



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, 2019
2. Commission Identification Number: A1997-01451. 3. BIR Tax Identification No: 004-984-946-000

**NLEX CORPORATION**

4. Exact name of issuer as specified in its charter

**Metro Manila, Philippines**

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code:  (SEC Use Only)

7. Address of issuer's principal office NLEX Compound, Balintawak, Caloocan City Postal Code 1400

8. Issuer's telephone number, including area code +632-8580-8900

**N/A**

9. Former name, former address and former fiscal year, if changed since last report

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
<b><u>Fixed Rate Bonds Due 2021</u></b>	<b><u>Php4,400,000,000.00</u></b>
<b><u>Fixed Rate Bonds Due 2024</u></b>	<b><u>Php2,600,000,000.00</u></b>
<b><u>Series A Bonds Due 2025</u></b>	<b><u>Php4,000,000,000.00</u></b>
<b><u>Series B Bonds Due 2028</u></b>	<b><u>Php2,000,000,000.00</u></b>

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

Yes [ ] No [✓]

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 [✓] No [ ]

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

Yes [✓] No [ ]

**Table of Contents**

<b>SEC FORM 17-Q</b> .....	<b>ii</b>
<b>PART I--FINANCIAL INFORMATION</b> .....	<b>1</b>
Item 1. Financial Statements .....	1
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations .....	36
<b>PART II-- OTHER INFORMATION</b> .....	<b>44</b>

**PART I--FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**NLEX CORPORATION**

**(A Subsidiary of Metro Pacific Tollways North Corporation)**

**AND A SUBSIDIARY**

**Interim Condensed Consolidated Financial Statements (unaudited)**

**September 30, 2019 and 2018**

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

**INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS**

	Unaudited September 30, 2019	Audited December 31, 2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	₱400,820,335	₱2,448,986,198
Investments in unit investment trust funds (Note 5)	18,944,640	67,858,720
Receivables (Notes 6 and 15)	670,140,142	729,730,973
Inventories - at cost	90,091,330	93,480,382
Investments in bonds and treasury notes (Note 11)	69,139,000	61,640,451
Other current assets (Note 12)	491,982,204	609,290,665
<b>Total Current Assets</b>	<b>1,741,117,651</b>	<b>4,010,987,389</b>
<b>Noncurrent Assets</b>		
Service concession assets (Note 7)	42,705,084,570	37,083,887,776
Property and equipment (Note 8)	446,014,551	334,148,769
Investment properties (Note 9)	338,504,386	325,157,911
Other intangible assets (Note 10)	40,259,499	21,868,844
Investments in bonds and treasury notes (Note 11)	94,070,460	979,481,006
Deferred tax assets - net	275,623	275,623
Goodwill (Note 28)	6,213,799,383	6,213,799,383
Advances to contractors and other noncurrent assets	581,732,452	431,455,993
<b>Total Noncurrent Assets</b>	<b>50,419,740,924</b>	<b>45,390,075,305</b>
	<b>₱52,160,858,575</b>	<b>₱49,401,062,694</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Note 13)	₱3,978,408,334	₱2,501,937,336
Income tax payable	442,472,718	358,381,181
Dividends payable	-	2,100,000,000
Provisions (Note 14)	408,186,737	386,079,568
Current portion of long-term debt (Note 16)	354,961,935	352,011,497
<b>Total Current Liabilities</b>	<b>5,184,029,724</b>	<b>5,698,409,582</b>
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Note 16)	22,630,729,244	21,725,412,966
Long-term incentive plan payable	137,795,614	86,000,000
Service concession fees payable (Note 17)	2,845,706,428	2,701,448,632
Provisions (Note 14)	136,472,191	62,262,164
Pension liability	27,601,606	20,162,687
Deferred tax liabilities - net	544,529,852	535,165,307
Other noncurrent liabilities	16,216,186	10,887,425
<b>Total Noncurrent Liabilities</b>	<b>26,339,051,121</b>	<b>25,141,339,181</b>
<b>Total Liabilities</b>	<b>31,523,080,845</b>	<b>30,839,748,763</b>
<b>Equity</b>		
Capital stock (Note 18)	1,878,600,000	1,878,600,000
Additional paid-in capital	9,965,880,147	9,965,880,147
Retained earnings	8,789,399,080	6,809,474,412
Other comprehensive loss reserve (Note 18)	(9,135,779)	(105,674,910)
Other reserve	13,034,282	13,034,282
<b>Total Equity</b>	<b>20,637,777,730</b>	<b>18,561,313,931</b>
	<b>₱52,160,858,575</b>	<b>₱49,401,062,694</b>

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

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

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

	Nine Months ended September 30		Three Months ended September 30	
	2019	2018	2019	2018
<b>OPERATING REVENUES</b>				
Toll fees - net of discount	<b>₱11,000,496,789</b>	₱9,636,372,198	<b>₱3,712,423,335</b>	₱3,057,907,285
Sales of magnetic cards	<b>3,571</b>	4,866	<b>1,339</b>	2,411
Toll revenues	<b>11,000,500,360</b>	9,636,377,064	<b>3,712,424,674</b>	3,057,909,696
Non-toll revenues (Note 19)	<b>228,681,188</b>	134,213,050	<b>82,062,889</b>	33,996,925
Total revenues	<b>11,229,181,548</b>	9,770,590,114	<b>3,794,487,563</b>	3,091,906,621
<b>Cost of services</b> (Note 20)	<b>(3,992,252,026)</b>	(3,428,486,763)	<b>(1,346,679,054)</b>	(1,148,978,778)
<b>Gross Profit</b>	<b>7,236,929,522</b>	6,342,103,351	<b>2,447,808,509</b>	1,942,927,843
<b>Construction revenue</b> (Note 7)	<b>5,776,753,054</b>	2,631,908,589	<b>924,488,594</b>	1,012,221,169
<b>Construction costs</b> (Note 7)	<b>(5,776,753,054)</b>	(2,631,908,589)	<b>(924,488,594)</b>	(1,012,221,169)
<b>General and administrative expenses</b> (Note 21)	<b>(858,622,243)</b>	(688,273,585)	<b>(225,468,671)</b>	(193,868,538)
<b>Interest expense and other finance cost</b> (Note 23)	<b>(531,796,535)</b>	(326,965,392)	<b>(219,912,575)</b>	(90,901,396)
<b>Interest income</b> (Note 22)	<b>57,475,414</b>	54,600,382	<b>18,068,977</b>	23,221,016
<b>Foreign exchange loss - net</b>	<b>(854,801)</b>	428,793	<b>721,625</b>	580,630
<b>Other income</b>	<b>1,071,505</b>	52,276,658	<b>(10,814,091)</b>	49,354,360
<b>Income before income tax</b>	<b>5,904,202,862</b>	5,434,170,207	<b>2,010,403,776</b>	1,731,313,915
<b>Provision for income tax</b>				
Current	<b>1,315,218,131</b>	1,153,261,626	<b>451,449,478</b>	329,070,876
Deferred	<b>9,060,063</b>	31,727,035	<b>12,204,538</b>	6,006,454
	<b>1,324,278,194</b>	1,184,988,661	<b>463,653,476</b>	335,077,330
<b>Net income</b>	<b>₱4,579,924,668</b>	₱4,249,181,546	<b>₱1,546,750,300</b>	₱1,396,236,585

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

**NLEX CORPORATION**  
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**AND A SUBSIDIARY**

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

	<b>Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
<b>NET INCOME</b>	<b>₱4,579,924,668</b>	<b>₱4,249,181,546</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 financial assets at fair value through other comprehensive income (Note 11)	96,825,228	(68,928,560)
Income tax effect	(286,097)	587,778
	<b>96,539,131</b>	<b>(68,340,782)</b>
	<b>96,539,131</b>	<b>(68,340,782)</b>
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement gains (losses) on defined benefit retirement plan	–	(2,379,570)
Income tax effect	–	713,871
	–	<b>(1,665,699)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>	<b>96,539,131</b>	<b>(70,006,481)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱4,676,463,799</b>	<b>₱4,179,175,065</b>

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

**NLEX CORPORATION**  
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**AND A SUBSIDIARY**

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

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Loss Reserve	Other Reserve	Total Equity
At January 1, 2019	₱1,878,600,000	₱9,965,880,147	₱6,809,474,412	(₱105,674,910)	₱13,034,282	₱18,561,313,931
Cash dividends	–	–	(2,600,000,000)	–	–	(2,600,000,000)
Net Income	–	–	4,579,924,668	–	–	4,579,924,668
Other comprehensive loss (Note 18)	–	–	–	96,539,131	–	96,539,131
Total comprehensive income for the year	–	–	4,579,924,668	96,539,131	–	4,676,463,799
At September 30, 2019	₱1,878,600,000	₱9,965,880,147	₱8,789,399,080	(₱9,135,779)	₱13,034,282	₱20,637,777,730
At January 1, 2018	₱1,776,000,000	₱3,749,711,168	₱5,154,024,882	(₱37,036,249)	₱13,034,282	₱10,655,734,083
Issuances during the year	102,600,000	6,216,168,979	–	–	–	6,318,768,979
Cash dividends (Note 18)	–	–	(4,100,000,000)	–	–	(4,100,000,000)
Net income	–	–	5,755,449,530	–	–	5,755,449,530
Other comprehensive loss (Note 18)	–	–	–	(68,638,661)	–	(68,638,661)
Total comprehensive income for the year	–	–	5,755,449,530	(68,638,661)	–	5,686,810,869
At December 31, 2018	₱1,878,600,000	₱9,965,880,147	₱6,809,474,412	(₱105,674,910)	₱13,034,282	₱18,561,313,931

*See accompanying notes to 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>2019</b>	<b>2018</b>
<b>OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱5,904,202,862</b>	₱5,434,170,207
Adjustments to reconcile income before income tax to net cash flows:		
Amortization of service concession assets (Note 7)	<b>770,032,657</b>	603,961,532
Interest expense and other finance costs (Note 23)	<b>531,796,535</b>	326,965,392
Depreciation of property and equipment (Note 8)	<b>95,654,658</b>	48,380,040
Interest income (Note 22)	<b>(57,475,414)</b>	(54,600,382)
Long-term incentive plan expense	<b>51,795,614</b>	48,000,000
Provision for doubtful accounts	<b>5,373,079</b>	–
Amortization of other intangible assets (Note 10)	<b>2,669,940</b>	4,307,510
Allowance for decline in value of assets	<b>2,423,895</b>	–
Allowance for decline in value of inventories	<b>223,201</b>	–
Movements in:		
Provisions	<b>85,088,352</b>	(25,636,447)
Accrued retirement costs / pension costs	<b>7,438,919</b>	(1,566,324)
Gain on disposal of investments in bonds and treasury notes	<b>15,959,242</b>	8,840
Amortization of deferred lease income	–	2,014
Amortization of discount on bonds	<b>(1,899,105)</b>	–
Unrealized loss (gain) on investments (UITF)	<b>(272,968)</b>	(390,403)
Loss (gain) on disposals of property and equipment	–	115,917
Unrealized foreign exchange loss – net	<b>(478,727)</b>	(1,042,234)
Unearned rental income realized	–	9,317,461
Working capital changes:		
Decrease (increase) in:		
Receivables	<b>41,895,025</b>	156,927,255
Inventories	<b>3,165,851</b>	3,759,328
Other current assets	<b>114,884,566</b>	100,741,425
Increase (decrease) in:		
Accounts payable and other current liabilities	<b>1,400,293,267</b>	(746,625,859)
Due to related parties	<b>25,290</b>	–
Long-term incentive plan payable	–	(157,015,451)
Income tax paid	<b>(1,231,126,594)</b>	(1,143,295,013)
<b>Net cash flows provided by operating activities</b>	<b>7,741,670,145</b>	4,606,484,808
<b>INVESTING ACTIVITIES</b>		
Interest received	<b>69,798,141</b>	50,986,753
Increase (decrease) in other noncurrent assets	<b>(150,276,459)</b>	21,560,724
Additions to:		
Acquisition of investment in UITF (Note 11)	<b>(80,812,952)</b>	(5,926,000,000)
Acquisition of investment in available for sale investments	–	(143,346)
Service concession asset (Note 7)	<b>(6,239,141,096)</b>	(2,490,336,858)
Property and equipment (Note 8)	<b>(207,520,440)</b>	(136,693,651)
Investment properties (Note 9)	<b>(9,512,090)</b>	(178,440,827)
Other intangible assets (Note 10)	<b>(21,060,595)</b>	(1,706,805)

(Forward)

	<b>Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Proceeds from:		
Sale of investments in UITFs	<b>₱131,323,497</b>	₱6,095,009,850
Sale of investments in bonds and treasury notes	<b>699,465,473</b>	99,991,160
Maturity of investments in bonds and treasury notes	<b>261,230,000</b>	50,000,000
Sale of property and equipment (Note 8)	–	320,033
<b>Net cash flows used in investing activities</b>	<b>(5,546,506,521)</b>	<b>(2,415,452,967)</b>
<b>FINANCING ACTIVITIES</b>		
Payments of:		
Dividends	<b>(4,700,000,000)</b>	(3,840,000,000)
Interest	<b>(431,616,150)</b>	(146,776,339)
Long-term debt	<b>(610,000,000)</b>	(4,067,616,998)
Debt issue costs	<b>(2,192,064)</b>	(73,475,256)
Proceeds from short-term loans (Note 16)	<b>500,000,000</b>	–
Proceeds from long-term debt (Note 16)	<b>1,000,000,000</b>	7,000,000,000
<b>Net cash flows used in financing activities</b>	<b>(4,243,808,214)</b>	<b>(1,127,868,593)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	<b>478,727</b>	1,042,234
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,048,644,590)</b>	1,063,163,248
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,448,986,198</b>	2,715,210,842
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)</b>	<b>₱400,820,335</b>	<b>₱3,779,416,324</b>

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

## **NLEX CORPORATION**

### **(A Subsidiary of Metro Pacific Tollways North Corporation) AND A SUBSIDIARY**

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

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##### **1. Corporate Information**

###### General

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

NVC, a wholly owned subsidiary of NLEX Corp., is primarily engaged to develop, fund, construct, operate and maintain any 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.

Metro Pacific Tollways North Corporation (MPTNC), the parent company of NLEX Corp., is a wholly owned subsidiary of Metro Pacific Tollways Corporation (MPTC). MPTC is 99.9% owned by Metro Pacific Investments Corporation (MPIC). MPIC is a publicly listed Philippine corporation and is 41.9% owned by Metro Pacific Holdings, Inc. (MPHI) as at March 31, 2019. As sole holder of the voting Class A Preferred Shares, MPHI’s combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at March 31, 2018. MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (FPIL) (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40.0% equity interest in EIH and an investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group of companies in Hong Kong.

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

###### Merger between NLEX Corp. and Tollways Management Corporation (TMC)

On October 19, 2016, the Parent Company’s BOD approved the proposed merger between NLEX Corp. and TMC, with NLEX Corp. as the surviving corporation (the Merger). The merger was effective on December 14, 2018, which is 15 days after the receipt of the required approval of the SEC on November 29, 2018 (see Note 28).

###### Toll Operations

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

The MNEP consists of three phases as follows:

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

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

Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLEX, had officially commenced tollway operation on June 5, 2010. Segment 9, a portion of Phase II, which is a 2.4 km-road connecting NLEX to the McArthur Highway, had officially commenced tollway operation on March 19, 2015. In May 2014, Segment 10, a portion of Phase II, which is a 5.76 km four-lane, elevated expressway that will start from the terminal of Segment 9 in Valenzuela City going to Circumferential Road 3 (C-3 Road) in Caloocan City above the alignment of Philippine National Railway (PNR) tracks. Segment 10 construction was completed on February 28, 2019, and officially opened to the public on March 1, 2019. The 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, 2019.

*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 kilometers passing through and above the right of way of the PNR starting from NLEX Segment 10 at C-3 Road Caloocan City and seamlessly connecting to SLEX through Metro Manila Skyway Stage 3 Project in Manila. As at September 30, 2019, the construction of the NLEX-SLEX Connector Road is still on its pre-construction phase.

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

### Basis of Preparation

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for 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, 2018.

### 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, 2018, except for the adoption of new standards and interpretations effective as at January 1, 2019. 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 2019, 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:

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Company does not expect for these amendments to have an impact on the consolidated financial statements.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-statement of financial position model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Company does not expect for these amendments to have an impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes* and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

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

#### *Annual Improvements to PFRSs 2015-2017 Cycle*

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its consolidated financial statements upon adoption.

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

Based on historical traffic in both the NLEX and SCTEX, 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 onset of the rainy season. Traffic is expected to improve from September until November, while the month of December usually sees the highest traffic volume due to the Christmas holidays.

#### 4. Cash and Cash Equivalents

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Cash and cash equivalents	P147,317,613	P535,618,755
Short-term deposits	253,502,722	1,913,367,443
	<b>P400,820,335</b>	<b>P2,448,986,198</b>

For purposes of the interim statements of cash flows for the nine months ended September 30, 2019 and 2018, cash and cash equivalents as at September 30 comprise of the following:

	2019 (Unaudited)	2018
Cash on hand and in banks	P147,317,613	P698,224,669
Short-term deposits	253,502,722	3,081,191,655
	<b>P400,820,335</b>	<b>P3,779,416,324</b>

#### 5. Investments in Unit Investment Trust Funds

Details of this account are shown below:

	September 30, 2019		December 31, 2018	
	Fair Value	Principal Amount	Fair Value	Principal Amount
<b>Investments in unit investment trust funds</b>				
Short-term	P18,944,640	P18,221,409	P67,858,720	P67,221,409

#### 6. Receivables

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Trade receivables	P413,863,167	P446,296,708
Advances to Department of Public Works and Highways (DPWH)	157,932,710	193,422,528
Advances to officers and employees	21,319,231	15,952,200
Due from related parties (see Note 15)	10,969,648	9,179,525
Interest receivables	8,964,062	21,286,789
Other receivables	95,227,857	76,356,677
	<b>708,276,675</b>	<b>762,494,427</b>
Less allowance for doubtful accounts	<b>38,136,533</b>	<b>32,763,454</b>
	<b>P670,140,142</b>	<b>P729,730,973</b>

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



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 to six months.

Other receivables are noninterest-bearing and are collectible within a year. As at September 30, 2019 and December 31, 2018, other receivables include those receivables from motorists who caused accidental damage to NLEX property from day-to-day operations amounting to ₱49.4 million and ₱47.9 million, respectively.

Movements in the allowance for doubtful accounts as at September 30, 2019 and December 31, 2018 are as follows:

	2019		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱6,533,005	₱26,230,449	₱32,763,454
Provision for doubtful accounts (see Note 21)	945,736	4,427,343	5,373,079
Balance at end of year	₱7,478,741	₱30,657,792	₱38,136,533

  

	2018		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱3,204,597	₱23,234,568	₱26,439,165
Provision for doubtful accounts (see Note 21)	3,328,408	2,995,881	6,324,289
Balance at end of year	₱6,533,005	₱26,230,449	₱32,763,454

## 7. Service Concession Assets

The movements in this account follow:

	MNEP	SCTEX	NLEX-SLEX Connector Road	Total
<b>Cost:</b>				
Balance at beginning of year	₱38,262,267,913	₱4,538,737,554	₱2,984,551,462	₱45,785,556,929
Additions	6,090,744,645	84,451,253	216,033,554	6,391,229,452
Balance at end of the period	₱44,353,012,558	₱4,623,188,807	₱3,200,585,016	₱52,176,786,381
<b>Accumulated amortization:</b>				
Balance at beginning of year	₱8,409,199,593	₱292,469,560	₱—	₱8,701,669,153
Amortization (see Note 20)	699,614,739	70,417,919	—	770,032,658
Balance at end of the period	₱9,108,814,332	₱362,887,479	₱—	₱9,471,701,811
<b>Net book value:</b>				
<b>At September 30, 2019</b>	<b>₱35,244,198,226</b>	<b>₱4,260,301,328</b>	<b>₱3,200,585,016</b>	<b>₱42,705,084,570</b>
At December 31, 2018	29,853,068,320	4,246,267,994	2,984,551,462	37,083,887,776

### MNEP

Additions for the nine months ended September 30, 2019 pertain primarily to the completion of Harbor Link Segment 10 and the on-going construction of the R-10 Exit Ramp (portion of Phase II); and construction costs of bridge retrofitting, new toll plazas and enhancement of existing ones in certain areas of NLEX. Borrowing costs

capitalized amounted to ₱492.3 million for the nine months ended September 30, 2019. The interest rate used to determine the amount of borrowing costs eligible for capitalization was 5.0% to 5.8% in 2019.

#### SCTEX

Additions in SCTEX mainly pertains to the modernization of toll plazas and building facilities and fixed operating equipment.

#### 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.

### 8. Property and Equipment

The movements in this account are as follows:

	Land	Building, Building Improvements and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Cost:					
At January 1, 2019	₱—	₱140,707,680	₱165,609,859	₱370,302,740	₱676,620,279
Additions	65,023,560	32,407,426	21,939,494	90,931,577	210,302,057
Disposals	—	—	(3,964,954)	(218,804)	(4,183,758)
<b>At September 30, 2019</b>	<b>₱65,023,560</b>	<b>₱173,115,106</b>	<b>₱183,584,399</b>	<b>₱461,015,513</b>	<b>₱882,738,578</b>
Accumulated depreciation:					
At January 1, 2019	₱—	₱51,777,858	₱76,221,091	₱214,472,562	₱342,471,510
Depreciation (see Notes 20 and 21)	—	8,493,315	28,935,004	59,763,213	97,191,532
Disposal	—	—	(2,720,212)	(218,804)	(2,939,016)
<b>At September 30, 2019</b>	<b>₱—</b>	<b>₱60,271,173</b>	<b>₱102,435,883</b>	<b>₱274,016,971</b>	<b>₱436,724,027</b>
Net book value:					
<b>At September 30, 2019</b>	<b>₱65,023,560</b>	<b>₱112,843,933</b>	<b>₱81,148,515</b>	<b>₱186,998,542</b>	<b>₱446,014,551</b>
At December 31, 2018	—	88,929,822	89,388,769	155,829,977	334,148,769

### 9. Investment Properties

The movements in this account follow:

	Land	Toll Service Facilities and Improvements	Total
Cost:			
At January 1, 2019	₱117,401,719	₱208,236,622	₱325,638,341
Additions	—	18,867,515	18,867,515
<b>At September 30, 2019</b>	<b>₱117,401,719</b>	<b>₱227,104,137</b>	<b>₱344,505,856</b>
Accumulated depreciation:			
At January 1, 2019	₱—	580,818	₱580,818
Additions	—	5,420,652	5,420,652
<b>At September 30, 2019</b>	<b>₱—</b>	<b>₱6,001,470</b>	<b>₱6,001,470</b>

	Land	Toll Service Facilities and Improvements	Total
<b>Net Book Value, September 30, 2019</b>	<b>₱117,401,719</b>	<b>₱221,102,667</b>	<b>₱338,504,386</b>

#### 10. 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, 2019 (Unaudited)	December 31, 2018 (Audited)
Cost:		
Balance at beginning of year	₱127,372,201	₱109,997,788
Additions	21,060,595	17,374,413
Disposals	-	-
Balance at end of the period	148,432,796	127,372,201
Accumulated amortization:		
Balance at beginning of year	105,503,357	99,683,474
Amortization (see Note 20)	2,669,940	5,819,883
Disposals	-	-
Balance at end of the period	108,173,297	105,503,357
<b>Net book value</b>	<b>₱40,259,499</b>	<b>₱21,868,844</b>

#### 11. Investment in Bonds and Treasury Notes

Details of this account are shown below:

Maturity Date	Interest Rate	September 30, 2019		December 31, 2018	
		Fair Value	Principal Amount	Fair Value	Principal Amount
<b>ROP Retail Treasury Bonds</b>					
August 15, 2023	3.25%	47,925,460	50,000,000	481,516,059	565,100,000
		47,925,460	50,000,000	481,516,059	565,100,000
<b>Fixed Rate Treasury Notes</b>					
July 19, 2019	4.75%	-	-	11,104,898	11,230,000
August 20, 2020	3.38%	19,978,500	20,000,000	18,513,447	20,000,000
		19,978,500	20,000,000	29,618,345	31,230,000
<b>Long-term Negotiable Certificates of Deposits (LTNCD)</b>					
PNB – June 12, 2020	4.13%	49,160,500	50,000,000	49,160,500	50,000,000
Metrobank – November 21, 2021	4.25%	46,145,000	50,000,000	46,145,000	50,000,000
		95,305,500	100,000,000	95,305,500	100,000,000
<b>Corporate Bonds</b>					
FMIC – August 10, 2019	5.75%	-	-	50,535,553	50,000,000
Meralco – December 12, 2020	4.38%	-	-	192,576,000	200,000,000
PLDT – February 6, 2021	5.23%	-	-	191,570,000	200,000,000
		-	-	434,681,553	450,000,000
		<b>₱163,209,460</b>	<b>₱170,000,000</b>	<b>₱1,041,121,457</b>	<b>₱1,146,633,400</b>

The movements in this account follow:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of year	₱1,041,121,457	₱–
Reclassification of AFS financial assets to financial assets at FVOCI	–	1,254,406,932
Sale of investment in bonds and treasury notes	(915,100,000)	(100,000,000)
Additions	–	–
Maturity of investment in bonds and treasury notes	(61,230,000)	(50,000,000)
Changes in fair value during the period	103,808,505	(63,475,190)
Amortization of discount on bonds	1,592,774	146,002
Recycling to profit or loss	(6,983,276)	43,713
Balance at end of year	₱163,209,460	₱1,041,121,457
Current	69,139,000	₱61,640,451
Noncurrent	94,070,460	979,481,006
	₱163,209,460	₱1,041,121,457

## 12. Other Current Assets

Details of other current assets are as follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Input VAT	₱234,591,670	₱28,021,734
Advances to contractors and consultants	100,608,807	91,961,592
Deferred input VAT	130,039,889	79,271,935
Prepayments	35,390,315	104,541,749
Creditable withholding tax	20,151,560	10,869,798
Refundable deposits	3,276,064	3,276,064
Restricted cash	–	321,000,000
	524,058,305	638,942,872
Less: Allowance for non-recoverability of creditable tax	(15,380,461)	(15,380,461)
Allowance for unclaimable input VAT	(16,695,640)	(14,271,746)
	₱491,982,204	₱609,290,665

## 13. Accounts Payable and Other Current Liabilities

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Trade payables	₱158,209,857	₱381,055,558
Accrued expenses	2,841,064,491	1,324,221,828
Retention payable	564,112,862	462,721,065
Output VAT	119,329,439	36,048,351
Withholding taxes payable	58,633,216	114,726,787
Interest payable	175,762,577	98,394,217
Deferred output VAT	21,973,275	35,468,649
Unearned revenue	134,697	15,270,048
Others	39,187,920	34,030,833
	₱3,978,408,334	₱2,501,937,336

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

Accrued expenses consist of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Construction costs	P1,478,607,509	P537,878,615
PNCC fee	545,730,603	62,423,077
Advertising and marketing expenses	207,348,475	204,664,697
Concession fees	113,430,434	116,867,363
Professional fees	58,439,799	91,685,401
Taxes and licenses	36,207,037	19,372,844
Management fees	51,649,714	21,198,404
Operating and maintenance costs	78,061,803	63,883,442
Outside services	63,784,736	55,926,127
Repairs and maintenance	82,868,979	53,056,881
Salaries and employee benefits	29,058,235	4,934,589
Toll collection and medical services	2,620,167	2,571,070
Project insurance	6,543,236	34,138,622
Others	86,713,764	55,620,696
	<b>P2,841,064,491</b>	<b>P1,324,221,828</b>

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

Interest payable is settled within six months.

#### 14. Provisions

The movements in this account follow:

	Heavy Maintenance	Others	Total
Beginning of the year	P193,975,390	P254,366,342	P448,341,732
Additions (see Notes 20 and 21)	314,078,229	120,720,250	428,540,562
Accretion (see Note 23)	11,228,845	–	17,486,762
Payments	(251,097,047)	(98,613,081)	(349,710,128)
At September 30, 2019	<b>P268,185,417</b>	<b>P276,473,511</b>	<b>P544,658,928</b>
At September 30, 2019:			
Current	P147,500,000	P260,686,737	P408,186,737
Noncurrent	120,685,417	15,786,774	136,472,191
	<b>P268,185,417</b>	<b>P276,473,511</b>	<b>P544,658,928</b>
At December 31, 2018:			
Current	P147,500,000	P238,579,568,	P386,079,568
Noncurrent	46,475,390	15,786,774	62,262,164
	<b>P193,975,390</b>	<b>P254,366,342</b>	<b>P448,341,732</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.

#### 15. Related Party Disclosures

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Due from Related Parties		
Easytrip Services Corporation (ESC)	₱185,015	₱99,000
Metro Pacific Tollways Corporation	4,453,382	4,230,086
MPCALA Holdings, Inc.	183,040	4,533
Cavitex Infrastructure Corp.	596,426	225,002
Metro Pacific Tollways Management Services, Inc	2,237,940	390,740
Cebu Cordova Link Expressways Corporation	261,685	149,531
Metro Pacific Tollways South Management Corporation	2,990,899	4,057,988
Maynilad	6,391	–
Metro Pacific Tollways North Corporation	54,870	22,645
	<b>₱10,969,648</b>	<b>₱9,179,525</b>

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

Related Party	Relationship		Management Fees (see Note 20)	Professional Fees (see Note 20)	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)	Rental (see Note 20)	Representation and Travel expenses	Income from Advertising (see Note 18)	Income from Utility Facilities (see Note 18)
MPTC	Intermediate Parent Company	2019	<b>₱33,765,771</b>	<b>₱-</b>	<b>₱-</b>	<b>₱101,250</b>	<b>₱41,158</b>	<b>₱17,285</b>	<b>₱50,353,333</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>
		2018	45,890,756	-	-	-	1,392,488	-	82,058,795	-	-	-	-
MPTNC	Parent Company	2019	<b>60,643,389</b>	-	-	-	-	-	<b>14,386,665</b>	-	-	-	-
		2018	26,405,021	-	-	-	-	-	-	-	-	-	-
MPIC		2019							<b>18,500</b>				
		2018							-				
MPTMSI	Subsidiary of MPTC	2019	<b>48,056,333</b>	-	-	-	-	<b>326,325</b>	-	-	-	-	-
		2018	40,434,036	-	-	-	-	-	-	-	-	-	-
CIC	Associate of MPT South	2019	-	-	-	-	-	-	<b>57</b>	-	-	<b>1,450,000</b>	-
		2018	-	-	-	-	-	-	50,000	-	-	-	-
TMC	Associate of MPT North	2019	-	-	-	-	-	-	-	-	-	-	-
		2018	-	-	654,848,934	-	-	-	54,500	-	-	-	-
Easytrip Services Corp. (ESC)	Joint Venture of MPT North	2019	-	-	-	<b>69,340,582</b>	-	-	<b>443,816</b>	-	<b>893</b>	-	-
		2018	-	-	-	57,373,024	-	-	340,650	-	1,818	448,000	-
Smart Communications Inc. (Smart)	Associate of FPC	2019	-	-	-	-	-	<b>2,416,960</b>	-	-	-	-	<b>408,259</b>
		2018	-	-	-	-	-	1,343,886	15,774	-	-	1,864,000	390,678
PLDT	Associate of FPC	2019	-	-	-	-	-	<b>5,390,774</b>	<b>41,520</b>	-	<b>10,272</b>	<b>2,050,000</b>	<b>2,183,616</b>
		2018	-	-	-	-	-	2,478,250	1,925	-	-	700,000	2,180,559

Related Party	Relationship		Management Fees (see Note 20)	Professional Fees (see Note 20)	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)	Rental (see Note 20)	Representation and Travel expenses	Income from Advertising (see Note 18)	Income from Utility Facilities (see Note 18)
Southbend Express Services	Subsidiary of MPTC	2019	-	-	-	44,395,626	374,950	76,780	-	97,170	2,561,782	-	-
		2018	-	-	-	-	-	-	-	-	-	-	-
Egis Projects Philippines, Inc.	Associate of FPC	2019	-	15,423,920	-	-	-	-	-	-	-	-	-
		2018	-	14,732,143	-	-	-	-	-	-	-	-	-
Indra Philippines	Associate of MPTC	2019	-	-	-	-	16,323,312	-	-	-	-	-	-
		2018	-	-	-	-	8,664,247	-	-	-	-	-	-
Manila Electric Company (Meralco)	Associate of MPIC	2019	-	-	-	-	-	36,402,087	-	-	-	-	-
		2018	-	-	-	-	-	5,375,223	-	-	-	-	-
Maynilad	Associate of MPIC	2019	-	-	-	-	-	681,206	-	-	-	-	25,000
		2018	-	-	-	-	-	249,074	-	-	-	-	-
<b>Total</b>		<b>2019</b>	<b>₱142,465,493</b>	<b>₱15,423,920</b>	<b>₱-</b>	<b>₱113,837,458</b>	<b>₱16,739,420</b>	<b>₱45,311,417</b>	<b>₱65,243,891</b>	<b>₱97,170</b>	<b>₱2,572,947</b>	<b>₱3,500,000</b>	<b>₱2,616,875</b>
		<b>2018</b>	<b>112,729,813</b>	<b>14,732,143</b>	<b>654,848,934</b>	<b>57,373,024</b>	<b>10,056,735</b>	<b>9,446,433</b>	<b>82,521,644</b>	<b>-</b>	<b>1,818</b>	<b>3,012,000</b>	<b>2,571,237</b>



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

### Short-term Notes Payable

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

### Long-term Debt

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
<b>Peso-denominated Notes and Loans:</b>		
Series A Notes	₱920,000,000	₱930,000,000
Term Loan Facilities	9,200,000,000	8,300,000,000
Fixed-rate Bonds	13,000,000,000	13,000,000,000
	<b>23,120,000,000</b>	22,230,000,000
Less unamortized debt issue costs	134,308,821	152,575,537
	<b>22,985,691,179</b>	22,077,424,463
Less current portion of long-term debt	354,961,935	352,011,497
	<b>₱22,630,729,244</b>	₱21,725,412,966

On September 19, 2019, NLEX Corp. entered into a term loan facility agreement with BDO Unibank Inc. for a 10-year fixed-rate loan amounting to ₱5.0 billion with an annual interest rate of 5.21%. The proceeds of the loan will be used to partially finance the Company's capital expenditure projects. On September 23, 2019, the Company made an initial drawdown of ₱1.0 billion.

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱134.3 million and ₱152.6 million as at September 30, 2019 and December 31, 2018, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of period	₱152,575,537	₱107,020,853
Amortization during the year*	(20,458,781)	(27,920,572)
Debt issue costs incurred during the year	2,192,065	73,475,256
Balance at end of period	<b>₱134,308,821</b>	₱152,575,537

\*Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱9,154,056 in 2019 and ₱17,127,856 in 2018.

## 17. Service Concession Fees Payable

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

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
At January 1	₱2,701,448,632	₱2,521,429,127
Accretion	144,257,796	180,019,505
Balance at end of period	<b>₱2,845,706,428</b>	<b>₱2,701,448,632</b>

## 18. Equity

### Capital Stock

Details of shares of stock of the Company as at September 30, 2019 and December 31, 2018 follow:

	September 30, 2019	December 31, 2018
Authorized - ₱100 par value	40,000,000	40,000,000
Issued	18,786,000	18,786,000

### Other Comprehensive Income Reserve

	Financial Assets at FVOCI	Income Tax Related to Financial Assets at FVOCI	Re- measurement of Defined Benefit Plan	Income Tax Related to Defined Benefit Plan	Total
Balance at January 1, 2019	(₱103,572,531)	₱345,742	(₱3,497,315)	₱1,049,194	(₱105,674,910)
Recycling to profit or loss (see Note 10)*	96,825,229	(286,098)	-	-	96,539,131
Balance at September 30, 2019	<b>(₱6,747,302)</b>	<b>₱59,644</b>	<b>(₱3,497,315)</b>	<b>₱1,049,194</b>	<b>(₱9,135,779)</b>
Balance at January 1, 2018	(₱39,612,493)	(₱43,141)	₱3,741,979	(₱1,122,594)	(₱37,036,249)
Changes in fair value	(68,356,286)	587,778	(2,379,570)	713,871	(69,434,207)
Recycling to profit or loss (see Note 10)*	(572,274)	-	-	-	(572,274)
Balance at September 30, 2018	<b>(₱40,184,767)</b>	<b>₱544,637</b>	<b>₱1,362,409</b>	<b>(₱408,723)</b>	<b>(₱107,042,730)</b>

\* Net of changes in fair value during the quarter.

## 19. Non-Toll Revenue

Details of non-toll revenue follow:

	For Nine Months Ended September 30	
	2019	2018
	<i>(Unaudited)</i>	
Income from advertising	<b>₱105,527,993</b>	₱83,455,544
Income from toll service and utility facilities	<b>48,696,320</b>	37,798,486
Rental income	<b>33,077,242</b>	265,614
Service income	<b>23,428,031</b>	12,628,877
Others	<b>17,951,602</b>	64,529
	<b>₱228,681,188</b>	₱134,213,050

## 20. Cost of Services

This account consists of:

	Nine Months Ended September 30	
	2019	2018
	<i>(Unaudited)</i>	
Concession fee	<b>₱928,217,927</b>	₱787,424,828
Amortization of service concession assets (see Note 7)	<b>770,032,657</b>	603,961,532
PNCC fee	<b>537,708,612</b>	474,016,659
Salaries and employee benefits	<b>428,128,541</b>	30,398,694
Provision for heavy maintenance (see Note 14)	<b>314,078,229</b>	177,054,758
Repairs and maintenance	<b>283,427,833</b>	256,897,719
Outside services	<b>260,374,280</b>	217,224,739
Light and water	<b>71,483,338</b>	13,821,320
Insurance	<b>68,636,525</b>	59,321,367
Depreciation of property and equipment (see Note 8)	<b>65,439,043</b>	14,901,321
Supervision fee	<b>55,274,742</b>	–
Fuel and oil	<b>54,052,189</b>	7,236,842
Advertising and promotions	<b>31,288,617</b>	36,937,029
Toll collection and medical services	<b>16,583,789</b>	17,443,523
Operator's fee	–	654,848,934
Others	<b>107,525,704</b>	76,997,498
	<b>₱3,992,252,026</b>	₱3,428,486,763

## 21. General and Administrative Expenses

This account consists of:

	Nine Months Ended September 30	
	2019	2018
	<i>(Unaudited)</i>	
Salaries and employee benefits	<b>₱282,097,073</b>	₱171,463,948
Management fees (see Note 15)	<b>142,465,493</b>	112,729,813
Advertising and marketing expenses	<b>106,318,121</b>	130,405,593
Taxes and licenses	<b>88,927,183</b>	80,854,395
Provisions (see Note 14)	<b>73,731,766</b>	56,212,448
Professional fees	<b>36,173,312</b>	25,496,793

	<b>Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
	<i>(Unaudited)</i>	
(Forward)		
Depreciation of property and equipment (see Note 8)	<b>35,636,267</b>	33,478,719
Outside services (see Note 15)	<b>26,673,453</b>	14,323,612
Representation and travel	<b>22,850,173</b>	21,536,357
Training and development costs	<b>10,351,580</b>	6,802,531
Office supplies	<b>7,071,807</b>	8,431,176
Provision for doubtful accounts	<b>5,373,079</b>	2,929,357
Communication, light and water	<b>3,739,869</b>	2,865,651
Repairs and maintenance (see Note 15)	<b>3,092,760</b>	4,257,929
Amortization of other intangible assets (see Note 10)	<b>2,468,932</b>	4,307,510
Decline in value of asset	<b>2,423,895</b>	–
Rentals	<b>1,450,417</b>	2,300,745
Directors' fees	<b>654,000</b>	820,000
Decline in value of inventories	<b>223,201</b>	–
Miscellaneous	<b>6,899,862</b>	9,057,008
	<b>₱858,622,243</b>	₱688,273,585

## 22. Interest Income

Sources of interest income follow:

	<b>Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
	<i>(Unaudited)</i>	
Cash and cash equivalents (see Note 4)	<b>₱29,735,388</b>	₱24,969,878
Investment in bonds and treasury notes (see Note 10)	<b>27,024,831</b>	29,630,504
Others	<b>715,195</b>	–
	<b>₱57,475,414</b>	₱54,600,382

## 23. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	<b>Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
	<i>(Unaudited)</i>	
Interest expense on:		
Long-term debt (see Note 16)	<b>₱504,107,224</b>	₱304,289,211
Provision for heavy maintenance (see Note 14)	<b>11,228,844</b>	10,762,674
Deferred lease income	<b>278,457</b>	2,014
Finance costs:		
Amortization of debt issue costs (see Note 16)	<b>11,304,725</b>	9,336,607
Lenders' fees	<b>3,590,432</b>	2,465,468
Bank charges	<b>1,286,853</b>	109,418
	<b>₱531,796,535</b>	₱326,965,392

## 24. Significant Contracts and Commitments

### **Construction of Segment 10, part of Phase II of the Project**

On April 28, 2014, NLEX Corp. signed a target cost construction contract with Leighton Contractors (Asia) Ltd. (LCAL) for the construction of NLEX Segment 10. The target cost is approximately ₱10.0 billion

(inclusive of VAT), with a completion period of 24 months from start date. The contract structure is collaborative in nature and provides a pain-sharing or gain-sharing mechanism if the actual construction cost exceeds or falls below the agreed target. LCAL's performance obligation under the contract are backed up by: (i) a bank-issued irrevocable stand-by letter of credit, (ii) cash retention, and (iii) a parent company guarantee issued by Leighton Asia Limited.

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

On January 12, 2017, pursuant to the escrow agreement, NLEX Corp. exercised its option to reduce the escrow account balance to the new minimum balance of ₱669.0 million. The 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.

The construction of the 5.65 km fully elevated segment was completed on February 28, 2019 and started the commercial operations on March 21, 2019.

As at September 30, 2019, the balance of the escrow account was already released and used to pay the gain share of Leighton Contractors Asia Limited.

#### **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.

As part of Phase 2 of the NLEX Widening Project, the Company has also finalized the construction contract for the NLEX Segment 7 ("SFEX") Capacity Expansion Project with []. The Project is estimated to cost around Php1.6 billion and will be sourced through internally generated cash and term loans. The Project is estimated to be completed by the 4Q of 2020.

#### **Lease Contract**

On January 1, 2016, NVC, as lessor, entered into a contract of lease with RDL Fuel Point, Inc, as lessee, covering a parcel of land adjacent to the NLEX and is presently the site of a service facility. The lease term shall be for 14 years starting from January 1, 2016, unless earlier terminated or otherwise extended by the parties in writing. The amount of the rent for the first 2 years shall be ₱3.6 million per year (inclusive of VAT). On the third year of the lease and every year thereafter, the rent shall be escalated by 5%. The lessee shall likewise pay the lessor additional fees based on the sales proceeds of the service facility.

Upon signing of the lease contract, the lessee paid an advance rent amounting to ₱7.2 million which shall be applied equally for the first 2 years. The lessee also paid security deposit amounting to ₱0.3 million which shall be returned to the lessee after the expiration or termination of the lease contract.

#### **NLEX Drive and Dine Project**

In 2017, NVC entered into a contract agreement with R.D. Policarpio & Co., Inc. for the design and construction of the NLEX Drive and Dine Project.

On October 6, 2017, an advance payment was made by NVC to the contractor amounting to ₱29.9 million (inclusive of VAT). The NLEX Drive and Dine Project commenced its operation in September 2018.

## 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 are reasonable approximate of fair values, by category as at September 30, 2019 and December 31, 2018 is as follows:

	September 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Asset</b>				
Financial Assets at FVTPL:				
Unit investment trust fund	<b>₱18,944,640</b>	<b>₱18,944,640</b>	₱67,858,720	₱67,858,720
Financial assets at FVOCI:				
Investment in treasury bonds and notes	<b>67,903,960</b>	<b>67,903,960</b>	511,522,957	511,522,957
Investment in LTNCD	<b>95,305,500</b>	<b>95,305,500</b>	95,305,500	95,305,500
Investment in corporate bonds	–	–	434,293,000	434,293,000
	<b>₱182,154,100</b>	<b>₱182,154,100</b>	₱1,108,980,177	₱1,108,980,177
<b>Financial Liability</b>				
Other financial liability:				
Long-term debt	<b>₱22,985,691,179</b>	<b>₱27,165,864,650</b>	₱22,077,424,462	₱20,401,737,578
Service concession fee payable	<b>2,845,706,428</b>	<b>3,043,715,961</b>	2,701,448,632	2,128,511,528
Rental deposits	<b>8,158,395</b>	<b>8,158,395</b>	4,577,671	4,001,962
	<b>₱25,839,556,002</b>	<b>₱30,217,739,006</b>	₱24,783,450,765	₱22,534,251,068

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

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

### Investments in UITFs

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

### Investments in Treasury Bonds and Notes, Corporate Bonds and LTNCD

The fair value of investment in treasury bonds and notes, corporate bonds and LTNCD is based on the quoted market price of the financial instruments as at September 30, 2019 and December 31, 2018. When the market prices are not readily available, the Company uses adjusted quoted market prices of comparable investments or applied discounted cash flow methodologies.

### Long-term Debt

For fixed rate peso-denominated notes and loans, except the fixed-rate bonds where the fair value is based on its quoted market price as at September 30, 2019 and December 31, 2018, estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2019 and 2018, the prevailing peso interest rates ranged from 6.5% to 7.6%.

### Fair Value Hierarchy

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

	September 30, 2019	Level 1	Level 2	Level 3
<b>Assets measured at fair value:</b>				
Financial assets at FVTPL:				
UITF	P18,944,640	P-	P18,944,640	P-
Financial assets at FVOCI:				
Investment in treasury bonds and notes	67,903,960	19,978,500	47,925,460	-
Investment in corporate bonds	-	-	-	-
Investment in LTNCD	95,305,500	95,305,500	-	-
	<b>P182,154,100</b>	<b>P115,284,000</b>	<b>P66,870,100</b>	<b>P-</b>
<b>Liabilities for which fair values are disclosed:</b>				
Other financial liabilities:				
Long-term debt				
Fixed-rate bonds	P14,497,232,450	P14,497,232,450	P-	P-
Peso-denominated notes and loans	12,668,632,200	-	12,668,632,200	-
Service concession fee payable	3,043,715,961	-	-	3,043,715,961
Rental deposits	8,158,395	-	-	8,158,395
	<b>P30,217,739,006</b>	<b>P14,497,232,450</b>	<b>P12,668,632,200</b>	<b>P3,051,874,356</b>
	<b>2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets Measured at Fair Value</b>				
Financial assets at FVTPL:				
Investments in UITF	P67,858,720	P-	P67,858,720	P-
Financial assets at FVOCI:				
Investment in treasury bonds and note	511,134,404	18,513,447	492,620,957	-
Investment in corporate bonds	434,681,553	434,681,553	-	-
Investment in LTNCD	95,305,500	95,305,500	-	-
	<b>P1,108,980,177</b>	<b>P548,500,500</b>	<b>P560,479,677</b>	<b>P-</b>
<b>Liabilities for which Fair Values are Disclosed</b>				
Other financial liabilities:				
Long-term debt				
Fixed-rate bonds	P12,222,114,535	P12,222,114,535	P-	P-
Peso-denominated notes and loans	8,179,623,043	-	P8,179,623,043	-
Service concession fees payable	2,128,511,528	-	-	2,128,511,528
Rental deposits	4,001,962	-	-	4,001,962
	<b>P22,534,251,068</b>	<b>P12,222,114,535</b>	<b>P8,179,623,043</b>	<b>P2,132,513,490</b>

During the periods ended September 30, 2019 and December 31, 2018, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

## 26. Contingencies and Others

### a. VAT

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

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

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

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

### b. RPT

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

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 January 2017, the Provincial Treasurer of Bulacan issued a notice of realty tax delinquencies for the years 2006 to 2017 stating that it could apply the remedies provided under the law for the collection of delinquent taxes. The matter is pending.

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



c. Toll Rate Adjustments

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

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

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

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

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

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

2012 and 2014 Petitions

On February 15, 2019, NLEX Corp. received a Consolidated Resolution dated October 2018 issued by the TRB which approved and allowed NLEX Corp. to implement the toll rate adjustment indicated therein on a staggered basis in 2018, 2020, 2021, and 2023. Likewise, on February 15, 2019, the TRB issued a letter to NLEX Corp. instructing the latter to publish the Toll Fee Matrix, which is attached to the said letter in accordance with the 2013 Revised Rules of Procedure of the Toll Regulatory Board (TRB Rules). In full compliance with the letter, NLEX Corp. caused the publication of the Toll Fee Matrix in a newspaper of general circulation, once a week for three consecutive weeks in March 2019. On March 20, 2019, the TRB issued a Notice to Start Collection effective March 21, 2019.

Segment 10 Add-on Toll Rate Petition

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

required bond amounting to ₱530.0 million or the equivalent of one (1) year collection of add-on rate. In full and complete compliance with the instructions of the TRB, NLEX Corp. (a) submitted the original of the Surety Bond issued by the Prudential Guarantee and Insurance Inc. in favor of the Republic of the Philippines, acting by and through the TRB, and (b) caused the publication of the Integrated Toll Fee Matrix in a newspaper of general circulation once a week for three (3) consecutive weeks in March 2019. On March 20, 2019, the TRB issued a Notice to Start Collection effective March 21, 2019.

NLEX Corp. agreed to implement a ₱1.00 reduction in the Open system approved toll fees across all vehicle classes to cushion the impact of toll adjustments to motorists.

#### 2016 and 2018 Petitions

The 2016 and 2018 Petitions are pending with the TRB.

#### SCTEX

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

#### Arbitration

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

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

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

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

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

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

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

On December 27, 2017, Respondent ROP/TRB filed its request for bifurcation, which was accordingly granted, i.e., the proceedings were divided into two parts: first, the issue on whether or not the tribunal

has jurisdiction over NLEX Corp.'s claim, and second, the main merits of the claim as set forth in the Updated Statement of Claim.

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

On June 24 to 27, 2019 the arbitration hearings were held in Singapore. In August 2019, NLEX Corp. and the ROP/TRB submitted their respective Post-Hearing Briefs. The arbitration case is pending.

As at September 30, 2019 and December 31, 2018, total amount of compensation for TRB's inaction on lawful toll rate adjustments covering the NLEX 2012 and 2014 petitions, is approximately at ₱7.7 billion and ₱7.3 billion (VAT-exclusive), respectively.

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

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

NLEX Corp. filed its comment praying that the Petition be denied. The BCDA, through the Office of the Government Corporate Counsel, and the Executive Secretary, through the OSG, also filed their respective Comment praying that the Petition be denied due course and dismissed for lack of merit. The case is pending as at September 30, 2019.

- 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 asset 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, assets, liabilities, and other information of the Company's operations as at and for the period ended September 30, 2019 and 2018 are as follows:

	2019	2018
Net toll revenues	<b>₱11,000,496,789</b>	₱9,636,372,198
Other income	<b>221,653,911</b>	143,828,670
Total revenues	<b>11,222,150,700</b>	9,780,200,868
Operating and maintenance costs	<b>(2,876,395,627)</b>	(2,632,729,122)
Operating expenses	<b>(768,957,255)</b>	(640,315,681)
EBITDA	<b>₱7,576,797,818</b>	₱6,507,156,065
Financing costs	<b>(468,728,229)</b>	(269,944,947)
Core income before depreciation, amortization and provisions	<b>7,108,069,589</b>	6,237,211,118
Depreciation, amortization and provisions*	<b>(1,210,389,706)</b>	(853,874,118)
Core income before tax	<b>5,897,679,883</b>	5,383,337,000
Provision for income tax	<b>(1,312,960,060)</b>	(1,174,160,748)
Core income after tax	<b>4,584,719,823</b>	4,209,176,252
Nonrecurring items	<b>(4,795,155)</b>	40,005,294
Net income	<b>₱4,579,924,668</b>	₱4,249,181,546
EBITDA margin for the year	<b>69%</b>	68%
Core income margin for the year	<b>42%</b>	44%
Net income margin for the year	<b>42%</b>	44%
Total assets	<b>₱52,160,858,575</b>	₱42,695,194,357
Total liabilities	<b>31,523,080,845</b>	29,860,285,209
Total equity	<b>20,637,777,730</b>	12,834,909,148
Other disclosures:		
Capital expenditure (consists of additions to service concession asset, property and equipment, investment properties and other intangible assets)	<b>₱6,477,234,221</b>	₱2,807,178,141

\* Includes provision for current and deferred taxes.

The following table shows the reconciliation of EBITDA to net income for the period ended September 30, 2019 and 2018.

	2019	2018
EBITDA	<b>₱7,576,797,818</b>	₱6,507,156,065
Interest expense and other finance costs (see Note 23)	<b>(526,190,234)</b>	(333,816,697)
Amortization of service concession asset (see Note 20)	<b>(770,032,657)</b>	(603,961,532)
Interest income (see Note 22)	<b>46,157,280</b>	43,772,469
Provision for heavy maintenance (see Note 20)	<b>(325,307,073)</b>	(177,054,758)
Depreciation of property and equipment (see Notes 20 and 21)	<b>(103,745,251)</b>	(52,758,548)
Other income (expenses)		390,402
Nonrecurring items:		
Provisions (see Note 21)	<b>(3,940,354)</b>	39,186,100
Foreign exchange gain (loss) - net	<b>(854,801)</b>	428,793
Income before income tax	<b>5,892,884,728</b>	5,423,342,294
Provision for income tax:		
Current	<b>1,303,899,997</b>	1,142,433,713
Deferred	<b>9,060,063</b>	31,727,035
	<b>1,312,960,060</b>	1,174,160,748
Net income for the year	<b>₱4,579,924,668</b>	₱4,249,181,546

The following table shows the reconciliation of the core income to the net income for the period ended September 30, 2019 and 2018.

	2019	2018
Core income for the year	<b>₱4,584,719,823</b>	₱4,209,176,252
Provisions (see Note 21)	<b>(3,940,354)</b>	39,186,099
Foreign exchange gain (loss) - net	<b>(854,801)</b>	428,793
Other nonrecurring items	-	390,402
Net income for the year	<b>₱4,579,924,668</b>	₱4,249,181,546

## 28. Merger between NLEX Corp. and TMC

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

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

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

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

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

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

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

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

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

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

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

Under the acquisition method, the Company is required to measure the fair value of the assets acquired and liabilities assumed of TMC.

The following are the provisional fair values of the assets acquired and liabilities assumed from TMC on December 13, 2018:

<u>Assets</u>	
Cash and cash equivalents	₱155,809,552
Receivables	109,813,200
Other current assets	68,404,740
Property and equipment	53,780,166
Deferred tax assets	16,906,493
Deposits and other noncurrent assets	12,782,152
	<u>417,496,303</u>
<u>Liabilities</u>	
Accounts payable and other current liabilities	119,517,516
Provisions	155,312,279
Retention payable	10,354,340
Retirement liability	27,342,572
	<u>312,526,707</u>
Fair value of identifiable net assets acquired	<u>₱104,969,596</u>

The fair value and gross amount of the receivables amounted to ₱109.9 million. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

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

The amount of provisional goodwill resulting from the Merger between NLEX Corp. and TMC follows:

Consideration transferred	₱6,318,768,979
Fair value of identifiable net assets acquired	104,969,596
Goodwill	<u>₱6,213,799,383</u>

The provisional goodwill resulting from the merger transaction represents the estimated future cash flow between NLEX Corp. and TMC for the Operation and Maintenance Agreement where both entities are bounded to comply. This represents the synergies from the combining operations of NLEX Corp. and TMC that will allow (i) the integration of the administrative facilities of the corporations to improve the economies of scale and efficiency of operations, (ii) the procurement of financing and credit facilities under more favorable terms, and (iii) the productive use of properties owned by the constituent corporations. Further, the provisional goodwill is also attributable to the value of TMC's assembled workforce who will still be involved in the continuous operations and maintenance of NLEX Corp.'s toll road operations as at the acquisition date.

From the date of business combination to December 31, 2018, TMC has no contribution to revenues and net income since it is already legally merged with NLEX Corp. (surviving corporation). If the business combination occurred at the beginning of the year, the contribution to revenues is nil, while the contribution to the net income represents the foregone mark-up imposed by TMC to the operations and maintenance services billed to NLEX Corp.

## 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

### For the Third Quarter Ended September 30, 2019

#### Financial Highlights and Key Performance Indicators:

##### Statement of Income Data

In PhP, Millions	30-Sep-19	30-Sep-18	Increase (Decrease)	
	(unaudited)	(unaudited)	Amount	%
Operating revenue	₱11,229	₱9,770	1,459	15
Cost of services	(3,992)	(3,428)	(564)	16
General and administrative expenses	(859)	(688)	(171)	25
Interest expense and other financing costs, net of interest income of Php57 million in 2019 and Php55 million in 2018	(474)	(272)	(202)	74
Foreign exchange loss - net	(1)	0	(1)	100
Other income	1	52	(51)	(98)
Provision for income tax	(1,324)	(1,185)	(139)	12
Net income	₱4,580	₱4,249	331	8
Net income margin	41%	43%		

##### Statement of Financial Position

In PhP, Millions	30-Sep-19	31-Dec-18	Increase (Decrease)	
	Unaudited	(Audited)	Amount	%
Balance Sheet Data:				
Total assets	52,161	49,401	2,760	6
Total liabilities	31,523	30,840	683	2
Total equity	20,638	18,561	2,077	11

##### Result of Operation

As of September 30, 2019, total revenues reached ₱11.2 billion, higher by 15% compared to ₱9.8 billion posted as of the third quarter of 2018. The growth is attributed to higher traffic during the period for both NLEX and SCTEX and the implementation of toll rate adjustments in NLEX and SCTEX this year. In terms of traffic volume, NLEX and SCTEX grew by 6.3% and 12.6%, respectively vs. last year.



### **Statement of Income Data**

In PhP, Millions	30-Sep-19	30-Sep-18	Increase (Decrease)	
	(unaudited)	(unaudited)	Amount	%
Operating revenue	₱11,229	₱9,770	1,459	15
Cost of services	(3,992)	(3,428)	(564)	16
General and administrative expenses	(859)	(688)	(171)	25
Interest expense and other financing costs, net of interest income of Php57 million in 2019 and Php55 million in 2018	(474)	(272)	(202)	74
Foreign exchange gain (loss) – net	(1)	0	(1)	100
Other income	1	52	(51)	(98)
Provision for income tax	(1,324)	(1,185)	(139)	12
Net income	₱4,580	₱4,249	331	8
Net income margin	41%	43%		

### **September 30, 2019 Compared to September 30, 2018**

#### **Revenues**

In PhP, Millions	30-Sep-19 (unaudited)		30-Sep-18 (unaudited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Toll Revenues	₱11,000	98	₱9,636	99	1,364	14
Non-toll Revenues	229	2	134	1	95	71
Total Revenues	₱11,229	100	₱9,770	100	1,459	15

The Company's operating revenues were derived mainly from toll fees in NLEX and SCTEX. The Company also generated other income from advertising placements, fees from toll service facilities located along the NLEX and rental revenues generated by the Company-owned NLEX Drive & Dine through its wholly-owned subsidiary - NLEX Ventures Corporation.

For the three quarters of 2019, toll revenues reached ₱11.0 billion, up by 14% or ₱1.3 billion from ₱9.6 billion posted as of third quarter of 2018 due to higher traffic volume in both expressways and higher toll fees resulting from the recent toll adjustments that took effect on March 21, 2019 for NLEX and June 14, 2019 for SCTEX. Average daily traffic for the NLEX reached 266,888 daily vehicle entries, higher by 6.3% versus the same period last year, while average daily traffic in SCTEX reached 68,748, higher by 12.6% than the same period last year. NLEX traffic was boosted by the opening of Harbor Link Segment 10 last March 2019.

In addition to toll revenues, the Company also generated revenues from advertising, toll services and utility facilities and rental and service income for the first three quarters of 2019 amounting to ₱229 million, higher by ₱95 million or 71% than ₱134 million posted during the same period last year. The non-toll revenue growth is mainly driven by rental revenues from NLEX Drive & Dine which started operations during the last quarter of 2018.

### Cost of Services

As of September 30, 2019, the Company incurred ₱4.0 billion to cover the costs of toll operations, asset preservation and safety enhancements. The following table summarizes the details of this account for the period ended September 30, 2019 and 2018:

In PhP, Millions	30-Sep-19		30-Sep-18		Increase / (Decrease)	
	Amount	%	Amount	%	Amount	%
Concession fee	₱928	23	₱787	23	141	18
Amortization of service concession assets	770	19	604	18	166	27
PNCC fee	538	13	474	14	64	14
Salaries and employee benefits	428	11	30	1	398	1,327
Provision for heavy maintenance	314	8	177	5	137	77
Repairs and maintenance	283	7	257	7	26	10
Outside services	260	7	217	6	43	20
Others	195	5	115	3	80	70
Light & Water	71	2	14	0	57	407
Insurance	69	2	59	2	10	17
Depreciation	65	2	15	0	50	333
Fuel & Oil	54	1	7	0	47	671
Toll collection and medical services	17	0	17	0	0	0
Operator's fee	-	-	655	19	(655)	(100)
<b>Total cost of services</b>	<b>₱3,992</b>	<b>100</b>	<b>₱3,428</b>	<b>100</b>	<b>564</b>	<b>16</b>

PNCC fee increased by 14% from ₱474 million last year to ₱538 million mainly due to higher NLEX toll revenues during the period. Concession fee of ₱928 million pertains to the fees paid to BCDA representing 50% based on SCTEX net toll revenues. As of third quarter of 2019, concession fees increased by 18% versus the same period in 2018.

Due to the merger between NLEX Corp. and TMC in December 2018, the Company recorded the cost of toll operations under their respective accounts compared to last year where costs were lodged under Operator's Fee. This resulted in the increase in the balances of Salaries and benefits and outside services accounts for the first three quarters of 2019.

As of the third quarter, outside services amounted to ₱260 million, 20% or ₱43 million higher compared to the ₱217 million incurred last year due to the novated contracts as a result of the merger.

Repairs and maintenance expense increased due to the retrofitting of various bridges along the NLEX and SCTEX.

Amortization of service concession assets for the three quarters reached ₱770 million, higher by 27% or ₱166 million from ₱604 million last year due to the opening of Segment 10 last March 2019. This also caused a ₱50 million spike in depreciation expense during the period.

### **General and Administrative Expenses**

In Php millions	30-Sep-19		30-Sep-18		Increase / (Decrease)	
	Amount	%	Amount	%	Amount	%
Salaries and Employee benefits	₱282	33	₱171	25	111	65
Management fees	142	17	113	16	29	26
Advertising and marketing expenses	106	12	130	19	(24)	(18)
Taxes and Licenses	89	10	81	12	8	10
Provisions	73	8	56	8	17	30
Professional fees	36	4	25	4	11	44
Depreciation	36	4	33	5	3	9
Outside services	27	3	14	2	13	93
Representation and travel	23	3	22	3	1	5
Others	45	5	43	6	2	5
<b>Total</b>	<b>₱859</b>	<b>100</b>	<b>₱688</b>	<b>100</b>	<b>171</b>	<b>25</b>

As of September 30, 2019, general and administrative expenses amounted to ₱859 million, ₱171 million or 25% higher than the ₱688 million incurred during the same period last year due to higher salaries and employee benefits, outside services and management fees.

The higher salaries expense was due to the merger between NLEX and TMC as costs previously charged under Operator's Fee are now charged under their respective accounts.

### **Interest and Financing Costs**

Net financing costs for the quarter ended September 30, 2019 amounted to ₱474 million higher by 74% or ₱202 million versus last year as we started recognizing the interest expense from the loans used to finance the construction of Segment 10 project which commenced commercial operations in March 2019.

Net borrowing costs capitalized amounted to ₱492 million for the nine months ended September 30, 2019.

In PhP, Millions	30-Sep-19		30-Sep-18		Increase / (Decrease)	
	Amount	%	Amount	%	Amount	%
Interest and financing costs:						
Interest expense, net of interest income	₱516	97	₱315	96	201	64
Amortization of debt issue costs	11	2	9	3	2	22
Lenders' fees and bank charges	5	1	3	1	2	67
<b>Total interest &amp; financing costs</b>	<b>₱532</b>	<b>100</b>	<b>₱327</b>	<b>100</b>	<b>205</b>	<b>63</b>

Interest Income:						
Cash and cash equivalents	₱30	51	₱25	45	5	20
Investment in bonds & treasury notes	27	47	30	55	(3)	(10)
Others	1	2	–	0	1	100
<b>Total interest income</b>	<b>₱58</b>	<b>100</b>	<b>₱55</b>	<b>100</b>	<b>3</b>	<b>5</b>

<b>Net Financing costs</b>	<b>₱474</b>		<b>₱272</b>		<b>202</b>	<b>74</b>
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### **Net Income**

Net income as of September 30, 2019 reached ₱4,580 million, 8% or ₱331 million higher compared to ₱4,249 million posted during the same period last year. Income growth was driven by higher toll revenues from NLEX and SCTEX during the period which grew by 14% on the back of sustained traffic growth across NLEX and SCTEX.

### **Balance Sheet**

In PhP, Millions	30-Sep-19	31-Dec-18	Increase (Decrease)	
	Unaudited	(Audited)	Amount	%
<b>Balance Sheet Data:</b>				
Cash and cash equivalents	₱401	₱2,449	(2,048)	(84)
Total assets	52,161	49,401	2,760	6
Total liabilities	31,523	30,840	683	2
Total equity	20,638	18,561	2,077	11

### **September 30, 2019 Compared to December 31, 2018**

#### **Assets**

Cash and cash equivalents as of September 30, 2019 stood at ₱401 million, down by ₱2,048 million or 84% from ₱2,449 million in December 31, 2018. The reduction in cash balance was part of the strategy to reduce interest cost by stretching the operating cash flows of the Company.

In lieu of accumulating significant cash balance, the Company opted to maximize its operating cash flows to temporarily cover capital expenditures prior to tapping external sources.

In addition, investment in bonds and treasury notes amounted to ₱163 million as of September 30, 2019, lower by ₱878 million compared to the ₱1,041 million balance as of December 31, 2018.

Accounts receivable comprising of advances to DPWH for the right-of-way acquisition, advertising accounts and utility facility fees reached Php670 million, lower by ₱60 million compared to the ₱730 million balance in December 2018 due to collected receivables mainly from Easytrip and advertising accounts.

Total assets as of September 30, 2019 stood at ₱52.2 billion, higher than December 31, 2018 figures by 6% mainly due to increase in service concession assets related to the completion of Segment 10, on-going construction of R10 project and pre-construction activities of the Connector road.

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

Current liabilities for the period ended September 30, 2019 decreased by ₱514 million or 9% to ₱5.2 billion compared to ₱5.7 billion as at December 31, 2018 due to payment of trade payables and other short-term obligations.

Long-term debt amounted to ₱23.0 billion, higher by ₱1.0 billion compared to December 2018 balance as a result of the partial drawdown from the ₱5 billion term-loan facility on September 23, 2019.

Total liabilities as of the end September 30, 2019 was at ₱31.5 billion, higher by 2% or Php683 million from ₱30.8 billion in December 2018.

Stockholders' equity reached ₱20.6 billion, up by 11% or ₱2.1 billion from the ₱18.6 billion as of end December 2018.

## **Key Financial Indicators**

The following table shows the Company's relevant financial ratios:

		30-Sep-19	31-Dec-18
Current ratio	Current Assets	0.34	0.70
	Current liabilities		
Debt-to-equity (DE) ratio	Interest bearing liabilities	1.11	1.19
	Stockholders' equity		
Net profit margin	Net Income	40.8%	43.4%
	Revenues		
Return on assets	Net income*	12.0%	12.9%
	Average total assets		
Return on stockholders' equity	Net income*	31.2%	39.4%
	Average stockholders' equity		

*\*annualized*

Current ratio stood at 0.34 times as of quarter end, from 0.70 times as of end-2018 due to lower balances of cash and investments in UITF. The decline in current ratio is the consequence of the aforementioned liability management strategy. The Company has available resources to cover short-term obligations including daily cash flows from operations and available short-term lines amounting to ₱8.8 billion. In addition, the Company has available-for-sale investments classified as non-current assets amounting to ₱94 million which can be liquidated to fund near-term liabilities. To cover capital expenditures, the Company has ₱4 billion still available from the term-loan facility signed with BDO last September 2019.

Debt-to-Equity Ratio as of the third quarter of 2019 slightly lowered to 1.11 times from 1.19 times as of December 2018 due to higher equity balance from net income and repayment of principal balances but was partially offset by the recent drawdown from a new loan facility amounting to ₱1 billion on September 23, 2019.

As of September 30, 2019, the net profit margin slightly declined by 2.6% from 43.4% in December 2018 to 40.8% as a result of higher amortization expense due to the opening of Segment 10 last March 2019.

Return on assets decreased to 12.0% due to higher asset balance due to the Segment 10 opening and the ramp-up stage of Segment 10 operations. Meanwhile, return on stockholder's equity decreased to 31.2% due to the higher retained earnings balance for the first nine months of 2019.

## **Cash Flows**

The table below summarizes the Company's comparative cash flows as of September 30, 2019 and 2018.

Cash Flows	30-Sep-19	30-Sep-18
	<i>(in ₱ Millions)</i>	
Cash and cash equivalents, beginning balance	₱2,449	₱2,715
Net cash provided by operating activities	7,742	4,606
Net cash used in investing activities	(5,547)	(2,415)
Net cash used in financing activities	(4,244)	(1,128)
Effect of exchange rate changes	1	1
Net increase (decrease) in cash	(2,048)	1,063
Cash and cash equivalents, ending balance	₱401	₱3,779

### **Cash Flows from Operating Activities**

Net cash provided by operating activities during the first three quarters of 2019 reached ₱7.7 billion, from ₱4.6 billion as of the third quarter of 2018 due to higher toll revenues and lower payment of trade payables.

### **Cash Flows from Investing Activities**

As of third quarter of 2019, net cash used in investing activities amounted to ₱5.5 billion. Cash outflows during the period were mainly related to the settlement of payables for the construction costs of Segment 10, Segment 10-C3:R10 Section Project, other expansion projects, enhancement of interchanges, pavement rehabilitation and modernization of toll road facilities and equipment.

### **Cash Flows from Financing Activities**

Net cash flows used in financing activities amounted to ₱4.2 billion. Outflows during the period included interest expense of ₱432 million, principal repayment of ₱610 million and settlement of dividends payable amounting to ₱4.7 billion during the three quarters of the year.

### **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 concession agreements include 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.**

The Company has partially sourced financing for the construction of Segment 10: R10 Section through its recent bond issuance in 2018. Proceeds of the ₱6.0 billion fixed rate bonds will be used to partially finance the construction of the R-10 Section of Segment 10. This Project is expected to cost around ₱6.5 billion. Construction is expected to be completed within the 1st half of 2020.

As of the date of this report, the Company has also finalized the construction contract for the NLEX Segment 7 ("SFEX") Capacity Expansion Project. Total construction cost for the SFEX Capacity Expansion Project is estimated at ₱1.6 billion and will be sourced through internally generated cash and term loans. The Project is expected to be completed by the 4Q of 2020.

**(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. Tariff Increase – the uncertainty in the approval of the tariff increase from regulatory authorities in the expressway can hamper the growth in net revenues of the Company moving forward.

b. Higher Fuel Prices – vehicle operating costs normally go 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.

**(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 registrant's 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 14, 2019.

By:

  
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**MARIA THERESA O. WELLS**  
CHIEF FINANCE OFFICER 