



Republic of the Philippines
COMMISSION ON AUDIT
Quezon City

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

PEA Tollway Corporation
Parañaque City

Report on the Financial Statements

We have audited the accompanying financial statements of PEA Tollway Corporation (PEATC), a wholly-owned subsidiary of the Philippine Reclamation Authority, which comprise the statement of financial position as at December 31, 2014, the statement of joint venture profit or loss, statement of changes in stockholder's equity, statement of changes in due to venturers, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PEA Tollway Corporation as at December 31, 2014, and the results of its operation and its cash flows for the year then ended in accordance with state accounting principles generally accepted in the Philippines.

Emphasis of Matter

We draw attention to Note 19 to the financial statements which describes the uncertainty related to the outcome of PEATC's application with the Bureau of Internal Revenue (BIR) for the abatement of VAT assessment and the labor case pending with the Court of Appeals. Our opinion is not qualified in respect of these matters.

**Report on the Supplementary Information Required
Under BIR Revenue Regulations 15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information on taxes, duties and license fees in Note 20 to the financial statements is presented for purposes of filing with the BIR and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

COMMISSION ON AUDIT


TEODORA M. LACERNA
Supervising Auditor

March 11, 2015

PEA TOLLWAY CORPORATION

(A wholly-owned subsidiary of the Philippine Reclamation Authority)

STATEMENT OF FINANCIAL POSITION**December 31, 2014**

(With comparative figures as of December 31, 2013)

(In Philippine Peso)

	Note	2014	2013
ASSETS			
Current Assets			
Cash	3	667,463	504,325
Interest Receivable	4	13,991	13,991
		681,454	518,316
Current Assets Held in Trust for the Joint Venture			
<i>Cash and cash equivalents</i>	5	154,185,927	233,651,895
<i>Receivables-net</i>	6	6,806,209	7,026,614
		160,992,136	240,678,509
Total Current Assets		161,673,590	241,196,825
Non-Current Assets			
Investments in Retail Treasury Bonds	7	3,385,000	3,385,000
Non-Current Assets Held in Trust for the Joint Venture			
<i>Investments</i>	8	25,085,750	25,085,750
<i>Property and equipment-net</i>	9	5,515,744	5,838,474
<i>Other assets-net</i>	10	1,617,949	1,617,949
		32,219,443	32,542,173
Total Non-Current Assets		35,604,443	35,927,173
		197,278,033	277,123,998
LIABILITIES, DUE TO VENTURERS AND STOCKHOLDER'S EQUITY			
Current Liabilities			
Current Liabilities of the Joint Venture			
<i>Accounts payable</i>	11	22,500	9,934
<i>Trust liabilities-inter-agency payables</i>	12	614,471	112,900
<i>Trust liabilities-intra-agency payables</i>	13	2,421,657	2,156,176
<i>Other current liabilities</i>	14	7,866,477	9,655,481
Total Current Liabilities		10,925,105	11,934,491
Due to Venturers	15	182,286,474	261,286,191
Stockholder's Equity	17,18	4,066,454	3,903,316
		197,278,033	277,123,998

See accompanying Notes to Financial Statements.

PEA TOLLWAY CORPORATION

(A wholly-owned subsidiary of the Philippine Reclamation Authority)

STATEMENT OF JOINT VENTURE PROFIT OR LOSS**For the Year Ended December 31, 2014**

(With comparative figures for the year ended December 31, 2013)

(In Philippine Peso)

	Note	2014	2013
REVENUES			
Interest income on JV funds, net of final tax		2,656,692	4,522,873
MAINTENANCE AND OTHER OPERATING EXPENSES			
Depreciation	9	318,330	355,006
Bad debts		11,317	14,180
		329,647	369,186
NET PROFIT BEFORE TAX		2,327,045	4,153,687
INCOME TAX EXPENSE		0	0
NET PROFIT		2,327,045	4,153,687

See accompanying Notes to Financial Statements.

PEA TOLLWAY CORPORATION

(A wholly-owned subsidiary of the Philippine Reclamation Authority)

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

For the Year Ended December 31, 2014

(With comparative figures for the year ended December 31, 2013)

(In Philippine Peso)

	Note	2014	2013
CAPITAL STOCK			
Balance at beginning and end of year	17	2,000,000	2,000,000
RETAINED EARNINGS			
	18		
Balance at beginning of year		1,903,316	1,740,420
Interest income on PEATC funds		163,138	162,896
Balance at end of year		2,066,454	1,903,316
		4,066,454	3,903,316

See accompanying Notes to Financial Statements.

PEA TOLLWAY CORPORATION

(A wholly-owned subsidiary of the Philippine Reclamation Authority)

STATEMENT OF CHANGES IN DUE TO VENTURERS**For the Year Ended December 31, 2014**

(With comparative figures for the year ended December 31, 2013)

(In Philippine Peso)

	Note	2014	2013
Balance at beginning of year		261,286,191	232,842,065
Prior years' adjustments	16	718,693	336,016
As adjusted		262,004,884	233,178,081
Joint venture net profit during the year		2,327,045	4,153,687
Withdrawal from sinking fund for pavement rehabilitation	5	(105,045,455)	0
Additional contribution by CIC to the sinking fund	5	19,500,000	22,500,000
Unclaimed toll changes	5	3,500,000	1,454,423
Balance at end of year		182,286,474	261,286,191

See accompanying Notes to Financial Statements.

PEA TOLLWAY CORPORATION

(A wholly-owned subsidiary of the Philippine Reclamation Authority)

STATEMENT OF CASH FLOWS**For the Year Ended December 31, 2014**

(With comparative figures for the year ended December 31, 2013)

(In Philippine Peso)

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Advances from JV partners for O & M expenses	2	56,868,090	55,285,579
Liquidation of advances from JV partners	2	(55,319,570)	(54,127,563)
Unclaimed motorists change		2,966,491	2,747,498
Monthly contributions to JV funds		19,765,496	24,125,013
Withdrawal from unclaimed toll changes for placement to sinking fund	5	(3,500,000)	(2,000,000)
Payments of taxes, licenses and fees		(1,067,254)	(949,605)
Payments for other operating and maintenance expenses		(325,019)	(291,577)
Net cash provided by operating activities		19,388,234	24,789,345
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received-JV funds		2,649,654	4,449,654
Interest received-PEATC funds		163,138	162,896
Placement of unclaimed toll changes		3,500,000	2,000,000
Investment in Time Deposit-BDO		41,599	5,745,494
Withdrawal from sinking fund for pavement rehabilitation		(105,045,455)	0
Net cash provided by (used in) investing activities		(98,691,064)	12,358,044
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(79,302,830)	37,147,389
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		234,156,220	197,008,831
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,5	154,853,390	234,156,220

See accompanying Notes to Financial Statements.

PEA TOLLWAY CORPORATION

(A wholly-owned subsidiary of the Philippine Reclamation Authority)

1. GENERAL INFORMATION

The Joint Venture and the Venturers with all their assignees

On May 31, 1990, the Public Estates Authority (PEA), now Philippine Reclamation Authority (PRA), the Grantee, was granted by the Republic of the Philippines, thru the Toll Regulatory Board (TRB), the Grantor, a Toll Operation Certificate (TOC) obligating the former to design, construct, and subsequently maintain, at its own cost and expenses, the R1 Expressway and the R1 Expressway Extension, collectively known as the Manila Cavite Toll Expressway Project (MCTEP), for 25 years.

On February 3 1994, the Philippine and Malaysian governments executed a Memorandum of Understanding (MOU) for a joint and cooperative implementation of infrastructure projects in the Philippines.

On December 27, 1994, PRA and two Malaysian entities, Majlis Amanah Rakyat (MARA) and Renong Berhad (Renong), entered into a Joint Venture Agreement (JVA) where they proposed and agreed to develop the MCTE which will eventually include the C-5 Link Expressway and to operate the same.

Subsequently, PRA and MARA agreed that Renong may assign its rights and transfer its liabilities and obligations under the JVA to United Engineers (Malaysia) Berhad (UEM). The same was confirmed through a Novation Agreement dated August 17, 1995. MARA and UEM then incorporated Cavite Infrastructure Corporation (CIC), formerly UEM-MARA Philippines Corporation (UMPC), in October 1995 to represent MARA and UEM.

On July 26, 1996, the TRB, PRA and CIC executed a Toll Operation Agreement (TOA) to govern the rights and obligations of the respective parties with respect to financing, construction and maintenance of the MCTE Project. Pursuant to the TOA, PRA will be responsible for the operation and maintenance of the expressway while CIC will be responsible for the design and construction of the expressway including its financing.

On October 7, 1997, pursuant to Section 15.03 of the TOA, PRA established PEA Tollway Corporation (PEATC), its wholly owned subsidiary, to undertake and perform the operations and maintenance (O&M) obligations of PRA under the TOA specifically to manage, operate, monitor, maintain and repair the MCTE Project. PEATC is designated to collect toll fees, which shall then be distributed to PRA and CIC in accordance with the sharing arrangement set forth in the JVA and TOA.

CIC commenced the rehabilitation of the R-1 Expressway in November 1996 and completed the works in May 1998. The R-1 Expressway has been successfully tolled since then.

On December 15, 1999, Coastal Road Corporation (CRC), a wholly-owned Filipino entity, bought the entire shares of UEM and MARA in CIC. The buy-out officially relinquished all the obligations and liabilities of the Malaysian Companies under the JVA and the TOA, as CRC took over the management of the Project and immediately undertook the unfinished portions of the MCTE Project. However, due to the uncertainty

of the implementation of C-5 Link, the Project had been shifted with the priority from C-5 Link to R-1 Extension.

On August 25, 2006, CIC entered into a P3.5 billion Omnibus Loan Agreement with a syndicate of Lenders (Development Bank of the Philippines, Banco de Oro Universal Bank, China Banking Corporation, Equitable PCI Bank, and Union Bank of the Philippines) to finance the construction of the Project. One of the conditions of the Lenders is that the Project must have a strategic partner which is an Equity Contractor in the amount of P1.5 billion. Thus, the No. 14th Metallurgical Construction Company of China National Nonferrous Metal Industry (the Equity Contractor) signed an agreement to purchase 40% of CIC for the P1.5 billion equity. However, the agreement with MCC as Equity Contractor was not executed and declared null and void.

Moreover, the Lenders' and the Equity Contractor's another condition was that CIC will participate in the O&M of the Project's Phase 1. Thus, on November 14, 2006, PRA, CIC (now 100% CRC owned) and the TRB executed an Operations and Maintenance Agreement (OMA), which was as approved by the Office of the President of the Republic of the Philippines, to clarify and amend certain rights and obligations under the JVA and TOA. The salient features of the OMA, among others, are as follows:

- Redefinition of Phases 1 and 2 of the Project;
- Temporary amendment/modification of the Revenue Sharing provision under Section 7.01 of the TOA for the 8-year repayment period of the P3.5 billion loan of CIC;
- Acknowledgement by PRA of CRC as the new stockholder of CIC, its JV partner, and the participation of the CIC in the O&M; and
- Appointment of the Directors and Officers of the PEATC.

On November 16, 2006, a Voting Trust Agreement (VTA) was executed between PRA and CIC whereby CIC committed and bound itself to exercise the voting rights of the shares of stocks of PRA in PEATC in the manner that will be in accordance with the spirit and the intent of the JVA, the TOA and the OMA and Supplemental Agreement to the OMA. Under this agreement, the PRA (stockholder of PEATC) grants CIC (the Trustee) the voting rights over 2/3 shares of stocks in PEATC. As a consequence of CIC's participation in the O&M, CIC shall nominate five while PRA shall nominate two members of the Board of Directors of PEATC (Clause 4, OMA).

On June 4, 2009, CIC together with the Lenders, Agents and Pledgor, executed an amendment to the 2006 Omnibus Loan Agreement (OLA) to replace MCC with Sargasso Construction and Development Corporation (SCDC), to amend certain obligation and to comply with the terms and conditions of CIC's Lenders and its Equity Contractor.

However, due to delays in the release of the Project's funding, CIC was constrained to request for the extension of the OMA and VTA's effectivity to enable it to secure funding from other sources. On May 20, 2010, the PRA Board of Directors approved the extension of the effectivity of the agreements for four years from August 25, 2014 or until August 25, 2021, or upon full settlement of the funding to be obtained, whichever comes first, subject to compliance with several terms and conditions.

On December 19, 2012, CIC advised PRA that Cavitex Holdings, Inc. (CHI), formerly Coastal Road Corporation (CRC), entered into a financing and cooperation agreement with Metro Pacific Tollways Corporation (MPTC), a wholly-owned subsidiary of Metro Pacific Investments Corporation (MPIC). The financing involves the issuance of a P6.7 billion bond convertible into non-voting redeemable preferred shares of CHI. Under the agreement, MPTC will provide management assistance to CIC effective January 2, 2013.

Proportionate Sharing of Revenues

For and in consideration of their respective obligations under the JVA and the TOA, Clause 3.2 of the JVA and Clause 7.01 of the TOA provide that the Project Income shall be shared by the parties in the following manner and proportion:

- Their proportionate share in the project income shall be initially 10% - 90% in favor of the Malaysian parties, during the period from the completion of the Design and Construction Works for Phase I to the repayment in full of the loans and interest costs, cost advances, capital investments of both Malaysian Parties and PRA and the return on equity to each of the parties, and, thereafter, during the remainder of the Toll Collection Period, 60% - 40% in favor of the PRA.
- For the purpose of determining the said proportionate share, a Project Cash Flow shall be prepared to provide the basis for the computation of the repayment of the advances. PRA shall accordingly pay the Malaysian Parties their Proportionate share of the Project Income less the O&M Costs in accordance with the provisions of the JVA.

However, with the effectivity of the OMA in November 2006, the proportionate sharing has been redefined as follows:

- There will be a new and improved distribution of PRA and CIC share. PRA shall receive 9% of gross toll revenue, while CIC shall receive 91% of the gross toll revenue absorbing all O&M costs and expenses. PRA shall not share from any of the O&M costs and expenses. The share of PRA shall be increased by .5% every periodic Toll Rate Adjustment under the TOA but not to exceed ten percent (10%) of gross toll revenue at any one time during the period of:
 - existence of the loan which is payable for a period of eight years under the Omnibus Loan Agreement of August 25, 2006;
 - repayment of the equity of the Equity Contractor which shall be converted into subordinated debt: par/passu with the Lenders for a period which shall not exceed an additional three years after the period of eight years.
- PRA shall share in the gross toll revenue collection from the R-1 Expressway Extension at no less than 8.5% of gross toll revenue collection subject to increase as mentioned above until repayment of the loan and payment of the Equity Contractor. Upon repayment in full of loans and interest costs, costs advances, capital investment and the return of equity, CIC and PRA shall share at the ratio of 60-40 in favor of PRA, as originally agreed upon under the JVA, from the R-1 Expressway and R-1 Expressway Extension.

- CIC shall continue to set aside Sinking Fund in accordance with the TOA Schedule of Maintenance per segment.

The Franchise Period

The franchise period for all the expressways shall be 35 years calculated from the final operation date or from October 1, 1998, whichever is earlier (Clause 2.03, TOA).

Personnel Complement

PEATC has 106 permanent employees as of December 31, 2014.

Principal Office

The registered office address of PEATC is in PEA Tollway Compound, Aguinaldo Blvd., Coastal Road, Brgy. San Dionisio, Parañaque City 1700.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements Preparation

PEATC's financial statements have been prepared in conformity with state accounting principles generally accepted in the Philippines under the historical cost convention.

Method of Accounting

The Corporation uses the accrual basis of accounting.

Cash Equivalents

Cash equivalents include those investments in banks with original maturity of not exceeding three months from the date of placements.

Allowance for Doubtful Accounts

Provisions are made for each account where objective evidence of impairment exists. Each account is evaluated on the basis of various factors that affect its uncollectibility.

Investments

Investments in stocks are recorded at cost.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation starts on the second month following the date of purchase. An estimated residual value equivalent to 10% of the acquisition cost is deducted therefrom to arrive at the depreciable amount of the asset. Depreciation is based on a straight-line method over the estimated useful lives of the assets, as shown on the next page:

Buildings and Other Structures	-	20 years
Communication Equipment	-	10 years
Firearms	-	10 years
Furniture, Fixtures & Equipment	-	10 years
Motor Vehicles	-	7 years
R1 Toll Facilities	-	5 years
IT Equipment & Software	-	5 years
Tools & Engineering Equipment	-	5 years
Other Property Equipment	-	5 years

Distribution of Income and Joint Venture Expenses

Prior to the effectivity of the OMA on November 14, 2006 (Note 1), revenues and operating and maintenance expenses were recognized in the books of PEATC. However, upon effectivity of the OMA, the said transactions were no longer recognized in the books of PEATC because of Clause 6.a and Clause 6.e. of the OMA, which state that all gross collections shall be directly deposited on a daily basis to the respective bank accounts of PRA and CIC and that all disbursements for O&M shall be absorbed solely by CIC. PRA shall not share from any of the O&M costs and expenses.

Functional and Presentation Currency

The financial statements are presented in Philippine Peso, which is the Corporation's functional and presentation currency. The Philippine Peso is the currency of the primary economic environment in which the Corporation operates.

3. CASH

This account consists of PEATC funds in the Land Bank of the Philippines amounting to P667,463 and P504,325 as of December 31, 2014 and 2013, respectively, representing interest received starting 2011 on the 5-year Retail Treasury Bonds (RTBs) investments with the Standard Chartered Philippines (Note 7).

4. INTEREST RECEIVABLE

This account pertains to interest earned on the RTBs but not yet received as at end of the reporting date (Notes 3 and 7).

5. JOINT VENTURE CASH AND CASH EQUIVALENTS

This account consists of the following:

	2014	2013
Cash in bank-time deposit	142,170,809	221,583,546
Cash in bank-time deposit-BDO	5,787,094	5,745,494
Cash in vault-cash float	2,767,626	2,502,146
Cash in bank-savings-BDO	2,330,468	1,840,668
Cash in bank-DBP	959,513	1,809,725
Petty cash fund	100,000	100,000
Cash in bank-emergency operating fund	50,417	50,316
Cash disbursing officer (change fund)	20,000	20,000
	154,185,927	233,651,895

Cash in bank-time deposit pertains to the amount reserved (sinking fund) to finance major repairs and re-paving of the Coastal Road, including all major contingent cost and expenses not covered in the budget. Starting December 2006, CIC sets aside the monthly provision of P1.5 million, or P18 million per annum, pursuant to the OMA. The P79.413 million decrease in the account balance in 2014 is accounted for as follows: (a) withdrawal from the fund of P105.046 million for pavement rehabilitation of Segment 1 of the existing R-1 Expressway, (b) additional contribution to the fund by CIC of P19.500 million, (c) placement to the fund of unclaimed motorists' change of P3.500 million and (d) interests earned of P2.633 million.

Cash in bank-time deposit-BDO pertains to the investment of the P5.687 million cash bond paid by Maynilad Water Services Incorporated (MWSI) to PEATC on April 30, 2012 in connection with the former's ongoing project along R-1 Expressway and interest earned thereon.

Cash in vault-cash float represents the amount of small bills and coins maintained by the Corporation and given as change funds to all toll collectors on duty. The change fund is returned to the supervisor on duty at the end of every shift.

Cash in bank-savings-BDO pertains to the account maintained with the Banco de Oro used for payroll purposes and remittances to other government agencies such as Social Security System (SSS), Bureau of Internal Revenue (BIR) and others.

Cash disbursing officer (change fund) is the amount of currency on hand to pay motorists asking for their change while using the "exact toll" lane/s.

6. JOINT VENTURE RECEIVABLES

This account consists of the following:

	2014	2013
Advances to CIC	5,677,503	5,856,137
Due from officers and employees	469,548	781,539
Interest receivable	221,684	256,373
Due from SSS	92,971	88,541
Other receivables	428,071	116,276
	6,889,777	7,098,866
Allowance for doubtful accounts	(83,568)	(72,252)
	6,806,209	7,026,614

Advances to CIC account pertains to operational expenses advanced from the JV operational funds to be reimbursed by joint venturer, CIC, pursuant to the OMA dated November 14, 2006.

Interest receivable represents accrued interest on investments of JV funds.

Due from SSS represents claims from SSS for maternity and sickness benefits of employees that were advanced by PEATC. In cases where claims are disallowed by SSS, these are charged as receivables from the employees concerned.

7. INVESTMENTS IN RETAIL TREASURY BONDS

Pursuant to Section 15.03 of the TOA, PRA is obligated to incorporate a subsidiary company of which it shall be the sole stockholder. The P2 million subscription payment of PRA to the PEATC's capital stock, including interest earned thereon from 1998 to 2010, was invested in 2011 in 5-year Retail Treasury Bonds with the Standard Chartered Philippines, value dated March 4, 2011 to mature on March 3, 2016, with interest of 6 percent per annum.

8. JOINT VENTURE INVESTMENTS

This account consists of the following:

	2014	2013
Investment in bonds-EOF	25,000,000	25,000,000
Investment in stocks:		
PLDT- 4,550 shares in 10% cumulative convertible preferred stock, series "Y"	50,050	50,050
PLDT- 3,400 shares in cumulative convertible preferred stock, series "AA"	35,700	35,700
	25,085,750	25,085,750

Investment in bonds-Emergency Operating Fund (EOF) represents the amount invested in 5-year Retail Treasury Bonds with the Development Bank of the Philippines, value dated February 28, 2011 to mature on February 28, 2016, with interest rate of 6 percent per annum. The amount forms part of the sinking fund.

9. JOINT VENTURE PROPERTY AND EQUIPMENT

This account consists of the following:

	Building and Other Structures	Motor Vehicles	IT Equipment and Software	Furniture and Fixtures	Other Property Equipment	Communication Equipment	Other Machineries and Equipment	Military and Police Equipment (Firearms)	Total
CY 2013									
Cost	18,635,481	6,777,798	4,811,142	2,523,059	1,451,104	110,441	1,178,491	515,520	36,003,036
Accumulated Depreciation	(14,696,851)	(6,100,018)	(4,330,028)	(2,159,755)	(1,305,994)	(78,908)	(1,060,642)	(432,366)	(30,164,562)
Net book value	3,938,630	677,780	481,114	363,304	145,110	31,533	117,849	83,154	5,838,474
Opening net book value	3,938,630	677,780	481,114	363,304	145,110	31,533	117,849	83,154	5,838,474
Adjustments:									
Cost	0	0	0	0	0	0	0	(12,393)	(12,393)
Accumulated Depreciation	0	0	0	0	0	0	0	7,993	7,993
Depreciation for the year	(249,468)	0	0	(49,017)	0	(9,807)	0	(10,038)	(318,330)
Closing net book value	3,689,162	677,780	481,114	314,287	145,110	21,726	117,849	68,716	5,515,744
CY 2014									
Cost	18,635,481	6,777,798	4,811,142	2,523,059	1,451,104	110,441	1,178,491	503,127	35,990,643
Accumulated Depreciation	(14,946,319)	(6,100,018)	(4,330,028)	(2,208,772)	(1,305,994)	(88,715)	(1,060,642)	(434,411)	(30,474,899)
Net book value	3,689,162	677,780	481,114	314,287	145,110	21,726	117,849	68,716	5,515,744

10. JOINT VENTURE OTHER ASSETS

This account consists of the following:

	2014	2013
Retired fixed assets	1,503,429	1,503,429
Guaranty deposits	114,520	114,520
Other assets	1,147,962	1,441,709
	2,765,911	3,059,658
Allowance for doubtful accounts	(1,147,962)	(1,441,709)
	1,617,949	1,617,949

Retired fixed assets account represents the net book value of various unserviceable property and equipment held for disposal.

Guaranty deposits account is composed of the deposits in PLDT and MERALCO and a cash bond for a hospital accredited for the PEATC self-administered health maintenance.

Other assets account refers to a receivable from a resigned member of the PEATC Board of Directors and from a resigned employee, the collection of which is deemed doubtful.

11. JOINT VENTURE ACCOUNTS PAYABLE

The Corporation uses the vouchers system of accounting in recognizing and recording its liabilities. The account represents liabilities already covered by accounts payable vouchers but without the corresponding check payments.

12. JOINT VENTURE TRUST LIABILITIES-INTER-AGENCY PAYABLES

This account represents amounts withheld for remittance to the following:

	2014	2013
Bureau of Internal Revenue	605,845	102,132
Home Development Mutual Fund	7,822	9,964
National Home Mortgage Finance Corporation	804	804
	614,471	112,900

13. JOINT VENTURE TRUST LIABILITIES-INTRA-AGENCY PAYABLES

	2014	2013
Due to JV-CIC	2,200,040	1,954,200
Due to JV-PRA	217,587	197,946
Due to PEA Tollway Employees Union	4,030	4,030
	2,421,657	2,156,176

Due to CIC and *Due to JV-PRA* accounts pertain to the unremitted shares of the JV partners from toll collections.

14. JOINT VENTURE OTHER CURRENT LIABILITIES

This account consists of the following:

	2014	2013
Cash bond of MWSI (Note 5)	5,686,987	5,686,987
Retention payable	0	709,212
Other payables	2,179,490	3,259,282
	7,866,477	9,655,481

Other payables account pertains to unclaimed motorists' change, unclaimed employees' last salaries and tax adjustments.

15. DUE TO VENTURERS

This account represents the residual interest of the joint venturers in PEATC, computed as follows:

	2014	2013
Current Assets Held in Trust for the Joint Venture	160,992,136	240,678,509
Non-Current Assets Held in Trust for the Joint Venture	32,219,443	32,542,173
Current Liabilities of the Joint Venture	(10,925,105)	(11,934,491)
Due to Venturers	182,286,474	261,286,191

Details of the above are shown in the Statement of Financial Position in relation to the Statement of Changes in Due to Venturers.

16. PRIOR YEARS' ADJUSTMENTS

Prior Years' Adjustment in 2014 pertains to the closure of the dormant Retention Payable account of P709,212 and the excess of the amount recovered over the net book value of an item of property lost during 2013 of P9,481; while that in 2013 pertains to various adjustments on Trust Liabilities account and Allowance for Doubtful accounts.

17. CAPITAL STOCK

Capital stock consists of the 50,000 shares of authorized stock with P100 par value. The shares have been fully subscribed by PRA, subscriptions receivable on which amounts to P3 million.

18. RETAINED EARNINGS

This account represents the interest earned on the P2 million investment of PRA in PEATC shares of stocks, which is not being used in the operations of the PEATC. This can be declared as dividends to PRA.

19. CONTINGENCIES

Value Added Tax Assessments

- Value Added Tax (VAT) on toll fees became final and was implemented by virtue of Supreme Court En Banc Decision GR. No. 193007 dated July 21, 2011.
- BIR issued Revenue Memorandum Circular No. (RMC) 39-2011 dated August 31, 2011 providing that:
 - a. VAT shall be imposed on Gross Receipts of Tollway Operators (TOs) starting 12:01 a.m. of October 1, 2011;

- b. All TOs are required to enter into, sign and submit Memorandum of Understanding (MOU) on or before October 1, 2011;
 - c. TOs assessed for liabilities for prior periods can apply for abatement of tax liability, surcharge, interest and penalties;
 - d. Accumulated input VAT shall have zero balance on October 1, 2011;
 - e. There shall be no future claims for tax credits on any VAT passed on to the TOs on any purchases made prior to October 1, 2011; and
 - f. All TOs are required to comply with the invoice/receipt format prescribed under BIR-RMC No. 40-2005.
- PEATC had complied with RMC 39-2011:
 - a. Implemented VAT on toll fees starting October 1, 2011;
 - b. MOU signed by PEATC submitted to BIR for signature of BIR Commissioner/notarization;
 - c. Application for Abatement submitted to BIR on September 28, 2011 covering the following:

<u>Year</u>	<u>Assessed Amount</u>
2006	P93.341 million
2007	132.238 million
2008	119.312 million
2009	121.006 million

- d. Accumulated input VAT amounting to P19.26 million prior to October 1, 2011 was written off as of September 30, 2011 (JV#20110964);
 - e. Present Invoice/Receipt compliant with RMC 40-2005
- Assigned BIR auditors are currently assessing/evaluating the foregoing documents for eventual approval of PEATC's Application for Abatement.
 - PEATC's application for the abatement of VAT Assessment in the total amount of P465.897 million is now pending at BIR Quezon City and no reply on said request was received to date.

Francisco Villanueva, et. al

- On January 24, 2012, Francisco Villanueva, et. al filed a complaint versus PEATC/Aldo Barrios at National Labor Relations Commission per Case Number CA GR SP NO. 131649/NLRC CASE NO. NCR-01-01376-12/NLRC LAC 09-002629-12.
- Complainants are former agency employees of Filway Management and General Services Corporation detailed in PEATC as Toll Tellers, Maintenance and Utility personnel. They filed the extant case before the National Labor Relations Commission (NLRC) due to illegal dismissal/underpayment of salaries and wages.
- On July 2, 2012, the Labor Arbiter rendered a decision in favor of PEATC dismissing all the complaints. Complainants filed their appeal with the NLRC.

- On April 30, 2013, the NLRC reversed the decision of the Labor Arbiter declaring the complainants as regular employees of PEATC and ordered their reinstatement with payment of back wages and unpaid benefits.
- On July 17, 2013, the case was referred to the OGCC for the filing of a Petition for Certiorari.
- On September 6, 2013, a Petition for Certiorari with prayer for the issuance of a Temporary Restraining Order (TRO) was filed before the Court of Appeals.
- On September 26, 2014, the Court of Appeals issued a Resolution, the dispositive portion reads: *WHEREFORE, petitioner's application for the issuance of a temporary restraining order and/or injunction is hereby DENIED.*
- Management is still waiting for the resolution of the Court of Appeals in the main Petition for Certiorari. However, the court ruled that complainants cannot yet execute the NLRC order for failure to file a claim with the Commission on Audit.

20. SUPPLEMENTARY INFORMATION ON TAXES

In compliance with the requirements set forth by BIR pursuant to Revenue Regulation 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year:

- i) PEA Tollway Corporation is a VAT-registered government-owned or controlled corporation with VAT output tax declaration of P0.00 million for the year based on the amount reflected in the sales account of P0.00 million and remitted to BIR P0.00 million net of tax credits.
- ii) The amount of VAT input taxes claimed are broken down as follows:
- | | |
|---|----------|
| a) Beginning of the year | 0 |
| b) Current year's purchases: | |
| 1. Goods other than for resale or manufacture | 0 |
| 2. Services lodged under other Accounts | 0 |
| c) Claims for tax credit | |
| d) VAT written off | 0 |
| d). Balance at the end of the year | <u>0</u> |
- iii) Other taxes and Licenses
- | | |
|--------------------------|--------|
| a) Local | |
| Business Permit | 48,467 |
| Real Estate Taxes | 0 |
| Professional Tax Receipt | 0 |
| b) National | |
| BIR Annual Registration | 500 |

iv) Amount of withholding taxes paid for the year amounted to:	
a) Tax on compensation	8,754,100
b) Creditable withholding taxes	2,461,551
c) Withholding VAT	6,070,231
v) Deficiency tax assessments paid as follows:	
a) VAT	0
b) WHT	0
vi) Corporate income taxes paid	
a) Balance of CY 2013	0
b) 1 st quarter 2014	0
c) 2 nd quarter 2014	0
d) 3 rd quarter 2014	0