Light Rail Manila Corporation

(A Subsidiary of Light Rail Manila Holdings Inc.)

Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report

A member firm of Ernst & Young Global Limited

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Building a better working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Light Rail Manila Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Light Rail Manila Corporation, a subsidiary of Light Rail Manila Holdings Inc., which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended December 31, 2015 and the period July 22, 2014 to December 31, 2014 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 Philippine Financial Reporting Standards 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 company financial statements.

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

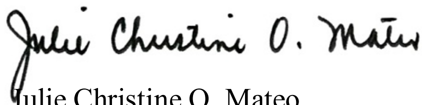
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Light Rail Manila Corporation as at December 31, 2015 and 2014, and its financial performance and its cash flows for the year ended December 31, 2015 and the period July 22, 2014 to December 31, 2014 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulation 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulation 15-2010 in Note 20 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Light Rail Manila Corporation. 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 a whole.

SYCIP GORRES VELAYO & CO.



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PTR No. 5321675, January 4, 2016, Makati City

February 3, 2016

LIGHT RAIL MANILA CORPORATION

A Subsidiary of Light Rail Manila Holdings Inc.

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 17 and 18)	**₱1,520,193,913**	₱468,895,454
Trade and other receivables (Notes 5, 16, 17 and 18)	**30,579,778**	371,897
Prepaid and other current assets (Notes 6, 16, 17 and 18)	**74,157,663**	10,828,366
Total Current Assets	**1,624,931,354**	480,095,717
Noncurrent Assets		
Property and equipment (Note 8)	**56,167,896**	890,198
Service concession asset (Notes 1,7 and 16)	**5,613,957,733**	–
Deferred tax assets - net (Note 12)	**5,051,101**	8,908,562
Deferred project costs (Notes 1, 7 and 16)	**–**	1,109,127,232
Other noncurrent assets (Notes 9 and 16)	**163,378,317**	–
Total Noncurrent Assets	**5,838,555,047**	1,118,925,992
	₱7,463,486,401	₱1,599,021,709
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 10, 13, 16, 17 and 18)	**₱503,016,440**	₱68,289,988
Income tax payable	**24,887,238**	–
Total Current Liabilities	**527,903,678**	68,289,988
Noncurrent Liability		
Service concession fee payable (Notes 1,7, 16 and 18)	**2,826,972,838**	–
Total Liabilities	**3,354,876,516**	68,289,988
Equity (Note 11)		
Capital stock	**4,050,000,000**	1,550,000,000
Equity reserves	**(20,114,157)**	(11,364,157)
Retained earnings (deficit)	**78,724,042**	(7,904,122)
Total Equity	**4,108,609,885**	1,530,731,721
	₱7,463,486,401	₱1,599,021,709

See accompanying Notes to Financial Statements.

LIGHT RAIL MANILA CORPORATION

A Subsidiary of Light Rail Manila Holdings Inc.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015
AND THE PERIOD JULY 22, 2014 TO DECEMBER 31, 2014*

	2015 (One Year)	2014 (Five Months)
REVENUES		
Rail (Note 1)	**₱897,469,237**	₱–
Non-rail (Note 16)	**17,425,252**	–
	914,894,489	–
COST OF SERVICES (Note 14)	**(477,665,768)**	–
GROSS PROFIT	**437,228,721**	–
Operating expenses (Notes 15 and 16)	**(334,627,325)**	(14,259,662)
Construction revenue (Notes 7 and 16)	**967,692,414**	–
Construction costs (Note 7 and 16)	**(967,692,414)**	–
Interest income (Note 4)	**13,024,999**	1,897,959
Other income	**6,450,650**	798,965
INCOME (LOSS) BEFORE INCOME TAX	**122,077,045**	(11,562,738)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 12)		
Current	**31,591,420**	379,592
Deferred	**3,857,461**	(4,038,208)
	35,448,881	(3,658,616)
NET INCOME (LOSS)	**86,628,164**	(7,904,122)
OTHER COMPREHENSIVE INCOME	–	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱86,628,164**	(₱7,904,122)

*The Company was incorporated on July 22, 2014.

See accompanying Notes to Financial Statements.

LIGHT RAIL MANILA CORPORATION
A Subsidiary of Light Rail Manila Holdings Inc.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015
AND THE PERIOD JULY 22, 2014 TO DECEMBER 31, 2014*

	Capital Stock	Equity Reserves	Retained Earnings (Deficit)	Total Equity (Note 11)
AT JULY 22, 2014	₱–	₱–	₱–	₱–
Issuance of capital stock	1,550,000,000	–	–	1,550,000,000
Transaction costs on issuance of capital stock, net of deferred tax benefit (Note 11)	–	(11,364,157)	–	(11,364,157)
Total comprehensive loss for the period	–	–	(7,904,122)	(7,904,122)
AT DECEMBER 31, 2014	1,550,000,000	(11,364,157)	(7,904,122)	1,530,731,721
Issuance of capital stock	2,500,000,000	–	–	2,500,000,000
Transaction costs on issuance of capital stock, net of deferred tax benefit (Note 11)	–	(8,750,000)	–	(8,750,000)
Total comprehensive income for the year	–	–	86,628,164	86,628,164
AT DECEMBER 31, 2015	**₱4,050,000,000**	**(₱20,114,157)**	**₱78,724,042**	**₱4,108,609,885**

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*The Company was incorporated on July 22, 2014.

See accompanying Notes to Financial Statements.

LIGHT RAIL MANILA CORPORATION

A Subsidiary of Light Rail Manila Holdings Inc.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015
AND THE PERIOD JULY 22, 2014 TO DECEMBER 31, 2014*

	2015 (One Year)	2014 (Five Months)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**₱122,077,045**	(₱11,562,738)
Adjustments for:		
Interest income (Note 4)	**(13,024,999)**	(1,897,959)
Unrealized foreign exchange gain on forward contracts	**(1,448,256)**	(798,965)
Depreciation and amortization (Notes 8, 9 and 15)	**6,400,660**	77,341
Operating income (loss) before working capital changes	**114,004,450**	(14,182,321)
Increase in:		
Trade and other receivables	**(29,692,121)**	–
Prepaid and other current assets	**(61,881,041)**	(10,828,366)
Increase in accounts payable and other current liabilities	**235,346,792**	3,283,852
Net cash provided by (used in) operations	**257,778,080**	(21,726,835)
Interest income received	**12,509,239**	1,526,062
Income tax paid	**(2,954,182)**	(379,592)
Net cash from (used in) operating activities	**267,333,137**	(20,580,365)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to service concession assets (Note 7)	**(1,478,478,003)**	(1,045,867,485)
Acquisitions of property and equipment (Note 8)	**(61,643,349)**	(967,539)
Purchase of intangible assets (Note 9)	**(11,868,067)**	–
Additions to other noncurrent assets	**(151,545,259)**	–
Net cash used in investing activities	**(1,703,534,678)**	(1,046,835,024)
CASH FLOWS FROM FINANCING ACTIVITIES (Note 11)		
Proceeds from issuance of capital stock	**2,500,000,000**	1,550,000,000
Payments for share issuance costs	**(12,500,000)**	(13,689,157)
Net cash from financing activities	**2,487,500,000**	1,536,310,843
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,051,298,459**	468,895,454
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD (Note 4)	**468,895,454**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	**₱1,520,193,913**	₱468,895,454

1. **Corporate Information**

General
Light Rail Manila Corporation (the Company or LRMC) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on July 22, 2014 with the business purpose of financing, constructing, operating and maintaining the Light Rail Transit (LRT) Line 1 Cavite Extension and Operations & Maintenance Project (the Project).

The principal office address of the Company is 3rd Floor, Makati Stock Exchange Building, Ayala Avenue, Makati City. On January 27, 2016, the SEC approved the transfer of principal office to Mezzanine, Engineering Building, LRTA Compound, Aurora Boulevard, Pasay City.

The accompanying financial statements were approved and authorized for issue by the Board of Directors (BOD) on February 3, 2016.

Equity Ownership in the Company
The Company is a subsidiary of Light Rail Manila Holdings Inc. (LRMH) with its direct ownership interest of 70%. LRMH, whose shareholders are Metro Pacific Light Rail Corporation (MPLRC; 50% plus 1 share) and AC Infrastructure Holdings Corporation (AC Infra; 50% minus 1 share), is a subsidiary of MPLRC. MPLRC also has a direct ownership interest in the Company of 20% while Philippine Investment Alliance for Infrastructure's Macquarie Infrastructure Holdings (Philippines) PTE Ltd. (MIHPL) owns the remaining 10%. Thus, these shareholders' effective ownership in the Company is as follows:

	Effective Ownership Interest
MPLRC	55%
AC Infra	35%
MIHPL	10%

MPLRC is a wholly owned subsidiary of Metro Pacific Investments Corporation (MPIC). MPIC is 52.1% and 55.8% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2015 and 2014, respectively. MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH; 60.0%), Intalink B.V. (26.7%) and First Pacifmaic International Limited (FPIL; 13.3% interest). 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 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.

Concession Agreement
On October 2, 2014, the Company (as the "Concessionaire") signed together with the Department of Transportation and Communications (DOTC) and the Light Rail Transit Authority (LRTA) (together with DOTC as "Grantors") the Concession Agreement for the Project. The DOTC and LRTA formally awarded the Project to the Company on September 15, 2014 after the consortium of MPLRC, AC Infra and MIHPL submitted the lone bid with a bid premium of ₱9.35 billion.

The Concession Agreement is for a period of thirty-two (32) years commencing from the Effective Date. The “Required Effective Date” means the date falling twelve (12) months after the signing date of or as extended in accordance with the Concession Agreement. The handover of the operation and maintenance of the existing system of the LRT Line 1 (LRT 1 or the “Line”) by the Grantors to LRMC shall take place on the Effective Date or such other time as may be agreed in writing between the Grantors and the Concessionaire. On September 12, 2015 (Effective Date), LRMC took over the LRT 1operations.

Under the Concession Agreement, the Company will operate and maintain the existing LRT 1 and construct an 11.7-km extension from the present end-point at Baclaran to the Niog area in Bacoor, Cavite. A total of eight new stations will be built along the extension, which traverses the cities of Parañaque and Las Piñas up to Bacoor, Cavite. The extended rail line is envisioned to help ease the worsening traffic conditions in the Parañaque-Las Piñas-Cavite corridor. It is also expected to increase and enhance commercial development around the rail stations.

LRMC is required to pay the bid premium of ₱9.35 billion as concession fees, based on the following schedule (see Note 7):

- 10% of the bid amount within twenty (20) days from receipt of the Notice of Award, which amount has already been paid on October 2, 2014;
- 10% of the bid amount upon Effective Date which is nine (9) months to a maximum of twelve (12) months from Signing Date of the Concession Agreement, which amount has already been paid on September 12, 2015; and
- 80% of the bid amount in equal quarterly instalments over the Concession Period with the first payment on the fifth anniversary of the Effective Date as defined under the Concession Agreement.

The carrying value of future concession fee payments amounted to ₱2,827.0 million as at December 31, 2015.

Status of Operation and Rail Extension
On September 12, 2015, the operation of the LRT 1 was assumed by LRMC. The takeover of the LRT 1 resulted in an abrupt increase in almost every aspect of the financials of the Company in comparison to 2014 financial results and condition.

Construction of the Cavite Extension is expected to commence once right of way is delivered by the Grantors and is targeted to be completed four years thereafter. The right of way was not yet delivered as at February 3, 2016.

Claims and Manner of Settlement with Grantors
The Section 5 of the Concession Agreement provides for conditions and mechanisms that will ensure and thereby compel the parties to fulfill their obligations in relation to LRT 1 Concession. Failure to meet the conditions set forth therein, the parties to the agreement have accorded with rights, including rights to compensation from the party/parties in breach. For the Company as the Concessionaire, the Concession Agreement provides for the following claims from the Grantors:

Existing System Requirement (ESR) costs
The Company is entitled to be compensated for the unavoidable incremental cost that the Company will incur to restore the Existing System to the level necessary to meet all of the baseline Existing System Requirements, taking into consideration any Emergency Upgrade Contract executed by the Grantors for the same purpose, if the Existing System does not meet the ESR as certified by the Independent Consultant (IC).

Structural Defect Restoration (SDR) costs
The Company is entitled to compensation for the cost incurred for restoration of the Structural Defect as certified by an IC which shall be the aggregate of the approved Restoration Cost in the Structural Defects Notice and any incremental cost approved by the IC.

Light Rail Vehicle (LRV) shortfall
If the Grantors do not make available a minimum of one hundred (100) light rail vehicles or the system is not able to operate to a cycle time of no more than one hundred and six (106) minutes, or a combination of the two on the Effective Date, then the Company is entitled to receive a compensation from the Grantors based on the formula and procedures provided for in the Concession Agreement.

Fare Deficit/Surplus
The fare deficit/surplus pertains to the difference between the Approved and Notional Fare, as follows:

a. If Approved Fare is less than the Notional Fare, there is a deficit payment or a receivable from the Grantors;
b. If Approved Fare is more than the Notional Fare, there is a surplus payment or payable to Grantors

The Approved Fare is the maximum fare that the Concessionaire is authorized to charge pursuant to Sections 20.3b and/or 30.4 of the Concession Agreement. Whereas, the Notional Fare is the agreed base fare provided in the Concession Agreement that should have been in effect upon turnover of the LRT 1 operation.

Grantors' Compensation Payment
The Grantors shall be liable to provide compensation to the Company if the Company is delayed in the completion of the Railway Infrastructure and Railway System Works or is prevented from operating any part of the System or incurs additional cost or loss of revenue by reason of:

a. Material Adverse Government Action
b. Grantors Delay Event
c. Subject to Sec. 5.3(b) Grantors Obligations, the failure of the Existing System to meet the Existing System Requirement on the Effective Date
d. Any other cause in respect of which the Concession Agreement provides for the provision of Grantors compensation

Under Section 20.6 of the Concession Agreement, all these claims are expressed to be paid through the quarterly "Balancing Payments".

On October 30, 2015, the Company submitted a letter to the DOTC representing its claim for ESR costs and LRV shortfall on the premise of the Grantors obligation in relation to the condition of the Existing System prior or as of the Effective Date. Subsequently, on November 16, 2015, the

Grantors sent a letter of dispute in response to the claims of the Company. As at February 3, 2016, these claims are still undergoing discussion.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis and are presented in Philippine peso, which is the Company's functional and presentation currency and all values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new PFRS and Philippine interpretation effective January 1, 2015. Except as otherwise indicated, adoption of the following standards, interpretations and amendments did not have any impact on the financial statements:

- Amendments to PAS 19, *Defined Benefit Plans: Employee Contributions* — The amendment requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendments are effective for annual periods beginning on or after July 1, 2014. The Company has no pension plan. However, the Company shall consider the amendments in the future.

Annual Improvements to PFRSs (2010–2012 cycle). The Annual Improvements to PFRSs (2010–2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment – Definition of Vesting Condition* — The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. The amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014.

- PFRS 3*, Business Combinations – Accounting for Contingent Consideration in a Business Combination* — The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39. The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider the amendment for future business combinations.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* — The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation* — The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

- PAS 24, *Related Party Disclosures – Key Management Personnel* — The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only.

- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization* — The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

Annual Improvements to PFRSs (2011–2013 cycle). The Annual Improvements to PFRSs (2011–2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements* — The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The Company shall consider the amendment for future business combinations.

- PFRS 13, *Fair Value Measurement – Portfolio Exception* — The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PAS 40, *Investment Property* — The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

<u>New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2015</u>

The standards, interpretations amendments and improvements to the standards that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these, if applicable, when they become effective. Unless otherwise specified, this will not have an impact on the Company's financial statements.

Effective January 1, 2016

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets* – Clarification of Acceptable Methods of Depreciation and Amortization — The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture* - Bearer Plants — The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under these amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). These amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

- Amendments to PAS 27, *Separate Financial Statements* – Equity Method in Separate Financial Statements — The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* – Investment Entities: Applying the Consolidation Exception — The amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The Company neither has an associate nor joint venture investee. However, the Company shall consider the amendments in the future.

- PFRS 11, *Joint Arrangements* – Accounting for Acquisitions of Interest in Joint Operations — The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The amendments will not have any impact on the Company's financial statements.

- PFRS 14, *Regulatory Deferral Accounts* — PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive

income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.

- PAS 1, *Presentation of Financial Statements* – Disclosure Initiative (Amendments) — The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:

  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures of functions
  - That specific line items i n the statement of income and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they represent the notes to financial statements
  - That the share of OCI of associate and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Annual Improvements to PFRSs (2012–2014 cycle). The Annual Improvements to PFRSs (2012–2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal* — The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures – Servicing Contract*s — PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendment.

- PFRS 7 – *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements* — The amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits – regional market issue regarding discount rate* — The amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated,

rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'.* The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

- PFRS 9, *Financial Instruments* (2014 or final version) — In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting. The Company is currently assessing the impact of adopting this standard.

The following new standards issued by the IASB has not yet been adopted by the FSRC

- IFRS 15, *Revenue from Contracts with Customers* — IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company shall consider the amendment for any future contracts with customers.

- IFRS 16, *Leases* — On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

  Under the new standards, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose

more information in the financial statements, particularly on the risk exposure to residual value. The new standard is effective for annual period beginning on or after January 1, 2109. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Company is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

With Deferred Effective Date

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate* — This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors.

  The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The principal accounting and financial reporting policies adopted in preparing the Company's financial statements are as follows:

<u>Fair Value Measurement</u>
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market. Where the Company has financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it has elected to use the measurement exception to measure the fair value of its net risk exposure by applying the bid or ask price to the net open position as appropriate. For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach

(i.e., discounted cash flow analysis and option pricing models making as much use of available an supportable market data as possible).

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company determines the policies and procedures for both recurring fair value measurement, such as derivatives, and non-recurring measurement, such as impairment tests. At each reporting date, the Company analyzes the movements in the values of assets and liabilities which are required to be re-measured or reassessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts, counterparty assessment and other relevant documents.

The Company also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents
Cash comprises cash in bank and cash on hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, with original maturities of three months or less from date of acquisition and are subject to an insignificant risk of change in value.

Financial Instruments

Date of Recognition. The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date. Regular way purchases and sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Initial Recognition. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market interest rates for similar instruments with similar maturities. The initial measurement of financial instruments, except for financial instruments at fair value through profit or loss (FVPL), includes transaction costs.

Classification of Financial Instruments. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. The Company determines the classification of its instruments at initial recognition and, where allowed and appropriate, re-evaluates such classification at each reporting date.

Financial instruments are further classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, financial liabilities at FVPL, other financial liabilities and derivatives designated as hedging instruments in an effective hedge, as appropriate.

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Financial Assets
The Company's financial assets consist of loans and receivables.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL, HTM investments or AFS financial assets. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months after the end of reporting period, otherwise these are classified as noncurrent assets.

The Company's cash and cash equivalents, trade and other receivables and refundable deposits are classified as loans and receivables (see Notes 4, 5, 6, 17 and 18).

Financial Liabilities
The Company's financial liabilities consist of other financial liabilities.

Other Financial Liabilities. Financial liabilities are classified in this category if they are not held for trading or not designated as at FVPL upon the inception of the liability. Other financial liabilities which include loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains or losses are recognized in statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are included in current liabilities if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent liabilities.

The Company's accounts payable and other current liabilities (excluding statutory payable) and service concession fee payable are classified as other financial liabilities (see Notes 7, 10, 17 and 18).

Derivatives
Freestanding and separated embedded derivatives are classified as financial assets or financial liabilities at FVPL unless they are designated as effective hedging instruments. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Consequently, gains and losses from changes in fair value of derivatives not designated as effective accounting hedges are recognized immediately in the statement of comprehensive income.

Current Versus Noncurrent Classification of Derivatives
Derivative instruments that are not designated and considered as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- If the Company holds a derivative for trading purposes, irrespective of the timing of future cash flows, it is classified as current.

- Where the Company holds a derivative as an economic hedge (and does not apply hedge accounting), for period beyond 12 months after the end of reporting period, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Impairment of Financial Assets
The Company assesses at each end of reporting period whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. The Company first assesses whether objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement

of comprehensive income. The assets, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If a write-off is later recovered, the amount recovered is credited to the statement of comprehensive income.

If, in a subsequent year, the amount of the impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Derecognition of Financial Assets and Financial Liabilities

Financial Asset. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its right to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through arrangement", and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying

amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

<u>Offsetting of Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the statement of financial position.

<u>Claims from the Grantors</u>

ESR and SDR
The Company's claims from the Grantors, based on actual costs incurred, are initially recognized as 'Deferred charges' lodged under "Other noncurrent assets" pending approval from the Grantors. Subsequently, once the claims have been verified by the IC and agreed to by the Grantors, any approved claims will be reclassified as 'Receivables from the Grantors' under "Trade and other receivables". Claims that are not approved shall be reclassified to the "Service concession asset" account (see Note 9).

LRV Shortfall, Fare Deficits/Surplus and Grantors Compensation Payment
The Company shall recognize these claims as revenue only when it is probable that the economic benefits associated with these transactions will flow to the Company; that is, until the consideration is received or until an uncertainty is removed, whichever comes first. The uncertainty is removed upon acknowledgement of the Grantors of the claims.

<u>Value-added tax (VAT)</u>
Revenues, expenses, assets and liabilities are recognized net of the amount of VAT, except:

- receivables and payables that are stated with the amount of VAT included; and
- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The Company can claim the input VAT against any future output VAT payable provided it pertains to non-rail purchases and revenues. The net amount of VAT recoverable from or payable to the taxation authority is included as part of "Prepaid and other current assets" or "Accounts payable and other current liabilities" in the statement of financial position.

<u>Advances to Contractors and Consultants</u>
Advances to contractors and consultants represent advance payments for mobilization of the contractors and consultants. These are stated at costs less any impairment in value. These are

progressively reduced upon receipt of the equivalent amount of services rendered by the contractors and consultants.

Service Concession Assets

The Company accounts for its concession arrangement with the Grantors in accordance with IFRIC 12, *Service Concession Arrangement* under the Intangible Asset model as it receives the right (license) to charge users of public service. Under the Concession Agreement, the Company is granted the sole and exclusive right during the concession period to construct and operate the infrastructure facility on behalf of the Grantors. The Project is to be developed and operated by the Concessionaire as a variant of the Build-Transfer-Operate ("BTO") contractual arrangement as provided in the Build-Operate-Transfer ("BOT") Law (also known as Republic Act No. 6957).

Upfront payments and expenditures directly attributable to the acquisition of the service concession and determined to be capitalizable are recorded as "Service concession assets." Quarterly payments over the concession period are capitalized at their present value using the incremental long term borrowing rate determined at inception as the discount rate, as "Service concession assets" with a corresponding liability recognized as "Service concession fee payable".

Costs directly attributable to the acquisition of the service concession and determined to be capitalizable are recorded under "Service Concession Asset" upon Effective Date (see Notes 1 and 7). Prior to handover, these costs are recognized as "Deferred project costs".

Service concession asset is amortized using the straight-line method over the term of the service concession. The amortization period and method for an intangible asset with a finite useful life is reviewed at least each financial period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the service concession asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

The service concession asset will be derecognized upon turnover to the Grantor. There will be no gain or loss upon derecognition as the service concession assets which is expected to be fully amortized by then, will be handed over to the Grantor with no consideration.

Property and Equipment

Property and equipment are carried at cost, excluding day-to-day servicing, less accumulated depreciation and any impairment loss. The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment and borrowing cost for long-term construction project when recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major repairs are performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the property and equipment.

Depreciation commences once the property and equipment are available for use and is computed on a straight-line basis over the estimated useful lives of the assets as follows (see Note 8):

	Years
Building improvement	30
Office and computer equipment	3–5
Furniture and fixtures	5
Transportation equipment	5
Leasehold improvement and others	1-5

The asset's residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial reporting period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognized.

Impairment of Nonfinancial Assets
The Company assesses at each reporting date whether there is an indication that the service concession assets, property and equipment and intangible assets used may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset

exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses are recognized in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity
Capital stock is measured at par value for all shares issued. Equity reserves comprise of incremental costs incurred directly attributable to the issuance of new shares.

Retained earnings represent the Company's accumulated earnings while Deficit represents the accumulated losses recognized by the Company.

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

Revenue and Income Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of the revenue can be measured reliably, regardless of when the payment is made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding value-added tax (VAT), discounts and rebates. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements and has pricing latitude.

The following specific criteria must also be met before revenue is recognized:

Rail revenue is generally recognized in profit and loss when the journey is completed or rail service is provided.

Construction revenue is recognized by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Rental income from station kiosks and other railway premises under operating leases is accounted for in accordance with the terms of the leases and generally on straight-line basis.

Interest income is recognized as the interest accrues using the effective interest method.

Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability that can be measured reliably.

Cost and Expenses Recognition
Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Cost of services, general and administrative expenses and interest expense and other finance costs are recognized in the statement of comprehensive income in the period these are incurred.

Common Carrier's Tax
Pursuant to Section 117 of the National Internal Revenue Code (NIRC), the Company pays tax equivalent to three percent (3%) of its quarterly gross receipts from rail revenue operations.

Leases
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the agreement;
b. renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether the fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Company as a lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of the assets are classified as operating lease. Operating lease payments are recognized as expense in the statement of comprehensive income on a straight-line basis over the lease term.

Company as a lessor
Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Foreign Currency-Denominated Transactions and Translations
The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of reporting period. All differences are credited or charged to operations.

Income Tax

Current Tax. Current tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting period.

Deferred Tax. Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carry-forward benefits of unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward benefits of unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are measured at each end of reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting period.

Deferred taxes relating to items recognized outside profit or loss are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement.

Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events After the Reporting Period

Post year-end events that provide additional information about the Company's financial position at the end of reporting period (adjusting events), if any, are reflected in the Company's financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect certain reported amounts and disclosures. In preparing the financial statements, management has made its best judgment and estimates of certain amounts, giving due consideration to materiality. The judgments and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements. Actual results could differ from those estimates, and such estimates will be adjusted accordingly.

The Company believes that the following represent a summary of these significant judgments and estimates and the related impact and associated risks in the financial statements.

Judgments

In the process of applying the Company's accounting policies, management has made certain judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Determination of Functional Currency. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be Philippine peso. It is the currency that mainly influences the selling prices for the Company's services and the currency that influences labor and other cost of providing the services.

Service Concession Arrangement. In applying Philippine Interpretation IFRIC 12, the Company has made a judgment that the service concession arrangement with respect to the Project qualifies under the intangible asset model as the Company receives the right to charge users of public service.

As a result of LRMC's take-over of the LRT1 Operations on September 12, 2015 ("Effective Date"), accumulated deferred project costs relating to the Project were reclassified from "Deferred project costs" to "Service concession asset" (see Note 7).

The carrying value of service concession assets and deferred project costs amounted to ₱5,614.0 million and ₱1,109.1 million as at December 31, 2015 and 2014, respectively (see Note 7).

The Company also recognizes construction revenues and costs in accordance with PAS 11, *Construction Contracts*. It measures revenue from rehabilitation works at the fair value of the consideration received or receivable. Given that LRMC has subcontracted the rehabilitation works to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in the statement of comprehensive income amounted to ₱967.7 million for the year ended December 31, 2015 while there was no construction revenue and costs recognized for the period July 22, 2014 to December 31, 2014.

Service Concession Asset as Qualifying Assets. The Company has made a judgment to apply PAS 23, *Borrowing Costs*, in classifying the Service concession assets' components (rehabilitation of existing LRT 1 and construction of extension) as qualifying assets. The existing rail is severely deteriorated when turned over to the Company and the intention of management to bring it at par with the standard for rail system played a key factor in the designation of the rehabilitation of the existing LRT 1 system as a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Accordingly, the Company shall capitalize borrowing costs that are directly attributable to the construction or production of a

qualifying asset as part of the cost of that asset. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the components of the Service concession asset for its intended use or sale are complete (see Note 7).

Estimates and Assumptions

Determination of Fair Value of Financial Instruments. Entities are required to disclose for each class of financial assets and liabilities the fair value of that class of assets and liabilities in a way that permits it to be compared with the corresponding carrying amount in the Company's statement of financial position, which requires the use of accounting judgment and estimates. Significant components of fair value measurement are determined using verifiable objective evidence (i.e., interest rates, volatility rates), and timing and amount of changes in fair value would differ with the valuation methodology used. Any changes in fair value of these financial assets and liabilities would affect the disclosures made by management.

The fair value of the Company's financial assets and liabilities are disclosed in Note 18.

Fair Value of Service Concession Fee Payable. The determination of the cost of service concession payable requires management to make estimates and assumptions to determine the extent to which the Company receives a right or license to charge users of the public service. In making those estimates, management is required to determine a suitable discount rate to calculate the present value of these cash flows. While the Company believes that the assumptions used are reasonable and appropriate, these estimates and assumptions can materially affect the financial statements.

As at December 31, 2015, Concession fee payable amounted to ₱2,827.0 million (see Note 7).

Estimation of useful life of property and equipment and intangible assets. The useful life of each of the Company's item property and equipment and intangible assets is estimated based on the period over which the assets are expected to be available for use by the Company. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets.

The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above.

The carrying values of property and equipment amounted ₱56.2 million and ₱0.89 million as at December 31, 2015 and 2014, respectively. Meanwhile, the carrying value of intangible assets amounted to ₱11.8 million as at December 31, 2015. There were no intangible assets as at December 31, 2014 (see Notes 8 and 9).

Realizability of Deferred Income Tax Assets. The Company reviews its deferred income tax assets at each reporting date and reduces their carrying amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. The Company's assessment of the recognition of deferred income tax assets is based on the projected taxable income in the following years. This forecast is based on future expectations on revenue and expenses.

As at December 31, 2015 and 2014, the Company recognized deferred income tax assets amounting to ₱859.0 million and ₱9.1 million, respectively (see Note 12).

4. Cash and Cash Equivalents

This account consists of:

	2015	2014
Cash on hand	**₱4,804,095**	₱30,000
Cash in bank	**639,092,246**	833,232
Short-term deposits	**876,297,572**	468,032,222
	₱1,520,193,913	₱468,895,454

Cash in bank earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term deposit rates.

Interest earned from cash in bank and short-term deposits amounted to ₱13.0 million and ₱1.9 million for the year ended December 31, 2015 and the period July 22, 2014 to December 31, 2014, respectively. Interest receivable amounted to ₱0.89 million and ₱0.37 million as at December 31, 2015 and 2014, respectively (see Note 5).

5. Trade and Other Receivables

As at December 31, this account consists of:

	2015	2014
Trade receivables (see Note 16)	**₱20,573,150**	₱–
Receivable from LRTA	**8,348,307**	–
Others	**1,658,321**	371,897
	₱30,579,778	₱371,897

The Company's trade receivables pertain to uncollected lease or advertising payments arising from non-rail services. These merchants are provided by the Company with a 30-day credit term.

Receivable from LRTA pertains to the overpayment of concession fees which is included in the second Balancing Payment in accordance with the Concession Agreement.

As at December 31, 2015, the Company assessed that these receivables are not impaired.

6. Prepaid and Other Current Assets

As at December 31, this account consists of:

	2015	2014
Inventories [a]	**₱830,480**	₱–
Prepaid expenses [b] (see Note 15)	**65,118,353**	–
Advances to contractors [c] (see Note 9)	**2,769,357**	–
Deposits [d]	**2,904,189**	–
Derivative asset [e]	**1,448,256**	–
Input VAT [f]	**1,087,028**	10,828,366
	₱74,157,663	₱10,828,366

a. Inventories pertain to stored-value cards (SVC) used as fare medium in rail revenue. These are carried at cost.

b. This account includes prepayments on insurance, rent and utilities (see Note 15).

c. Advances to suppliers and contractors are normally applied within a year against progress billings. These pertain to down payments made by the Company for purchases of items and services which have not yet been received as at end of reporting period.

d. Deposits mainly consist of rental deposits which will be refunded upon expiration of the lease or applied against any remaining rent due at the end of the lease term.

e. During 2015, the Company entered into foreign currency forward contracts to hedge, at a certain extent, the payment of foreign-currency denominated consultancy and professional fees (see Note 16). Unrealized gain from change in the fair value of these forward contracts amounted to ₱1.4 million and is recognized as gain in the statement of comprehensive income.

f. Input VAT represents claim relating to non-rail activities. The Company's rail revenue is not subject to VAT but subject to Common Carrier's Tax.

7. Service Concession Assets and Service Concession Fee Payable

The movement in this account is as follows:

	2015		
	Rehabilitation	Extension	Total
Cost:			
Balance at beginning of year	₱–	₱–	₱–
Additions	2,036,487,164	2,468,343,337	4,504,830,501
Reclassification from 'Deferred project cost'	506,649,320	602,477,912	1,109,127,232
Balance at end of year	₱2,543,136,484	₱3,070,821,249	₱5,613,957,733

As at December 31, 2015, the costs of the service concession assets substantially comprise of the following:

a. Concession fee payments amounting to ₱1,870.0 million, inclusive of VAT (see Note 1).

b. Present value of the remaining service concession fee payable amounting to ₱2,776.3 million and related interest accretion amounting to ₱50.7 million (see Note 1).

c. Costs totaling to ₱782.0 million incurred in relation to consultation and advisory services on the technical, developmental and operational aspects of the Project (see Note 16).

d. Advisory fees aggregating to ₱105.0 million paid to Development Bank of the Philippines (DBP) and International Finance Corporation (IFC) which assisted DOTC and LRTA in undertaking and ensuring a fair, transparent and competitive selection process that will mobilize private sector participation in the implementation of the Project.

e. Costs of ₱3.4 million incurred to obtain an irrevocable standby letter of credit (SBLC) in the amount of ₱650.0 million from Security Bank as an Operation Performance Security, with the DOTC as beneficiary.

As at December 31, 2014, the amount of ₱1,109.1 million, which substantially represents initial payment for the concession fees and advisory and consultancy fees, was previously presented as "Deferred project costs" in the statement of financial position pending the hand-over of the LRT 1 operations. This subsequently formed part of the initial cost of the Service concession assets in 2015.

8. Property and Equipment

This account consists of:

	2015						
	Building improvement	**Office equipment**	**Furniture and fixtures**	**Transportation equipment**	**Computer equipment**	**Leasehold improvement and others**	**Total**
Cost							
Balances at beginning of year	**₱–**	**₱529,018**	**₱–**	**₱–**	**₱–**	**₱438,521**	**₱967,539**
Additions	**5,855,693**	**3,157,070**	**656,201**	**20,436,536**	**22,462,156**	**9,075,693**	**61,643,349**
Reclassifications	**–**	**(529,018)**	**–**	**–**	**529,018**	**–**	**–**
Balances at end of year	**5,855,693**	**3,157,070**	**656,201**	**20,436,536**	**22,991,174**	**9,514,214**	**62,610,888**
Accumulated Depreciation							
Balances at beginning of year	**–**	**14,695**	**–**	**–**	**–**	**62,646**	**77,341**
Depreciation (Note 15)	**119,891**	**195,672**	**45,167**	**1,990,287**	**2,213,062**	**1,801,572**	**6,365,651**
Reclassifications	**–**	**(14,695)**	**–**	**–**	**14,695**	**–**	**–**
Balances at end of year	**119,891**	**195,672**	**45,167**	**1,990,287**	**2,227,757**	**1,864,218**	**6,442,992**
Net Book Values	**₱5,735,802**	**₱2,961,398**	**₱611,034**	**₱18,446,249**	**₱20,763,417**	**₱7,649,996**	**₱56,167,896**

	2014						
	Building improvement	Office equipment	Furniture and fixtures	Transportation equipment	Computer equipment	Leasehold improvement and others	Total
Cost							
Additions	₱–	₱529,018	₱–	₱–	₱–	₱438,521	₱967,539
Depreciation (Note 15)	–	14,695	–	–	–	62,646	77,341
Net Book Values	₱–	₱514,323	₱–	₱–	₱–	₱375,875	₱890,198

9. Other Noncurrent Assets

As at December 31, 2015, this account consists of:

Advances to suppliers and contractors [(a)] (see Note 16)	₱109,741,819
Deferred charges [(b)]	41,692,879
Intangible assets [(c)]	11,833,058
Construction bond	110,561
	₱163,378,317

a. Advances to contractors and consultants represent advance payments for the mobilization of the contractors and consultants involved in the Project. These are progressively reduced upon receipt of the equivalent amount of services rendered by the contractors and consultants (see Note 16).

b. Deferred charges represent the cost incurred by the Company to restore the LRT 1 to the level necessary to meet the baseline ESR as stated in the Concession Agreement. The Company plans to recover these costs through the "Balancing Payments", the process of which requires an IC certification and an approval of the Grantors (see Note 1).

c. Intangible assets, which are depreciated over 5 years, consist of the following

	2015		
	Software, website and domain	Trademark	Total
Cost -			
Additions	₱11,494,180	₱373,887	₱11,868,067
Amortization	21,399	13,610	35,009
Balance at end of year	₱11,472,781	₱360,277	₱11,833,058

10. Accounts Payable and Other Current Liabilities

As at December 31, this account consists of:

	2015	2014
Accounts payable [(a)] (see Note 13)	**₱56,586,832**	₱63,595,303
Due to related parties (see Note 13)	**9,567,178**	1,696,902
Accrued expenses:		
Professional fees[(b)]	**322,469,622**	–
Utilities (see Note 13)	**48,775,841**	–
Personnel costs	**30,202,228**	–
Engineering supplies	**6,071,531**	–
Others	**8,212,899**	1,589,302
Customer deposits	**4,003,399**	–
Statutory payables	**17,126,910**	1,408,481
	₱503,016,440	₱68,289,988

a. As at December 31, 2015, the accounts payable mainly consists of unpaid insurance premium amounting to ₱30.3 million and which shall be paid within the next financial year. In 2014, the accounts payable, which is denominated in foreign currency, pertains to unpaid services to foreign contractors and consultants. Related foreign exchange gain amounting to ₱4.74 million and ₱0.80 million is recognized in the statements of comprehensive income in 2015 and 2014, respectively.

b. Accrued professional fees pertain to accrual of services rendered by consultants contracted by the Company in relation to the Project as discussed in Notes 1 and 7.

Accounts payable and accrued expenses are noninterest-bearing financial liabilities that are generally settled within one year.

11. **Equity**

Capital Stock
On July 22, 2014, the Company was incorporated with an authorized capital stock of ₱4,200.0 million divided into 4,200.0 million common shares at a par value of ₱1.0 per share. On the same date, 25% of the authorized capital stock or ₱1,050.0 million has been subscribed and paid for by the shareholders. During 2014 and 2015, the Company issued additional 500.0 million and 2,500.0 million shares, respectively, to its stockholders.

Equity Reserves
In 2015 and 2014, the Company recognized stock issuance costs, which represent SEC registration fees and documentary stamp taxes (DST), amounting to ₱8.7 million and ₱11.4 million, respectively, net of tax benefit of ₱3.8 million and ₱4.9 million (see Note 12).

12. **Income Taxes**

The provisions for income tax for the year ended December 31, 2015 and the period July 22, 2014 to December 31, 2014 are as follows:

	2015	2014
Current		
Profit or loss	**₱29,024,354**	₱–
Equity reserves (see Note 11)	**(3,750,000)**	–
RCIT	**25,274,354**	–
Final tax on interest income	**2,567,066**	379,592
	27,841,420	379,592
Deferred	**3,857,461**	(4,038,208)
	₱31,698,881	(₱3,658,616)
Tax expense (benefit) recognized in:		
Profit or loss	**₱35,448,881**	(₱3,658,616)
Equity reserves (see Note 11)	**(3,750,000)**	–
	₱31,698,881	(₱3,658,616)

The Company's net deferred income tax assets using statutory tax rate of 30% comprise of:

	2015	2014
Deferred tax assets:		
Service concession fee payable	**₱848,091,851**	₱–
Accrued expenses	**10,891,107**	410,791
NOLCO	–	8,737,461
	858,982,958	9,148,252
Deferred tax liability:		
Service concession asset	**(848,091,851)**	–
Amortization of upfront concession fee payments (see Note 7)	**(5,405,529)**	–
Unrealized foreign exchange gain	**(434,477)**	(239,690)
	(853,931,857)	(239,690)
	₱5,051,101	₱8,908,562

The Company is not yet subject to Minimum Corporate Income Tax (MCIT). The imposition of MCIT begins on the fourth taxable year immediately following the year in which the Company commenced its business operation. The Company is in its second year of operation.

The reconciliation between the expense (benefit) from income tax (presented in the profit or loss) at the applicable statutory tax rate is as follows:

	2015	2014
Benefit (expense) from income tax at statutory tax rate of 30%	**₱36,623,114**	(₱3,468,821)
Tax effect of interest income subject to final tax	**(1,340,433)**	(189,795)
Non-deductible expenses	**166,200**	–
Expense (benefit) from income tax	**₱35,448,881**	(₱3,658,616)

13. **Related Party Transactions**

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. In considering each possible related entity relationship, attention is directed to the substance of the relationship, and not merely the legal form.

As at December 31, the details of related party transactions and balances, which are on demand, noninterest-bearing and unsecured, are as follows:

	Relationship	Nature of transaction	Amount of Transactions 2015	Amount of Transactions 2014	Outstanding Balance 2015	Outstanding Balance 2014
			(In Thousands)			
MPIC	Ultimate Parent	Cash advances	**₱–**	₱379	**₱–**	₱–
MPLRC	Parent	Cash advances (see Note 10)	**–**	1,697	**1,697**	1,697
AF Payments, Inc. (AFPI)	Other related party	Automated fare collection system[(a)] (see Note 10)	**41,927**	–	**7,870**	–
Manila Electric Company (Meralco)	Other related party	Electricity and power utilities (see Notes 10, 14 and 15)	**97,579**	–	**45,933**	–
Maynilad Water Services, Inc.	Other related party	Water utilities (see Notes 10, 14 and 15)	**2,950**	–	**1,221**	–
Miescorrail, Inc.	Other related party	Technician support (see Note 7)	**17,318**	–	**–**	–
Smart Communications, Inc.	Other related party	Communication- mobile (see Notes 14 and 15)	**1,881**	–	**557**	–
Cura Teknika	Other related party	Technician support (see Note 14)	**470**	–	**116**	–
Ayala Corporation	Investor with significant influence	Management fees [(c)] (see Notes 14 and 15)	**17,743**	839	**–**	839
Ayala Land, Inc. (ALI)	Other related party	Lease of office space [(b)] (see Note 15)	**4,908**	1,033	**264**	1,033
Globe Telecom, Inc.	Other related party	Communication- mobile (see Notes 10, 14 and 15)	**114**	–	**7**	–
Manila Water Total Solutions Corp.	Other related party	Water supplies (see Note 14)	**130**	–	**117**	–

a. In 2014, AFPI was granted the rights and obligations to design, finance, construct, operate, and maintain the AFCS Project for LRT 1, LRT 2, and Metro Railway Transport 3 (MRT 3). The AFCS Project, which was founded under the Build-Operate-Transfer Law, accommodates a contactless smartcard technology based on International Standards Organization (ISO) 14443 A/B for stored value ridership and ISO 14443 A/B contactless medium technology for single journey ridership. This system shall be expandable to allow the inclusion of accepted participants and issuers into a generic micropayment solution fulfilling other commercial functions.

   The AFCS started pre-Full System Acceptance (Pre-FSA) Revenue Operations on September 24, 2015. On December 16, 2015, FSA was achieved on the AFCS project and as such, full revenue operations has commenced with LRMC as the operator of Level 1 to 3 devices in LRT 1.

   The Company uses the AFCS at no consideration. The balance outstanding as at December 31, 2015 represents amount payable for purchase of SVCs and settlement arising from rail revenue operation.

b. The Company entered into an operating lease agreement with ALI for a period of one year commencing July 2014 and extended until early 2016.

c. Ayala Corporation billed management fees which are computed based on actual time allocation submitted by the on-loan executives. Management services include key management, operational, financing and administrative decision-making.

As at December 31, 2014, the Company is still in the process of hiring permanent employees to fill in the organizational requirements. On September 12, 2015, the number of personnel has significantly increased due to the hand-over of the LRT 1 operations.

During the transitional phase, the provision of management resources and skills were provided by personnel of AC Infra and MPIC.

The remuneration of the key management personnel of the Company pertains to short-term employee benefits amounting to ₱49.3 million and nil as at December 31, 2015 and 2014, respectively.

d. Other transactions with related parties (Meralco, Maynilad, PLDT, and others) are for daily operation and general administration. These intercompany accounts are noninterest-bearing.

14. **Cost of Services**

Details of the cost of services for the year ended December 31, 2015 are as follows:

Professional and consultancy fees (see Note 16)	₱140,758,969
Personnel costs (see Note 13)	112,482,002
Outside services	102,162,345
Utilities (see Note 13)	84,522,170
Taxes and licenses	27,007,845
Supplies and maintenance	10,389,789
Others	342,648
	₱477,665,768

The Company took over the operation of the LRT 1 on September 12, 2015 and only started generating revenue and incurring related costs from that date (see Note 1).

15. **Operating Expenses**

Details of operating expenses are as follows:

	2015 (One Year)	2014 (Five Months)
Personnel costs (see Note 13)	**₱165,132,693**	₱4,361,140
Professional and consultancy fees (see Note 16)	**50,217,497**	3,510,863
Insurance (see Notes 6 and 16)	**37,281,743**	4,801
Supplies and maintenance	**33,692,277**	170,316
Utilities (see Note 13)	**16,561,885**	–
Taxes and licenses	**9,793,636**	4,244,471
Rent and communication (see Note 6)	**8,937,715**	1,244,665
Depreciation (see Notes 8 and 9)	**6,400,660**	77,341
Others	**6,609,219**	646,065
	₱334,627,325	₱14,259,662

The significant increase in the Company's operating expenses is brought by the take-over of the operation of the LRT 1 on September 12, 2015 (see Note 1). The Company has significantly increased its personnel by rehiring some of the employees of LRTA that are deployed for the LRT 1 operation.

16. Significant Contracts, Agreements and Commitments

Concession Agreement
Refer to Note 1 for the relevant discussions.

Independent Consultant (IC) for the Concession
In September 2015, DOTC and the Company have engaged Egis Rail – Egis International – Getinsa Ingenieria SL – Infra Consultants of the Philippines – Heldig Teknik Inc. Joint Venture as IC to carry out the duties and obligations ascribed in the Concession Agreement. This includes but not limited to monitor, inspect and keep informed the state and progress of remedial works, issue certification of compliance with the existing system requirements, and conduct annual audit of the quality control documentation. The fees and expenses of the IC shall be paid 50% by the Grantors and 50% by LRMC (see Note 10).

Leases
Upon hand-over on September 12, 2015, the LRTA transferred to the Company (as a Lessor) certain agreements on lease of commercial spaces located within LRT 1 stations, on interconnection fees and advertising contracts for trains and outdoor/indoor walls of the structures. Most of these contracts were renewed and have commenced during the last quarter of 2015. These agreements cover a period of less than a year.

Rent income, interconnection and advertising fees (included under "Non-rail revenue") earned relevant to these agreements amounted to ₱17.4 million for the year ended December 31, 2015 (see Note 5).

In November 2015, LRMC grants Phar Singapore Pte. Ltd the exclusive right to generate Ancillary Revenue from all agreed commercial activities (i.e., advertising, partnerships, and sponsorships) within the existing LRT 1 system. The contract shall begin on February 1, 2016 and will be for a period of 10 years.

Consultancy and Advisory Fees
In October 2014, the Company entered into offshore and onshore technical advisory service agreements with RATP Developpement SA and RATP Dev Manila, Inc. in relation to the Project. Scope of work includes providing an annual review of, and prepare a report on, the operation and maintenance of the LRT 1 with respect to the overall performance of the system, operations and maintenance budget, ridership data and Baseline System Plan (see Notes 7 and 14).

Agreements with Suppliers and Contractors
In May and October 2014, LRMC signed a term sheet for the engineering, procurement and construction of the Cavite Extension and entered into a Management Services Agreement for the performance of early works to enable the Company to meet certain milestones prior to the construction start date, with Bouygues Travaux Publics S.A. and Alstom Transport S.A., Contractors of the Cavite Extension (see Note 7).

During 2015, the Company has entered into contracts with various suppliers for the purchase of spare parts used in restoration of LRVs and with contractors for refurbishments, installations and improvements in the structure of the stations (see Notes 6 and 9).

Insurance
In 2015, the Company has obtained insurance policies for sabotage, general accident, and property damage/business interruption from Pioneer Insurance. Premiums amounting to ₱76.0 million were paid, of which a portion was expensed in the statement of comprehensive income (see Note 15).

17. Financial Risk Management Objectives and Policies

The Company's principal financial instruments mainly comprise of cash and cash equivalents and service concession fees payable. The Company has other financial assets and liabilities such as trade and other receivables, refundable deposits and accounts payable and other current liabilities. The main purpose of the financial instruments is to finance the Company's operations.

The Company also enters into derivative transactions, particularly foreign currency forward contracts, to manage the foreign currency risks arising from payment of professional fees.

The main risks arising from the Company's financial instruments are liquidity risk, credit risk and foreign currency risk. The BOD reviews and approves policies of managing each of these risks and they are summarized below.

Liquidity Risk
Liquidity risk is the risk of not meeting obligations as they become due because of an inability to liquidate assets or obtain funding. The Company is not exposed to significant liquidity risk because of the nature of its operations which provides daily inflows of cash from rail collections.

As part of the liquidity strategy, the Company sets aside cash to ensure that financial obligations will be met as they fall due. The Company has cash and cash equivalents amounting to ₱1,520.2 million and ₱468.9 million as at December 31, 2015 and 2014, respectively, which are allocated to meet the Company's short-term liquidity needs.

The table below summarizes the maturity profile of the Company's financial assets and liabilities:

	2015						
	On Demand	Within 1 Year	1–2 Years	2–3 Years	3–4 Years	More than 4 Years	Total
				(In Thousands)			
Financial Assets							
Cash and cash equivalents*	₱1,515,390	₱–	₱–	₱–	₱–	₱–	₱1,515,390
Trade and other receivables	8,348	22,231	–	–	–	–	30,579
Refundable deposits	1,471	–	–	–	–	–	1,471
Total	1,525,209	22,231	–	–	–	–	1,547,440
Financial Liabilities							
Accounts payable and other current liabilities							
Accounts payable	–	56,587	–	–	–	–	56,587
Due to related parties	9,567	–	–	–	–	–	9,567
Accrued expenses	–	415,732	–	–	–	–	415,732
Customer deposits	–	4,004	–	–	–	–	4,004
Service concession fee payable	–	–	–	–	–	7,480,083	7,480,083
Total	9,567	476,323	–	–	–	7,480,083	7,965,973
Liquidity Position (Gap)	₱1,515,642	(₱454,092)	₱–	₱–	₱–	(₱7,480,083)	(₱6,418,533)

**Excluding cash on hand*

In 2014, the Company's cash in bank and cash equivalents and interest receivable amounting to ₱468.9 million and ₱0.37 million, respectively, have maturities of less than one year. Likewise, the Company's financial liabilities, excluding statutory payables, amounting to ₱66.9 million has maturity of within one year. The Company has sufficient cash and cash equivalents to settle these obligations.

Credit Risk

Credit risk is the risk that the Company will incur a loss arising from counterparties that fail to discharge their contracted obligations. The Company manages and controls credit risk by setting limits on the amount of risk that the Company is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

The Company's exposure to credit risk mainly pertains to cash and cash equivalents, trade and other receivables and refundable deposits. The Company's maximum exposure is equal to the carrying amount of these financial assets. The Company has no concentration of credit risk.

As at December 31, 2015 and 2014, the Company's financial assets are categorized as neither past due nor impaired.

The Company also assesses each financial assets based on its credit quality.

In 2015 and 2014, the Company classified the credit quality of its financial assets as high grade since they have insignificant risk of default.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2015 and 2014,

LRMC is exposed to foreign currency risk. The exposure to foreign currency risk relates to the Company's foreign currency denominated cash and cash equivalents, account payables and accrued expenses as at December 31, 2015 and cash and cash equivalents and accounts payables as at December 31, 2014.

To reduce foreign currency risk exposure, the Company entered into a series of derivative transactions, in particular, forward contracts. These are accounted for as derivatives not designated as accounting hedges with fair value of ₱1.4 million and notional amount of €1.1 million as at December 31, 2015. There were no foreign currency forward contracts in 2014.

Capital Management

The primary objective of the Company's capital management is to ensure that the Company has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To manage or adjust the capital structure, the Company may obtain additional advances from stockholders, return capital to shareholders or issue new shares.

The capital of the Company derived from issuance of capital stock amounted to ₱4,050.0 million and ₱1,550.0 million as at December 31, 2015 and 2014, respectively.

18. Financial Assets and Financial Liabilities

The carrying value of all the Company's financial instruments recognized as at December 31, 2015 and 2014, except for service concession fee payable, approximates their fair values.

The carrying value and fair value of the service concession fee payable as at December 31, 2015 amounted to ₱2,827.0 million and ₱2,650.8 million, respectively. Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of financial instruments.

19. Subsequent Event

On January 29, 2016, the Company submitted invoices for its second Balancing Payment. These include claim for LRV shortfall, Grantors' compensation payment and SDR costs incurred.

20. Supplementary Information Required Under Revenue Regulation (RR) 15-2010

RR No. 15-2010 requires tax payers to disclose in the notes to the financial statements the Company's taxes paid or accrued during the taxable year. Details for the year ended December 31, 2015 are as follows:

a. Value Added Tax (VAT)

As at December 31, 2015, output VAT recognized from rent, train and station ads amounted to ₱919,195. The VAT base is based on actual collections, hence, may not be equivalent to 12% of the non-rail revenue per statements of comprehensive income.

The Company recognized input VAT as follows:

Services lodged under Service Concession Asset	₱2,003,593
Less: Output VAT	919,195
Balance at the end of the year	₱1,084,398

b. Withholding Taxes

The total amount of withholding taxes paid during the year is as follows:

Expanded withholding taxes	₱69,399,469
Tax on compensation and benefits	29,156,499
	₱98,555,968

c. Taxes and Licenses

The Company's taxes and licenses lodged under cost of sales and operating expenses consists of the following:

Common carrier's tax	₱26,923,957
Local taxes	8,640,408
Custom duties and tariff fees	522,821
Business tax	420,057
Fringe benefits	226,920
Vehicle registration	67,318
	₱36,801,481

Total landed cost of imports in 2015 amounted to ₱1,935,900.

d. Documentary Stamp Tax (DST)

The Company paid DST on issuance of shares aggregating to ₱12.5 million, which is presented under "Equity Reserves" in the statements of changes in equity.

e. Tax assessments and cases

The Company has no tax deficiency assessment or tax cases under preliminary investigation and/or prosecution in courts or bodies outside the BIR.