Light Rail Manila Corporation
(A Subsidiary of Light Rail Manila Holdings Inc.)

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report

A member firm of Ernst & Young Global Limited

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Light Rail Manila Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Light Rail Manila Corporation (the Company), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

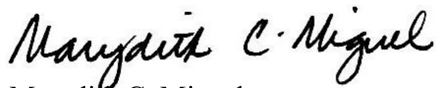
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations 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 Regulations 15-2010 in Note 22 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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February 28, 2017

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 19 and 20)	**₱1,143,077,202**	₱1,520,193,913
Trade and other receivables (Notes 5, 19 and 20)	**88,156,300**	30,579,778
Prepaid and other current assets (Notes 6, 18, 19 and 20)	**239,249,490**	74,157,663
Total Current Assets	**1,470,482,992**	1,624,931,354
Noncurrent Assets		
Property and equipment (Notes 3 and 7)	**178,708,157**	56,167,896
Service concession asset (Notes 1, 3, 8 and 18)	**6,362,086,931**	5,613,957,733
Deferred tax assets - net (Note 17)	**–**	5,051,101
Other noncurrent assets (Notes 9 and 18)	**825,321,683**	163,378,317
Total Noncurrent Assets	**7,366,116,771**	5,838,555,047
	₱8,836,599,763	₱7,463,486,401
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 10, 13, 18, 19 and 20)	**₱508,665,609**	₱503,016,440
Income tax payable	**25,103,980**	24,887,238
Total Current Liabilities	**533,769,589**	527,903,678
Noncurrent Liabilities		
Loans payable (Notes 11, 19 and 20)	**644,615,329**	–
Service concession fee payable (Notes 1, 3, 8, 18, 19 and 20)	**3,005,081,154**	2,826,972,838
Retirement liability (Notes 3 and 16)	**33,283,036**	–
Deferred tax liabilities - net (Note 17)	**935,520**	–
Total Noncurrent Liabilities	**3,683,915,039**	2,826,972,838
Equity		
Capital stock (Note 12)	**4,050,000,000**	4,050,000,000
Equity reserves (Note 12)	**(20,114,157)**	(20,114,157)
Retained earnings	**589,587,449**	78,724,042
Other comprehensive loss (Note 16)	**(558,157)**	–
Total Equity	**4,618,915,135**	4,108,609,885
	₱8,836,599,763	₱7,463,486,401

See accompanying Notes to Financial Statements.

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

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
REVENUES		
Rail (Note 1)	**₱3,015,978,217**	₱897,469,237
Non-rail (Note 18)	**75,531,138**	17,425,252
	3,091,509,355	914,894,489
COST OF SERVICES (Note 14)	**(1,850,144,172)**	(477,665,768)
GROSS PROFIT	**1,241,365,183**	437,228,721
Operating expenses (Notes 15 and 18)	**(543,692,023)**	(334,627,325)
Construction revenue (Notes 8 and 18)	**570,004,148**	967,692,414
Construction costs (Note 8 and 18)	**(570,004,148)**	(967,692,414)
Interest income (Note 4)	**20,819,671**	13,024,999
Other income	**5,402,951**	6,450,650
INCOME BEFORE INCOME TAX	**723,895,782**	122,077,045
PROVISION FOR INCOME TAX (Note 17)		
Current	**206,806,544**	31,591,420
Deferred	**6,225,831**	3,857,461
	213,032,375	35,448,881
NET INCOME	**510,863,407**	86,628,164
OTHER COMPREHENSIVE LOSS		
Other comprehensive income not to be reclassified to profit or loss in subsequent period		
Remeasurement loss on retirement liability, net of deferred income tax (Note 16)	**(558,157)**	–
TOTAL COMPREHENSIVE INCOME	**₱510,305,250**	₱86,628,164

See accompanying Notes to Financial Statements.

*On September 12, 2015, the Company took over the LRT1 operations.

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Capital Stock (Note 12)	Equity Reserves (Note 12)	Retained Earnings (Deficit)	Other Comprehensive Loss (Note 16)	Total Equity
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	–	(8,750,000)	–	–	(8,750,000)
Net 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
Net income for the year	–	–	510,863,407	–	510,863,407
Remeasurement loss on retirement liability, net of deferred income tax	–	–	–	(558,157)	(558,157)
AT DECEMBER 31, 2016	**₱4,050,000,000**	**(₱20,114,157)**	**₱589,587,449**	**(₱558,157)**	**₱4,618,915,135**

See accompanying Notes to Financial Statements.

*On September 12, 2015, the Company took over the LRT1 operations.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱723,895,782**	₱122,077,045
Adjustments for:		
Depreciation and amortization (Notes 7, 9 and 15)	**36,615,407**	6,400,660
Retirement expense (Note 16)	**32,485,669**	–
Interest income (Note 4)	**(20,819,671)**	(13,024,999)
Unrealized foreign exchange gain on forward contracts	**(1,031,201)**	(1,448,256)
Loss on disposal of property and equipment (Note 7)	**149,353**	–
Operating income before working capital changes	**771,295,339**	114,004,450
Increase in:		
Trade and other receivables	**(56,057,241)**	(29,692,121)
Prepaid and other current assets	**(164,060,626)**	(61,881,041)
Accounts payable and other current liabilities	**5,649,169**	235,346,792
Net cash flows provided by operations	**556,826,641**	257,778,080
Interest income received	**19,300,390**	12,509,239
Income tax paid	**(206,589,802)**	(2,954,182)
Net cash flows from operating activities	**369,537,229**	267,333,137
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to service concession asset (Note 8)	**(537,237,628)**	(1,478,478,003)
Additions to other noncurrent assets	**(177,868,548)**	(151,545,259)
Acquisitions of property and equipment (Note 7)	**(148,936,701)**	(61,643,349)
Purchase of intangible assets (Note 9)	**(55,741,575)**	(11,868,067)
Proceeds from disposal of property and equipment	**1,819,750**	–
Net cash flows used in investing activities	**(917,964,702)**	(1,703,534,678)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans payable (Note 11)	**656,997,226**	–
Payment of loan transaction cost (Note 11)	**(452,919,943)**	–
Interest paid	**(32,766,521)**	–
Proceeds from issuance of capital stock (Note 12)	–	2,500,000,000
Payment of share issuance costs (Note 12)	–	(12,500,000)
Net cash flows from financing activities	**171,310,762**	2,487,500,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(377,116,711)**	1,051,298,459
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**1,520,193,913**	468,895,454
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱1,143,077,202**	₱1,520,193,913

See accompanying Notes to Financial Statements.

*On September 12, 2015, the Company took over the LRT1 operations.

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 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 28, 2017.

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 42.0% and 52.1% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2016 and 2015, respectively. MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH; 60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (FPIL; 13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40.0% equity interest in EIH and 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 1 operations.

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 8):

- 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 ₱3,005.1 million and ₱2,827.0 million as at December 31, 2016 and 2015, respectively (see Note 8).

<u>Status of Rail Extension</u>
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 28, 2017.

<u>Claims and Manner of Settlement with Grantors</u>
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; and/or
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”.

As at December 31, 2016, the Company submitted five letters (first to fifth Balancing Payments) to DOTC mainly representing its claim for ESR costs and LRV shortfall, fare deficit, and Grantor’s compensation payment. These claims are still undergoing discussion as at February 28, 2017.

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 currency. All values are rounded to the nearest peso, unless otherwise indicated.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC, including SEC pronouncements.

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, 2016. Except as otherwise indicated, adoption of the following standards, interpretations and amendments did not have any impact on the financial statements:

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures*, *Investment Entities: Applying the Consolidation Exception* – These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

  These amendments are not applicable to the Company since the Company does not have an investment entity associates or joint ventures.

- Amendments to PFRS 11, *Joint Arrangements*, *Accounting for Acquisitions of Interests in Joint Operations* – The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to 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.

  These amendments do not have any impact on the Company as there has been no interest acquired in a joint operation during the period.

- 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 income 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.

  Since the Company is an existing PFRS preparer, this standard would not apply.

- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative* – The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. 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 or functions;
  - That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated;
  - That entities have flexibility as to the order in which they present the notes to financial statements;
  - That the share of other comprehensive income of associates 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.

  These amendments do not have significant impact to the Company.

- 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 do not have any impact to the Company given that the Company has not used a revenue-based method to depreciate or amortize its property, plant and equipment and intangible assets.

- Amendments to PAS 16 and PAS 41, Agriculture*: Bearer Plants* – The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the 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). The 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 applied retrospectively and do not have any impact on the Company as the Company does not have any bearer plants.

- Amendments to PAS 27, *Separate Financial Statements*, *Equity Method in Separate Financial Statements* – The amendments 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.

  These amendments do not have any impact on the Company's financial statements.

- Annual Improvements to PFRSs *(2012-2014 cycle)*

  - Amendment to 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.

    These amendments do not have any impact on the Company's financial statements as the Company does not have any non-current assets held for disposal.

  - Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts* – 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 for continuing involvement 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 amendments.

    These amendments do not have any impact on the Company's financial statements as the Company does not have any involvement in servicing contracts.

  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements* – This 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.

    These amendments do not have any impact on the Company's financial statements as the Company does not prepare condensed interim financial statements.

  - Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue* – This 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.

These amendments do not have significant impact on the Company's financial statements.

- Amendment to 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).

  These amendments do not have any impact on the Company's financial statements since the Company does not have interim financial reporting.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2016

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.

Effective beginning on or after January 1, 2017

- Amendments to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)* – The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative* – The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

  These amendments are not expected to have any impact on the Company.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions* – The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The amendment is not applicable on the Company's since the Company's does not have share-based payment transactions as at December 31, 2016.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4* – The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable to the Company since the Company does not have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers* – PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

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

- PFRS 9, *Financial Instruments* – PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and

measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle) – The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

  The amendments are not applicable to the Company since the Company does not have an investment in associate or joint venture.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property* – The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  The amendments are not applicable to the Company since the Company does not have an investment property.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration* – The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be

applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

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

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases* – Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* – The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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

Current versus Noncurrent Classification

The Company presents assets and liabilities in the statement of financial position based on current/noncurrent classification. An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is classified as current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement

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

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

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

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

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

Financial Instruments – Initial Recognition and Subsequent Measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

Initial Recognition and Measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, available-for-sale

(AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVPL, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the settlement date.

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

Subsequent Measurement
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. 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, 19 and 20).

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily 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.

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

Financial 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.

Financial Liabilities

Initial Recognition and Measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instrument in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities consist only of other financial liabilities.

Subsequent Measurement
Other financial liabilities pertain to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings. 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), loans payable and service concession fee payable are classified as other financial liabilities (see Notes 8, 10, 11, 19 and 20).

Derecognition
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. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Classification of Financial Assets and Financial Liabilities Between Debt and Equity
A financial asset or a financial liability 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.

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.

Claims from the Grantors

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" while such claims are still pending for approval of the Grantors (see Note 9). 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.

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 and approval of the Grantors of the claims.

Prepayments
Prepayments, included under "Prepaid and other current assets" are expenses paid in advance and recorded as asset before they are utilized. Prepayments are apportioned over the period covered by the payment and charged to the appropriate accounts in the statement of comprehensive income when incurred.

Prepayments that are expected to be realized for no more than twelve months after the reporting date are classified as other current assets. Otherwise, these are classified as other noncurrent assets.

Value-added Tax (VAT)
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 the taxation authority is included as part of "Prepaid and other current assets" in the statement of financial position.

Advances to Suppliers and Contractors
Advances to suppliers and contractors, included under "Prepaid and other current assets" represent advance payments for mobilization of the suppliers, contractors and consultants. These are stated at costs less any impairment in value. These are progressively reduced upon receipt of the equivalent amount of goods delivered and services rendered.

Service Concession Asset
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 (R.A.) 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 asset”. Quarterly payments to the Grantors 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 asset” 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 8).

Service concession asset will be amortized using the straight-line method over the term of the service concession. The amortization period for the service concession asset related to the rehabilitation of the Existing System will begin upon receipt of Safety Assessor’s certification that the speed can be raised to 60 kph which is the intended use of the asset. For the service concession asset related to the construction of Cavite Extension, the amortization will start upon receipt of the Final Acceptance certificate as contemplated under the Concession Agreement. 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 Grantors. There will be no gain or loss upon derecognition as the service concession asset, which is expected to be fully amortized by then, will be handed over to the Grantor with no consideration.

Service Concession Asset Not Yet Available for Use. Service Concession Asset not yet available for use is tested for impairment annually. The Company makes an estimate of recoverable amount, which is higher between the asset’s fair value less cost of disposal and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Construction Revenue and Cost Recognition. The Company recognizes and measures construction revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue,* for the services it performs. When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value. The revenue and cost from these services are recognized based on the percentage of completion measured principally on the basis of estimated completion of a physical proportion of the contract works, and by reference to the actual costs incurred to date over the estimated total cost of the project.

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 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 7):

	Years
Building improvements	30
Machineries	10
Office computer, and other equipment	3–5
Furniture and fixtures	5
Transportation equipment	5
Leasehold improvements	1–3

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. Amortization commences once the intangible assets are available for use and is computed on a straight-line basis over the estimated useful lives of three (3) to five (5) years. 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 comprehensive income 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

Service Concession Asset, Property and Equipment, Intangible Assets and Other Noncurrent Assets. The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's 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 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, any amount paid in excess of the par value of shares will be recognized as part of Additional paid-in capital. Equity reserves comprise of incremental costs incurred directly attributable to the issuance of new shares.

Retained earnings represent the Company's accumulated earnings.

Other comprehensive loss comprises of items of income and expenses that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive loss of the Company pertains to remeasurement loss on retirement liability.

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 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.

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.

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 d ate 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.

Retirement Benefits

The Company has an unfunded, non-contributory defined benefit retirement plan covering all qualified employees. The retirement expense is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees’ projected salaries.

The Company recognizes service costs, comprising of current service costs and net interest expense or income in the statement of comprehensive income. Net interest is calculated by applying the discount rate to the net retirement liability or asset.

Remeasurements comprising actuarial gains and losses, the difference between interest income and actual return on plan assets and any change in the effect of the asset ceiling (excluding net interest on retirement liability or asset) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The net retirement benefit liability or asset is the aggregate of the present value of the retirement benefit liability and the fair value of plan assets on which the obligations are to be settled directly. The present value of the retirement benefit liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

<u>Common Carrier's Tax</u>
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.

<u>Income Tax</u>

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 rate 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 to the extent that it is probable that taxable profit will be available against which the deductible temporary differences 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.

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.

Related Parties
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

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 Date
Post year-end events that provide additional information about the Company's financial position at the end of reporting date (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 Judgments, Accounting 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.

The carrying value of Service concession asset amounted to ₱6,362.1 million and ₱5,614.0 million as at December 31, 2016 and 2015, respectively (see Note 8).

The Company also recognizes construction revenues and costs in accordance with PAS 11, *Construction Contracts*. It measures revenue from rehabilitation and extension works at the fair value of the consideration received or receivable. Given that LRMC has subcontracted the rehabilitation and 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 ₱570.0 million and ₱967.7 million in 2016 and 2015, respectively.

Service Concession Asset as Qualifying Assets. The Company has made a judgment to apply PAS 23, *Borrowing Costs*, in classifying the service concession asset's 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 8).

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 20.

Determining Retirement Liability. The determination of the Company's retirement liability and expense is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Actual results that differ from the Company's assumptions are accumulated and recorded in other comprehensive income. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

Retirement expense recognized in profit or loss amounted to ₱32.5 million and nil in 2016 and 2015, respectively. The Company has retirement liability amounting to ₱33.3 million and nil as at December 31, 2016 and 2015, respectively (see Note 16).

Estimation of Useful Lives. The useful life of each of the Company's service concession asset, 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, provision of contract, 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. An increase in the estimated useful life of any item of service concession asset, property and equipment and intangible assets would decrease the recorded depreciation and amortization expense.

There were no changes in the estimated useful lives of the Company's service concession asset, property and equipment, and intangible assets in 2016 and 2015. The carrying amounts of nonfinancial assets of the Company as at December 31, 2016 and 2015 are as follows:

	2016	2015
Service concession asset (Note 8)	**₱6,362,086,931**	₱5,613,957,733
Property and equipment (Note 7)	**178,708,157**	56,167,896
Intangible assets (Note 9)	**55,386,563**	11,833,058

Assessing Impairment of Nonfinancial Assets. The Company assesses impairment on its nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The recoverable value of nonfinancial assets represents the higher of value in use or fair value less cost of disposal. Estimating the value-in-use requires the Company to make an assessment of the expected future cash flows from the use of the LRT 1 and allows it to choose a suitable discount rate in order to calculate the present value of those cash flows. Based on management's assessment, the service concession asset, property and equipment, and intangible assets are not impaired. The carrying amounts of nonfinancial assets of the Company as at December 31, 2016 and 2015 are as follows:

	2016	2015
Service concession asset (Note 8)	**₱6,362,086,931**	₱5,613,957,733
Property and equipment (Note 7)	**178,708,157**	56,167,896
Intangible assets (Note 9)	**55,386,563**	11,833,058

Recoverability of Service Concession Asset not yet Available for Use. The Company reviews the recoverable amount of its service concession asset not yet available for use related to extension at each reporting date. The Company makes an estimate of expected future cash flow from such asset and uses a suitable discount rate in order to calculate the present value of the cash flow. Based on management's assessment, the carrying value of the service concession asset not yet available for use will be recovered.

As at December 31, 2016 and 2015, the carrying value of the service concession asset related to extension amounted to ₱3,199.0 million and ₱3,070.8 million, respectively (see Note 8).

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.

In 2016, the Company registered with the Board of Investments (BOI) for its modernization of the Existing System and the construction of the Cavite Extension which granted the Company an Income Tax Holiday (ITH). The Company's assessment of the recognition of deferred income tax assets is based on the recognition criteria and timing of the reversal of such deferred tax assets. Any deferred income tax asset that the Company expects to reverse or be realized after the ITH are recognized, subject to their realizability, while those deferred income tax asset that will reverse during the ITH should no longer be recognized. Derecognized deferred tax assets on deductible temporary difference as a result of ITH amounted to ₱151.5 million for the year ended December 31, 2016 (see Note 17).

As at December 31, 2016 and 2015, the Company recognized deferred income tax assets amounting to ₱811.4 million and ₱859.0 million, respectively (see Note 17).

4. Cash and Cash Equivalents

As at December 31, this account consists of:

	2016	2015
Cash on hand	**₱5,368,697**	₱4,804,095
Cash in banks	**162,267,280**	639,092,246
Short-term deposits	**975,441,225**	876,297,572
	₱1,143,077,202	₱1,520,193,913

Cash in banks 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 banks and short-term deposits amounted to ₱20.8 million and ₱13.0 million in 2016 and 2015, respectively. Interest receivable amounted to ₱2.4 million and ₱0.9 million as at December 31, 2016 and 2015, respectively (see Note 5).

5. Trade and Other Receivables

As at December 31, this account consists of:

	2016	2015
Trade receivables (Note 18)	**₱74,060,577**	₱20,573,150
Receivable from LRTA	**8,348,307**	8,348,307
Interest receivable (Note 4)	**2,406,938**	887,656
Others	**3,340,478**	770,665
	₱88,156,300	₱30,579,778

The Company's trade receivables pertain to uncollected lease or advertising payments arising from non-rail contracts. 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, 2016 and 2015, the Company assessed that these receivables are not impaired.

6. Prepaid and Other Current Assets

As at December 31, this account consist of:

	2016	2015
Inventories	**₱28,425,938**	₱830,480
Prepaid expenses (Note 18)	**42,481,890**	65,118,353
Advances to suppliers and contractors	**159,714,235**	2,769,357
Refundable deposits	**4,133,250**	2,904,189
Derivative asset (Note 19)	**2,479,457**	1,448,256
Input VAT	**2,014,720**	1,087,028
	₱239,249,490	₱74,157,663

Inventories pertaining to engineering supplies used for the maintenance of LRVs amounted to ₱28.0 million in 2016. Other inventories include stored-value cards (SVC) used as fare medium in rail revenue. These are carried at cost.

Prepaid expenses include prepayments on medical and property insurance, rent and utilities.

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 year.

Refundable 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.

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 18). Unrealized gain from change in the fair value of these forward contracts amounted to ₱1.0 million and ₱1.4 million in 2016 and 2015, respectively, and is recognized as gain in the statements of comprehensive income.

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. Property and Equipment

Changes in property and equipment account for the years ended December 31, 2016 and 2015 are as follows:

	2016						
	Building improvements	**Machineries**	**Office, computer, and other equipment**	**Furniture and fixtures**	**Transportation equipment**	**Leasehold improvements**	**Total**
Cost							
Balances at beginning of year	**₱5,855,693**	**₱ 203,571**	**₱33,438,743**	**₱ 656,201**	**₱20,436,536**	**₱ 2,020,144**	**₱62,610,888**
Additions	**39,733,206**	**8,674,777**	**83,939,234**	**4,336,884**	**12,252,600**	**–**	**148,936,701**
Disposal	**–**	**–**	**(52,901)**	**–**	**(3,000,000)**	**–**	**(3,052,901)**
Balances at end of year	**45,588,899**	**8,878,348**	**117,325,076**	**4,993,085**	**29,689,136**	**2,020,144**	**208,494,688**
Accumulated Depreciation							
Balances at beginning of year	**119,891**	**–**	**3,019,206**	**45,167**	**1,990,287**	**1,268,441**	**6,442,992**
Depreciation (Note 15)	**858,000**	**321,835**	**16,952,409**	**668,737**	**4,874,653**	**751,703**	**24,427,337**
Disposal	**–**	**–**	**(33,798)**	**–**	**(1,050,000)**	**–**	**(1,083,798)**
Balances at end of year	**977,891**	**321,835**	**19,937,817**	**713,904**	**5,814,940**	**2,020,144**	**29,786,531**
Net Book Values	**₱44,611,008**	**₱8,556,513**	**₱97,387,259**	**₱4,279,181**	**₱23,874,196**	**₱–**	**₱178,708,157**

	2015						
	Building improvements	Machineries	Office, computer, and other equipment	Furniture and fixtures	Transportation equipment	Leasehold improvements	Total
Cost							
Balances at beginning of year	₱–	₱–	₱967,539	₱–	₱–	₱–	₱967,539
Additions	5,855,693	203,571	32,471,204	656,201	20,436,536	2,020,144	61,643,349
Balances at end of year	5,855,693	203,571	33,438,743	656,201	20,436,536	2,020,144	62,610,888
Accumulated Depreciation							
Balances at beginning of year	–	–	77,341	–	–	–	77,341
Depreciation (Note 15)	119,891	–	2,941,865	45,167	1,990,287	1,268,441	6,365,651
Balances at end of year	119,891	–	3,019,206	45,167	1,990,287	1,268,441	6,442,992
Net Book Values	₱5,735,802	₱203,571	₱30,419,537	₱611,034	₱18,446,249	₱751,703	₱56,167,896

The Company has disposed property and equipment at a loss of ₱0.2 million for the year ended December 31, 2016.

All existing and future movable property and equipment items owned by the Company are subject to a chattel mortgage as security for the loan agreement entered in 2016 (see Note 11).

8. Service Concession Asset and Service Concession Fee Payable

Service concession asset. The movements in service concession asset account are as follows:

	2016		
	Rehabilitation	**Extension**	**Total**
Balance at beginning of year	**₱2,543,136,484**	**₱3,070,821,249**	**₱5,613,957,733**
Additions	**619,924,442**	**128,204,756**	**748,129,198**
Balance at end of year	**₱3,163,060,926**	**₱3,199,026,005**	**₱6,362,086,931**

	2015		
	Rehabilitation	Extension	Total
Cost:			
Balance at beginning of year	₱–	₱–	₱–
Additions	2,543,136,484	3,070,821,249	5,613,957,733
Balance at end of year	₱2,543,136,484	₱3,070,821,249	₱5,613,957,733

The costs of the service concession asset substantially comprise of the following:

a. Upfront concession fee payments amounting to ₱1,870.0 million, inclusive of VAT, as at December 31, 2016 and 2015 (see Note 1).

b. Present value of the remaining service concession fee payable amounting to ₱2,776.2 million and cumulative interest accretion amounting to ₱228.8 million and ₱50.7 million as at December 31, 2016 and 2015, respectively (see Note 1).

c. Costs totaling to ₱1,031.8 million and ₱782.0 million incurred as at December 31, 2016 and 2015, respectively, in relation to consultation and advisory services on the technical, developmental and operational aspects of the Project (see Note 18).

d. Advisory fees aggregating to ₱105.0 million paid in 2015 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. Capitalized interest from loans amounting ₱36.8 million in 2016 (see Note 11).

f. Other costs amounted to ₱312.8 million and ₱29.4 million as at December 31, 2016 and 2015, respectively, and these payments are made to contractors for station rehabilitation, rail replacement and rehabilitation of LRVs.

Construction revenue and costs incurred in reference to the rehabilitation of the Existing System and Extension amounted to ₱570.0 million and ₱967.7 million in 2016 and 2015, respectively.

As at December 31, 2016, service concession asset related to the Extension Project is not yet available for use since it is yet to be constructed. Such asset is subjected for impairment testing due to uncertainty of future economic benefits to recover the carrying value of the asset. Based on the impairment testing made by the Company, the recoverable amount of the service concession asset exceeds its carrying value. No impairment loss was recognized for the year ended December 31, 2016.

The assumptions used to determine the asset's recoverable amount in 2016 are as follows:

Discount rate	7.7%
Average revenue growth rate	8.0%
Forecast period	32 years

Service Concession Fee Payable. The movements in service concession fee payable are as follows:

	2016	2015
Balance at beginning of year	**₱2,826,972,838**	₱2,776,244,539
Interest accretion	**178,108,316**	50,728,299
Balance at end of year	**₱3,005,081,154**	₱2,826,972,838

Total bid premium for the LRT 1 Project amounted to ₱9.35 billion (inclusive of VAT), 20% or ₱1.87 billion of which was settled as at Effective Date in accordance with the Concession Agreement. The balance of the concession fee (nominal amount of ₱7.5 billion, inclusive of VAT) is payable in equal quarterly installments over the concession period with the first payment on the fifth anniversary of the Effective Date. Settlement of the concession fee is through the quarterly balancing payment mechanism reflecting netting of payments due to Grantors against receivable from Grantors. Interest accretion is capitalized as part of the "Service concession asset" account, together with the present value of the service concession fee payable, during the rehabilitation and/or construction period.

The schedule of undiscounted estimated future concession fee payments, based on the terms of the concession agreements, is as follows:

	2016	2015
Within one year	**₱–**	₱–
After one year but not more than five years	**601,078,108**	333,932,282
More than five years	**6,879,005,012**	7,146,150,838
	₱7,480,083,120	₱7,480,083,120

9. Other Noncurrent Assets

As at December 31, this account consists of:

	2016	2015
Advances to suppliers and contractors	**₱235,259,769**	₱109,741,819
Intangible assets	**55,386,563**	11,833,058
Deferred charges	**93,986,239**	41,692,879
Construction bond	**167,800**	110,561
Deferred financing cost (Note 11)	**440,521,312**	–
	₱825,321,683	₱163,378,317

Advances to suppliers and contractors. This account represents 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 18).

Intangible assets. This account consists of the following:

	2016		
	Software, website and domain	**Trademark**	**Total**
Cost			
Balances at beginning of year	**₱11,494,180**	**₱373,887**	**₱11,868,067**
Additions	**55,741,575**	**–**	**55,741,575**
Balances at end of year	**67,235,755**	**373,887**	**67,609,642**
Accumulated Amortization			
Balances at beginning of year	**21,399**	**13,610**	**35,009**
Amortization (Note 15)	**12,109,783**	**78,287**	**12,188,070**
Balances at end of year	**12,131,182**	**91,897**	**12,223,079**
Net Book Values	**₱55,104,573**	**₱281,990**	**₱55,386,563**

	2015		
	Software, website and domain	Trademark	Total
Cost -			
Additions	₱11,494,180	₱373,887	₱11,868,067
Amortization (Note 15)	21,399	13,610	35,009
Balances at end of year	₱11,472,781	₱360,277	₱11,833,058

Deferred charges. This account represents the cost incurred by the Company to restore the LRT 1 System 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” mechanism, the process of which requires an IC certification and an approval of the Grantors (see Note 1).

Deferred financing cost. This account refers to all costs incurred for the availment of loan including documentary stamp taxes, arrangement fees, and chattel mortgage registration, net of the proportionate debt issue cost on withdrawn principal amount (see Note 11).

10. **Accounts Payable and Other Current Liabilities**

As at December 31, this account consists of:

	2016	2015
Accounts payable	**₱65,641,656**	₱59,506,159
Accrued expenses:		
Professional fees	**149,337,616**	322,469,622
Engineering supplies	**28,092,531**	6,071,531
Others	**18,472,563**	2,197,159
Provisions (Notes 14 and 15)	**171,499,342**	30,202,228
Due to related parties (Note 13)	**32,471,357**	57,782,841
Statutory payables	**37,151,176**	20,783,501
Interest on loans payable (Note 11)	**4,082,793**	–
Customer deposits	**1,916,575**	4,003,399
	₱508,665,609	₱503,016,440

Accounts payable includes unpaid services to foreign contractors and consultants which is denominated in foreign currency. Related foreign exchange gain amounting to ₱6.8 million and ₱4.7 million is recognized in the statements of comprehensive income in 2016 and 2015, respectively. Accounts payable are noninterest-bearing financial liabilities that are generally settled within one year.

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, 8 and 18.

Provisions represent various employee benefits and other charges based on management estimate with reference to the individual and Company's performance. The expected payout is within the next financial year.

Statutory payables include withholding taxes, common carrier's tax and premium contributions and loans amortization due to Social Security System, the Home Development Mutual Fund and the Philippine Health Insurance Corporation.

11. **Loans Payable**

The details of this account as at December 31, 2016 follows:

	Amount
Principal	₱656,997,226
Less: unamortized debt issue cost	(12,381,897)
	₱644,615,329

On February 11, 2016, the Company signed a 15-year Omnibus Loan and Security Agreement (OLSA) with various financial institutions amounting to ₱24.0 billion, ₱15.3 billion of which is allocated for the Cavite Extension and ₱8.7 billion for the rehabilitation of the existing LRT 1 system. Total transaction costs incurred for the availment of the loan amounted to ₱452.9 million. The loan is subject to an interest rate of 7.1445% payable quarterly, subject to interest repricing every five (5) years thereafter.

The loan is presented net of debt issue cost. Debt issue cost and the related amortization recognized with respect to the withdrawn amounts are summarized as follows:

	Amount
Total transaction costs	₱452,919,943
Transaction costs on undrawn amount presented as "Deferred financing cost" (Note 9)	(440,521,312)
Total debt issue cost on principal - drawn amount	12,398,631
Less: amortization for the year	(16,734)
Unamortized debt issue cost	₱12,381,897

Interest expense capitalized as part of service concession asset amounted to ₱36.8 million in 2016 (see Note 8). Accrued interest expense amounted to ₱4.1 million as at December 31, 2016 (see Note 10).

Scheduled principal repayment of the Company's loan is as follows:

	Amount
Within one year	₱–
After one year but not more than five years	15,899,333
More than five years	641,097,893
	₱656,997,226

Debt Covenants. This loan contains restrictive covenants which include, among others, maintenance of certain level of long-term debt-to-equity ratio not exceeding 65:35 and a minimum debt service coverage ratio of 1.05 times based on the financial statements of the Company. As at December 31, 2016, the Company is in compliance with the debt covenants.

The loan has a sponsors' funding commitment wherein for each drawdown until end of the construction period, the Sponsors shall infuse additional equity or extend debt to the Company in an amount necessary to meet the debt-to-equity ratio. Additional equity investment shall not exceed ₱15,346.0 million. The investment is allocated to the sponsors as follows:

	Amount
LRMH	₱10,742,000,000
MPLRC	3,069,000,000
MIHPL	1,535,000,000
	₱15,346,000,000

In case declaration of default is issued, the sponsors shall either deposit in an Escrow account or submit an irrecoverable stand by letter of credit in favor of the Lenders an amount or with the face value equivalent to a sponsor's share in the remaining sponsor funding commitment.

The loan has a pledge shares of LRMC amounting to ₱4,050.0 million and a chattel mortgage, such chattel consist of:

- all present and future movable assets that exist and are owned by LRMC, excluding works and rail assets (as defined under concession agreement) together with all attachments, component parts, equipment and accessories installed thereon or affix thereto, regardless of where the same are located;
- all machinery, equipment and other assets owned by LRMC;
- the account collateral, the project agreements and the assigned assets;
- all proceeds of any disposition of chattels; and
- all property of every nature and description in exchange, substitution or replacement of any of the chattels.

12. 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 ₱1.00 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 shares with a total consideration of ₱500.0 million and 2,500.0 million shares with a total consideration of ₱2,500.0 million, 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

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 2016	2015	Outstanding Balance 2016	2015
			(In Thousands)			
Accounts Payable and Other Current Liabilities:						
Manila Electric Company (Meralco)	Other related parties	Electricity and power utilities (Notes 10, 14 and 15)	**₱307,379**	₱97,579	**₱27,871**	₱45,933
MPLRC	Intermediary Parent	Cash advances	**–**	–	**1,697**	1,697
Maynilad Water Services, Inc.	Under common control	Water utilities (Notes 10, 14 and 15)	**8,137**	2,950	**1,432**	1,221
Ayala Land, Inc. (ALI)	Other related parties	Lease of office space (Note 15)[(b)]	**5,770**	4,908	**868**	264
AF Payments, Inc. (AFPI)	Other related parties	Automated fare collection system[(a)]	**74,087**	41,927	**558**	7,870
Manila Water Total Solutions Corp.	Other related parties	Water supplies (Note 14)	**565**	130	**43**	117
Smart Communications, Inc.	Other related parties	Communication- mobile (Notes 14 and 15)	**3,602**	1,881	**2**	557
Miescorrail, Inc.	Other related parties	Technician support (Note 8)	**5,355**	17,318	**–**	–
Curo Teknika	Other related parties	Technician support (Note 14)	**274**	470	**–**	116
Ayala Corporation	Investor with significant influence	Management fees [(c)] (Notes 14 and 15)	**14,945**	17,743	**–**	–
Globe Telecom, Inc.	Other related parties	Communication- mobile (Notes 10, 14 and 15)	**133**	114	**–**	7
					₱32,471	₱57,782

**Other related parties are related to the Company as follows: Meralco, Smart Communications Inc., Miescorrail Inc. and Curo Teknika are associates or subsidiaries of MPIC. ALI and Manila Water Solutions Corp. are subsidiaries and Globe Telecom, Inc. is an associate of Ayala Corporation, the ultimate parent company of AC Infra.*

a. In 2014, AFPI, an associate of MPIC, was granted the rights and obligations to design, finance, construct, operate, and maintain the Automatic Fare Collection System (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 have 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, 2016 and 2015 represent amount payable for purchase of SVCs and settlement of unused SVCs purse balance arising from rail revenue operations.

b. The Company entered into an operating lease agreement with ALI commencing July 2014 and extended until June 2020.

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.

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 Company's remuneration of key management personnel pertaining to short-term employee benefits amounted to ₱72.7 million and ₱49.3 million as at December 31, 2016 and 2015, respectively.

d. Other transactions with related parties (Meralco, Maynilad, 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 are as follows:

	2016	2015
Personnel costs:		
Salaries, wages and benefits (Note 13)	**₱486,500,210**	₱92,145,114
Provision for employee benefits	**138,232,750**	20,323,888
Outside services	**314,356,383**	102,196,908
Supplies and maintenance	**291,351,959**	10,355,226
Utilities (Note 13)	**269,752,425**	84,522,170
Professional and consultancy fees (Note 18)	**230,743,107**	140,758,969
Taxes and licenses	**96,496,182**	27,007,845
Others	**22,711,156**	355,648
	₱1,850,144,172	₱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:

	2016	2015
Personnel costs		
Salaries, wages and benefits (Note 13)	**₱136,662,503**	₱130,236,676
Provision for employee benefits	**47,608,220**	21,669,822
Professional and consultancy fees (Note 18)	**90,418,089**	48,984,902
Insurance (Notes 6 and 18)	**86,043,758**	37,281,743
Utilities (Note 13)	**45,764,732**	16,561,885
Depreciation and amortization (Notes 7 and 9)	**36,615,407**	6,400,660
Supplies and maintenance	**28,473,652**	30,161,706
Outside services	**16,226,763**	4,763,166
Rent and communication	**13,779,009**	8,937,715
Taxes and licenses	**5,740,884**	9,793,636
Others	**36,359,006**	19,835,414
	₱543,692,023	₱334,627,325

16. **Retirement Plan**

The Company has no formal retirement plan yet. However, under the existing regulatory framework, R.A. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The following tables summarize the net retirement liability recognized in the statements of financial position, and retirement expense recognized in profit or loss and OCI.

The components of retirement liability recognized in the statement of financial position as at December 31, 2016 are as follows:

	Amount
Balance at beginning of year	₱–
Current service cost	31,815,852
Interest cost	669,817
Remeasurement loss recognized in other comprehensive income	797,367
Balance at end of year	₱33,283,036

Retirement expense recognized as part of "Personnel costs" under "Cost of services" and "Operating expenses" in the statement of comprehensive income for the year ended December 31, 2016 is as follows:

	Amount
Current service cost	₱31,815,852
Interest cost	669,817
	₱32,485,669

The cumulative actuarial loss recognized in other comprehensive loss as at December 31, 2016 is as follows:

	Accumulated Actuarial Loss	Deferred Tax (Note 17)	Net
Balance at beginning of year	₱–	₱–	₱–
Remeasurement loss	(797,367)	(239,210)	(558,157)
Balance at end of year	(₱797,367)	(239,210)	(₱558,157)

The assumptions used to determine retirement benefits in 2016 are as follows:

Discount rate	5.73%
Expected rate of salary increase	6.00%

The sensitivity analysis based on reasonably possible changes of the assumptions as at December 31, 2016 is as follows:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Retirement Liability
Discount rates	100	(₱29,067,349)
	(100)	38,466,694
Salary increase rates	100	38,557,583
	(100)	(28,921,756)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net retirement liability as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The average duration of the defined benefit plan at the end of the reporting period is 24.21 years.

As at December 31, 2016, the expected future benefit payments are as follows:

Year	Amount
Next 5 years	₱40,656,646
6 - 10 years	40,025,262
10 - 15 years	94,860,837
15 - 20 years	179,843,018
Beyond 20 years	1,168,998,179

17. **Income Taxes**

The Company's provision for current tax consist of:

	2016	2015
Regular Corporate Income Tax (RCIT)	**₱202,883,380**	₱29,024,354
Final tax on interest income	**3,923,164**	2,567,066
	₱206,806,544	₱31,591,420

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 third year of operation.

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

	2016	2015
Deferred tax assets:		
Service concession fee payable	**₱749,991,468**	₱848,091,851
Provisions	**51,449,803**	10,891,107
Retirement liability	**9,984,911**	–
	811,426,182	858,982,958
Deferred tax liability:		
Service concession asset	**(767,715,110)**	(848,091,851)
Documentary stamp tax component of deferred financing cost	**(29,029,602)**	–
Amortization of upfront concession fee payments	**(15,307,630)**	(5,405,529)
Unrealized foreign exchange gain	**(309,360)**	(434,477)
	(812,361,702)	(853,931,857)
	(₱935,520)	₱5,051,101

Registration with the BOI
In 2016, the Company was registered with the BOI for the modernization of the Existing System and the construction of the Cavite Extension.

Under the BOI Registration Agreement, the Company is entitled to:
a. ITH for a period of three years from the indicated completion of the rehabilitation of the Existing System in January 2018 and start of commercial operations of the Cavite Extension in April 2021;
b. Tax and duty-free importation of capital and consigned equipment exclusively used in the operation of the registered activities;
c. Employment of foreign nationals;
d. Simplified customs procedures for the importation of equipment, spare parts, raw materials and supplies.

Consequently, the Company derecognized deferred tax asset and deferred tax liability amounting to ₱151.5 million and ₱153.9 million, respectively. Such deductible and taxable temporary differences will reverse during the ITH period based on the forecast made by the Company for the timing of reversal of the temporary differences.

The reconciliation of the provision for income tax at the applicable statutory tax rate to the provision for income taxes shown in the statements of comprehensive income is as follows:

	2016	2015
Income tax computed at statutory tax rate	**₱217,168,735**	₱36,623,114
Adjustment for:		
Interest income subject to final tax	**(2,322,737)**	(1,340,433)
Non-deductible expenses	**611,145**	166,200
Reversal of deferred tax due to ITH	**(2,424,768)**	–
	₱213,032,375	₱35,448,881

18. 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).

Non-Rail Activities
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.

In November 2015, LRMC granted 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 effective for a period of 10 years.

Rent income, interconnection and advertising fees (included under “Non-rail revenue”) earned relevant to these agreements amounted to ₱75.5 million and ₱17.4 million in 2016 and 2015, respectively (see Note 5).

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.

Agreements with Suppliers and Contractors
In May and October 2014, LRMC signed a term sheet for the engineering, procurement and construction (EPC) 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 8).

On February 11, 2016, the Company signed a new EPC Agreement for the construction of LRT 1 Cavite Extension with Bouygues Travaux Publics Philippines Inc., Alstom Transport S.A. and Alstom Transport Construction Philippines Inc. which shall commence upon the issuance by the Grantors of a notice to proceed. There was no actual construction yet as at December 31, 2016.

In 2016 and 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
The Company has obtained insurance policies for sabotage, general accident, and property damage/business interruption from Pioneer Insurance. Premiums amounting to ₱47.7 million and ₱69.9 million were prepaid in 2016 and 2015, respectively, of which ₱42.6 million and ₱37.0 million was recognized as part of operating expenses (see Notes 6 and 15).

19. **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 farebox 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 ₱1,143.1 million and ₱1,520.2 million as at December 31, 2016 and 2015, 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:

				2016			
	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*	**₱1,137,708**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,137,708**
Trade and other receivables	**17,492**	**70,664**	–	–	–	–	**88,156**
Refundable deposits	**1,719**	–	–	–	–	–	**1,719**
Total	**1,156,919**	**70,664**	–	–	–	–	**1,227,583**
Financial Liabilities							
Accounts payable and other current liabilities:							
Accounts payable	–	**65,642**	–	–	–	–	**65,642**
Due to related parties	**32,471**	–	–	–	–	–	**32,471**
Accrued expenses	–	**208,567**	–	–	–	–	**208,567**
Provisions	–	**158,835**	–	–	–	–	**158,835**
Interest on loans payable	–	**4,083**	–	–	–	–	**4,083**
Customer deposits	–	**1,916**	–	–	–	–	**1,916**
Long-term debt	–	–	–	–	–	**644,615**	**644,615**
Service concession fee payable	–	–	–	–	–	**7,480,083**	**7,480,083**
Total	**32,471**	**439,043**	–	–	–	**8,124,698**	**8,596,212**
Liquidity Position (Gap)	**₱1,124,448**	**(₱368,379)**	**₱–**	**₱–**	**₱–**	**(₱8,124,698)**	**(₱7,368,629)**

**Excluding cash on hand amounting to ₱5,369*

	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	–	59,506	–	–	–	–	59,506
Due to related parties	57,783	–	–	–	–	–	57,783
Accrued expenses	–	330,738	–	–	–	–	330,738
Provisions	–	30,202	–	–	–	–	30,202
Customer deposits	–	4,004	–	–	–	–	4,004
Service concession fee payable	–	–	–	–	–	7,480,083	7,480,083
Total	57,783	424,450	–	–	–	7,480,083	7,962,316
Liquidity Position (Gap)	₱1,467,426	(₱402,219)	₱–	₱–	₱–	(₱7,480,083)	(₱6,414,876)

**Excluding cash on hand amounting to ₱4,804*

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 approximates the carrying amount of these financial assets. The Company has no concentration of credit risk.

The table below shows the credit quality by class of financial asset based on the Company's rating system as at December 31, 2016 and 2015:

	2016			
	Neither Past Due nor Impaired			
	High Grade	**Standard Grade**	**Impaired**	**Total**
		(In thousands)		
Cash and cash equivalents*	**₱1,137,708**	**₱–**	**₱–**	**₱1,137,708**
Trade and other receivables	**62,498**	**25,658**	**–**	**88,156**
Refundable deposits	**1,719**	**–**	**–**	**1,719**
	₱1,201,925	**₱25,658**	**₱–**	**₱1,227,583**

**Excluding cash on hand amounting to ₱5,369*

	2015			
	Neither Past Due nor Impaired			
	High Grade	Standard Grade	Impaired	Total
		(In thousands)		
Cash and cash equivalents*	₱1,515,390	₱–	₱–	₱1,515,390
Trade and other receivables	22,231	8,348	–	30,579
Refundable deposits	1,471	–	–	1,471
	₱1,539,092	₱8,348	₱–	₱1,547,440

**Excluding cash on hand amounting to ₱4,804*

The Company evaluates credit quality on the basis of the credit strength of the security and/or counterparty/issuer. High grade financial assets are those which collectability is assured based on past experience. Standard grade financial assets are considered moderately realizable and some accounts which would require some reminder follow-ups to obtain settlement from the counterparty.

Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2016 and 2015, LRMC's exposure to foreign currency risk relates to its foreign currency-denominated cash and cash equivalents, account payables and accrued expenses.

The following table shows the foreign currency-denominated financial assets and liabilities and their Philippine peso equivalents as at December 31, 2016 and 2015:

	December 31, 2016					
	Japanese Yen	**US Dollar**	**Euro**	**British Pound**	**Australian Dollar**	**Philippine Peso Equivalent**
			(In thousands)			
Financial Assets						
Cash and cash equivalents	**¥–**	**$152**	**€–**	**£–**	**$–**	**₱7,557**
Financial Liabilities						
Accounts payable and other current liabilities	**667**	**64**	**35**	**7**	**7**	**5,960**
Net foreign currency - denominated financial assets (liabilities)	**(¥667)**	**$88**	**(€35)**	**(£7)**	**($7)**	**₱1,597**

	December 31, 2015					
	Japanese Yen	US Dollar	Euro	British Pound	Australian Dollar	Philippine Peso Equivalent
			(In thousands)			
Financial Assets						
Cash and cash equivalents	¥–	$87	€–	£–	$–	₱4,008
Financial Liabilities						
Accounts payable and other current liabilities	–	639	41	–	–	31,560
Net foreign currency - denominated financial liabilities	¥–	($552)	(€41)	£–	$–	(₱27,552)

The exchange rates used are as follows:

	Peso to				
	Japanese Yen	US Dollar	Euro	British Pound	Australian Dollar
December 31, 2016	**₱0.43**	**₱49.72**	**₱51.84**	**₱60.87**	**₱35.78**
December 31, 2015	0.39	46.07	51.74	70.18	34.27

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in the Japanese Yen, US Dollar, Euro, British Pound and Australian Dollar exchange rates, with all other variables held constant, of the Company's income before income tax. There is no impact on the Company's equity other than those already affecting the profit or loss.

	2016		2015	
	Foreign Currency Appreciates (Depreciates)*	**Effect on Income Before Tax**	Foreign Currency Appreciates (Depreciates)*	Effect on Income Before Tax
		(In thousands)		*(In thousands)*
Japanese Yen	**₱0.03**	**(₱20)**	₱0.03	₱–
	(0.03)	**20**	(0.03)	–
US Dollar	**1.18**	**104**	0.45	(248)
	(1.18)	**(104)**	(0.45)	248
Euro	**1.00**	**(35)**	1.26	(52)
	(1.00)	**35**	(1.26)	52
British Pound	**1.40**	**(10)**	0.43	–
	(1.40)	**10**	(0.43)	–
Australian Dollar	**1.71**	**(12)**	2.07	–
	(1.71)	**12**	(2.07)	–

**Based on average movement of foreign currency exchange rates for the last five years.*

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 ₱2.5 million and ₱1.4 million and notional amount of €1.1 million as at December 31, 2016 and 2015, respectively.

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 as at December 31, 2016 and 2015.

20. Financial Assets and Financial Liabilities

The following table sets forth the carrying values and estimated fair values of financial liability, by category and by class, as at December 31:

	2016		2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Liability				
Long-term debt	**₱644,615**	**₱644,615**	₱–	₱–
Service Concession Fee Payable	**3,005,081**	**2,792,767**	2,826,973	2,826,973
	₱3,649,696	**₱3,437,382**	₱2,826,973	₱2,826,973

Financial Instruments Whose Carrying Amounts Approximate Fair Values. Management has determined that the carrying amounts of cash and cash equivalents, trade and other receivables, refundable deposits and accounts payable and other current liabilities reasonably approximate their fair values because of their short-term nature.

The following methods and assumptions were used to measure the fair value of financial instruments carried at amounts that do not approximate their fair values:

Long-term Debt. For the Company's long-term debt, estimated fair value is based on the discounted value of future cash flows using the prevailing credit adjusted risk-free rates that are adjusted for credit spread which is equal to 7.1% for the year ended December 31, 2016.

Service Concession Fee Payable. Estimated fair value is based on the discounted value of future cash flows using applicable rates for similar types of financial instruments.

21. Subsequent Event

On January 27, 2017, the Company submitted invoice for the sixth Balancing Payment amounting to ₱111.5 million. This includes claim for fare deficit and Grantor's compensation payment.

22. 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, 2016 are as follows:

a. Value Added Tax (VAT)

As at December 31, 2016, output VAT recognized from rent, train and station ads amounted to ₱2,755,018. The VAT base is based on actual collections, hence, may not be equivalent to 12% of the non-rail revenue per statement of comprehensive income.

The Company recognized input VAT as follows:

	Amount
Balance at beginning of year	₱1,084,398
Add current year's domestic purchases of goods and services	3,685,339
Applied against Output VAT	(2,755,017)
Balance at the end of the year	₱2,014,720

b. Withholding Taxes

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

Tax on compensation	₱94,206,251
Expanded withholding taxes	82,798,202
Final withholding taxes	6,272,525
Withholding tax on VAT	3,538,801
	₱186,815,779

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	₱90,474,674
Business tax	5,778,959
Custom duties and tariff fees	5,064,995
Local taxes	918,438
	₱102,237,066

d. Documentary Stamp Tax (DST)

The Company paid DST on the availment of loan aggregating to ₱120.0 million, which is presented under "Other noncurrent assets" in the statement of financial position.

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.