearing Liabilities}}{\text{Stockholders' Equity}}$	<b>1.66</b>	1.96
Net profit margin	$\frac{\text{Net income}}{\text{Revenues}}$	<b>39.4%</b>	38.2%
Return on assets	$\frac{\text{Net income}^*}{\text{Average Total Assets}}$	<b>12.5%</b>	12.4%
Return on stockholders' equity	$\frac{\text{Net income}^*}{\text{Average Stockholders' Equity}}$	<b>43.3%</b>	46.1%

\*annualized

As of September 30, 2017, the current ratio decreased to 0.26x from 0.52x due to higher current liabilities during the period and the classification of investments as non-current assets. As a strategy, the Company invests its excess liquidity in higher-yielding investments, which are classified as non-current assets in the Company's balance sheet.

Debt-to-Equity Ratio slightly decreased to 1.66x as of September 30, 2017, from 1.96x in December 2016 due to the scheduled amortization of principal during the period and higher stockholders' equity.

Net profit margin increased to 39.4% from 38.2% driven primarily by higher toll revenues generated during the nine months ended September 30, 2017.

Return on assets stood at 12.5%, while the expected full year return on equity is at 43.3%.

## Cash Flows

The following table shows the company's cash flows for the nine months ended September 30, 2017 and year ended December 31, 2016:

Cash Flows	<b>For nine months ended September 2017 (Unaudited)</b>	For year ended December 2016 (Audited)
Cash, beginning balance	<b>390</b>	2,669
Net cash provided by (used in) operating activities	<b>4,179</b>	5,867
Net cash provided by (used in) investing activities	<b>(2,033)</b>	(4,658)
Net cash used in financing activities	<b>(2,209)</b>	(3,489)
Net increase (decrease) in cash	<b>(63)</b>	(2,280)
Effect of exchange rate changes	<b>0</b>	1
Cash, ending balance	<b>327</b>	390

The company continued to generate strong cashflows from operations, allowing full coverage of investing and financing requirements for the nine-month period.

**Cash Flows from Operating Activities**

The net cash flows from Operations during the nine-month period reached Php4.2 billion triggered by higher toll and non-toll revenues earned during the period, offset mainly by income taxes amounting to Php970 million.

**Cash Flows from Investing Activities**

Net cash flows used in investing activities during the nine-month period amounted to Php2.0 billion. The main investments include the Segment 10 project, the widening of Segments 2 & 3 of the NLEX and the toll plaza expansion in Balintawak, Mindanao & Meycauayan.

**Cash Flows from Financing Activities**

Net cash flows used in financing activities as of September 30, 2017, amounted to Php2.2 billion. This includes payment of dividends amounting to Php1.76 billion, repayment of principal loan of Php152 million and interest on loans of Php298 million.



## Other Financial Information

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

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

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

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

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

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

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

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

The Company has sourced the financing for the construction of Segment 10 through loans and internally-generated cash. Segment 10 is expected to cost around Php11.5 billion, including non-civil works cost items. Construction has started in June 2014 and is expected to be completed by the first half of 2018.

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

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

b. Tariff Increase – the delay in regulatory approval of periodic toll rate adjustments may cause uncertainties in the toll revenue projections of the company. This is the fifth year that the growth in toll revenues was solely driven by traffic, without any adjustment in toll rates. The outcome of the ongoing arbitration case will also have a material impact on future revenues.

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

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

## **PART II-- OTHER INFORMATION**

### **List of Disclosures Not Made Under SEC Form 17-C**

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

**SIGNATURE**

Pursuant to the requirements of the Code, this Quarterly Report (SEC 17-Q) is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in Caloocan City, Metro Manila on November 10, 2017.

By:



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**RODRIGO E. FRANCO**  
President and Chief Executive Officer