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

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

SGV
Building a better working world

SGV
Building a better
working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

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, 2017 and 2016, 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, 2017 and 2016, 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 24 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.

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-092-270
BIR Accreditation No. 08-001998-55-2018
February 26, 2018, valid until February 25, 2021
PTR No. 6621301, January 9, 2018, Makati City

February 27, 2018

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱1,174,256,274**	₱1,143,077,202
Trade and other receivables (Notes 5 and 13)	**104,077,096**	88,156,300
Prepaid and other current assets (Note 6)	**490,376,871**	239,249,490
Total Current Assets	**1,768,710,241**	1,470,482,992
Noncurrent Assets		
Property and equipment (Note 7)	**257,500,703**	178,708,157
Service concession asset (Note 8)	**9,142,173,925**	6,362,086,931
Other noncurrent assets (Note 9)	**2,649,440,178**	825,321,683
Total Noncurrent Assets	**12,049,114,806**	7,366,116,771
	₱13,817,825,047	₱8,836,599,763
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 10 and 13)	**₱648,893,228**	₱508,665,609
Income tax payable	**93,540,317**	25,103,980
Total Current Liabilities	**742,433,545**	533,769,589
Noncurrent Liabilities		
Loan payable (Note 11)	**4,565,806,886**	644,615,329
Service concession fee payable (Note 8)	**3,194,410,862**	3,005,081,154
Retirement liability (Note 16)	**61,465,679**	33,283,036
Deferred tax liabilities - net (Note 17)	**126,758,115**	935,520
Total Noncurrent Liabilities	**7,948,441,542**	3,683,915,039
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	**1,097,016,366**	589,587,449
Other comprehensive income (loss) (Note 16)	**47,751**	(558,157)
Total Equity	**5,126,949,960**	4,618,915,135
	₱13,817,825,047	₱8,836,599,763

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	
	2017	2016
REVENUES		
Rail	**₱3,155,346,087**	₱3,015,978,217
Non-rail (Note 18)	**96,909,884**	75,531,138
	3,252,255,971	3,091,509,355
COST OF SERVICES (Note 14)	**(1,773,329,896)**	(1,850,144,172)
GROSS PROFIT	**1,478,926,075**	1,241,365,183
Operating expenses (Note 15)	**(581,351,178)**	(543,692,023)
Construction revenue (Note 8)	**2,588,616,441**	570,004,148
Construction costs (Note 8)	**(2,588,616,441)**	(570,004,148)
Interest income (Note 4)	**13,703,958**	20,819,671
Others (Notes 6, 10 and 11)	**(29,416,937)**	5,402,951
INCOME BEFORE INCOME TAX	**881,861,918**	723,895,782
PROVISION FOR INCOME TAX (Note 17)		
Current	**248,870,081**	206,806,544
Deferred	**125,562,920**	6,225,831
	374,433,001	213,032,375
NET INCOME	**507,428,917**	510,863,407
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent period		
Remeasurement gain (loss) on retirement liability, net of deferred income tax (Note 16)	**605,908**	(558,157)
TOTAL COMPREHENSIVE INCOME	**₱508,034,825**	₱510,305,250

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Capital Stock (Note 12)	Equity Reserves (Note 12)	Retained Earnings	Other Comprehensive Income (Loss) (Note 16)	Total Equity
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
Net income for the year	–	–	507,428,917	–	507,428,917
Remeasurement gain on retirement liability, net of deferred income tax	–	–	–	605,908	605,908
AT DECEMBER 31, 2017	**₱4,050,000,000**	**(₱20,114,157)**	**₱1,097,016,366**	**₱47,751**	**₱5,126,949,960**

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱881,861,918**	₱723,895,782
Adjustments for:		
Depreciation and amortization (Notes 7, 9 and 15)	**63,905,540**	36,615,407
Retirement expense (Note 16)	**29,048,226**	32,485,669
Realized foreign exchange loss (gain)	**7,088,525**	(6,792,306)
Provision for doubtful accounts (Note 5)	**2,464,288**	–
Unrealized foreign exchange loss (gain) on forward contracts	**2,392,924**	(1,031,201)
Loss on disposal of property and equipment (Note 7)	**187,476**	149,353
Interest income (Note 4)	**(13,703,958)**	(20,819,671)
Operating income before working capital changes	**973,244,939**	764,503,033
Increase in:		
Trade and other receivables	**(19,949,007)**	(56,057,241)
Prepaid and other current assets	**(253,520,305)**	(164,060,626)
Accounts payable and other current liabilities	**140,227,619**	5,649,169
Net cash flows provided by operations	**840,003,246**	550,034,335
Interest income received	**15,267,881**	19,300,390
Income tax paid	**(180,433,744)**	(206,589,802)
Net cash flows from operating activities	**674,837,383**	362,744,923
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment (Note 7)	**1,359,875**	1,819,750
Additions to service concession asset (Note 8)	**(2,454,228,456)**	(537,237,628)
Additions to other noncurrent assets	**(1,899,691,433)**	(177,868,548)
Purchase of property and equipment (Note 7)	**(122,626,312)**	(148,936,701)
Purchase of intangible assets (Note 9)	**(21,418,285)**	(55,741,575)
Net cash flows used in investing activities	**(4,496,604,611)**	(917,964,702)
CASH FLOWS FROM FINANCING ACTIVITIES (Note 19)		
Proceeds from loan payable (Note 11)	**3,993,929,570**	656,997,226
Interest paid	**(133,894,745)**	(32,766,521)
Payment of loan transaction cost (Note 11)	–	(452,919,943)
Net cash flows from financing activities	**3,860,034,825**	171,310,762
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**38,267,597**	(383,909,017)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(7,088,525)**	6,792,306
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**1,143,077,202**	1,520,193,913
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱1,174,256,274**	₱1,143,077,202

See accompanying Notes to Financial Statements.

1. **Corporate Information**

General
Light Rail Manila Corporation (the Company) 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 27, 2018.

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 interest in the Company is as follows:

MPLRC	55%
AC Infra	35%
MIHPL	10%

MPLRC is a wholly owned subsidiary of Metro Pacific Investments Corporation (MPIC). Metro Pacific Holdings, Inc. (MPHI) owns 41.9% of the total issued common shares (or 42.0% of the total outstanding common shares) of MPIC as at December 31, 2017 and 2016. 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, now Department of Transportation - DOTr) and the Light Rail Transit Authority (LRTA) (together with DOTr as "Grantors") the Concession Agreement for the Project. The DOTr 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 amounting to ₱9.35 billion.

The Concession Agreement is for a period of thirty-two (32) years commencing from the Effective Date. The "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 the Company shall take place on the Effective Date or such other time as may be agreed in writing between the Grantors and the Concessionaire. The Effective Date happened on September 12, 2015 wherein the Company took over the LRT 1 operations.

Under the Concession Agreement, the Company shall 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 (8) 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.

The Company is required to pay the amount of ₱9.35 billion as concession fees, based on the following schedule (see Note 8):

- 10% of the bid amount within 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 installments over the Concession Period with the first payment on the date of the first "Balancing Payment" that will occur after the fourth anniversary of the Effective Date as defined under the Concession Agreement.

The carrying value of future concession fee payments amounted to ₱3,194.4 million and ₱3,005.1 million as at December 31, 2017 and 2016, respectively (see Note 8).

Status of Rail Extension
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 (4) years thereafter. On May 30, 2017, the Company received the Permit to Enter certificate from the Grantors allowing the Company to enter the concerned properties and commence the construction of Cavite Extension. The Cavite Extension is currently on its design phase as at February 27, 2018.

Claims and Manner of Settlement with Grantors
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 been 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 be compensated for the cost incurred relating to restoration of the Structural Defect as certified by the 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 100 LRVs or the system is not able to operate to a cycle time of no more than 106 minutes, or a combination of the two on the Effective Date, then the Company is entitled to be compensated by 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. 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 compensate 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 Section 5.3b 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 to be settled through the quarterly "Balancing Payments".

As at December 31, 2017, the Company submitted nine (9) letters (first to ninth Balancing Payments) to DOTr mainly representing its claims for ESR costs and LRV shortfall, fare deficit, SDR costs, and Grantor's compensation payment. The Company has submitted its tenth Balancing Payment to the Grantors on January 30, 2018 (see Note 22). These claims are still undergoing discussion as at February 27, 2018.

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, 2017. Except as otherwise indicated, adoption of the following standards, interpretations and amendments did not have any impact on the financial statements:

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, 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.

  These amendments are not applicable to the Company since the Company does not have any interest in other entities.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative* – The amendments require entities to provide disclosures of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  Necessary disclosures for the Company's financing activities are presented in Note 19.

- 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 the deductible temporary difference related to unrealized losses. 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.

  These amendments did not have any significant impact on the Company.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2017

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, 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 since the Company does not have share-based payment transactions as at December 31, 2017.

- 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. 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 Company has assessed that the impact mainly pertains to classification of its loans and receivables as "at amortized cost".

- 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 new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying 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.

  This standard is not expected to have a material impact on the Company's financial statements.

- 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. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity 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

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

  The Company is currently assessing the impact of these amendments.

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

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

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

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

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

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

The Company is currently assessing the impact of these amendments.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments* – The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

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

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

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

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 deferred 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 12 months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 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 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as noncurrent.

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 flows 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 (3) 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 twelve (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, 20 and 21).

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; 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.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. 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 reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 FVPL, loans and borrowings, payables, derivatives designated as hedging instrument in an effective hedge, or as other financial liabilities at amortized cost, 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 payables), loan payable and service concession fee payable are classified as other financial liabilities (see Notes 8, 10, 11, 20 and 21).

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 Instruments Between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to either:

- Deliver cash or another financial asset to another entity;
- 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 such claims.

Inventories
Inventories, included under "Prepaid and other current assets", consist of engineering supplies and spare parts, and are valued at the lower of cost and net realizable value (NRV). Cost includes purchase cost plus any directly attributable costs necessary for the purchase and is determined primarily on a weighted average method.

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 less than or up to 12 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:

- When receivables and payables that are stated with the amount of VAT included; and
- When 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 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.

Advances to suppliers for expenses incurred in the normal course of business expected to be realized within one year from the reporting date are classified as other current assets. Advances to contractors and consultants related to the Company's rehabilitation and extension projects are classified as other noncurrent assets.

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" (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 identification that the asset is ready for its intended use. This may be triggered upon receipt of Safety Assessor's certification that the speed can be raised to 60 kilometers per hour or any other determinant based on underlying circumstances. 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 Grantors 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 PFRS 15 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 prospectively if appropriate, at each reporting date.

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 the statement of comprehensive income 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) years or more, depending on the nature and contractual circumstances surrounding the purchase of the intangible assets. 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

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 less any declared dividends.

Other comprehensive income (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 income (loss) of the Company pertains to remeasurement gain (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 received. 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 recognition criteria must also be met before revenue is recognized:

Rail revenues

Generally recognized in the statement of comprehensive income when the journey is completed or rail service is provided.

Non-rail revenues

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.

Costs and Expenses Recognition
Costs 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, 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:

- There is a change in contractual terms, other than a renewal or extension of the agreement;
- Renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- There is a change in the determination of whether the fulfillment is dependent on a specified asset; or
- 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 using the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of comprehensive income.

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

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as operating 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.

The Company's net retirement benefit liability is classified as noncurrent liability.

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

Income Tax

Current Tax
Current tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the tax authority. The tax 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.

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

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 the statement of comprehensive income.

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 Accounting Judgments, Estimates and Assumptions

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

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

Judgments
In the process of applying the Company's accounting policies, management has made the following 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.

Estimating Provision for Doubtful Accounts on Receivables
The Company estimates the provision for doubtful accounts related to trade and other receivables based on specific evaluation of its receivables considering efforts exerted to collect the amounts due from customers and where the Company has information that certain customers are unable to meet their financial obligations.

The Company has assessed that ₱2.5 million of its trade and other receivables are uncollectible as at December 31, 2017 (see Note 5).

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 ₱9,142.2 million and ₱6,362.1 million as at December 31, 2017 and 2016, respectively (see Note 8).

The Company also recognizes construction revenues and costs in accordance with PFRS 15, *Revenue from Contracts with Customers*. It measures revenue from rehabilitation and extension works at the fair value of the consideration received or receivable. Given that the Company 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 ₱2,588.6 million and ₱570.0 million in 2017 and 2016, respectively (see Note 8).

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 System and construction of Cavite 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 of its 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 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 21.

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 the statement of comprehensive income amounted to ₱29.0 million and ₱32.5 million in 2017 and 2016, respectively. The Company has retirement liability amounting to ₱61.5 million and ₱33.3 million as at December 31, 2017 and 2016, 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 2017 and 2016. The carrying amounts of nonfinancial assets of the Company as at December 31, 2017 and 2016 are as follows:

	2017	2016
Service concession asset (Note 8)	**₱9,142,173,925**	₱6,362,086,931
Property and equipment (Note 7)	**257,500,703**	178,708,157
Intangible assets (Note 9)	**55,185,723**	55,386,563

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, 2017 and 2016 are as follows:

	2017	2016
Service concession asset (Note 8)	**₱9,142,173,925**	₱6,362,086,931
Property and equipment (Note 7)	**257,500,703**	178,708,157
Intangible assets (Note 9)	**55,185,723**	55,386,563

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 flows from such asset and uses a suitable discount rate in order to calculate the present value of the cash flows. 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, 2017 and 2016, the carrying value of the service concession asset related to the Cavite Extension amounted to ₱4,673.0 million and ₱3,199.0 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 assets 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 ₱82.0 million and ₱151.5 million for the year ended December 31, 2017 and 2016, respectively (see Note 17).

As at December 31, 2017 and 2016, the Company's deferred income tax assets amounted to ₱795.7 million and ₱811.4 million, respectively (see Note 17).

4. Cash and Cash Equivalents

	2017	2016
Short-term deposits	**₱875,140,828**	₱975,441,225
Cash in banks	**293,583,154**	162,267,280
Cash on hand	**5,532,292**	5,368,697
	₱1,174,256,274	₱1,143,077,202

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three (3) 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 ₱13.7 million and ₱20.8 million in 2017 and 2016, respectively. Interest receivable amounted to ₱0.8 million and ₱2.4 million as at December 31, 2017 and 2016, respectively (see Note 5).

5. Trade and Other Receivables

	2017	2016
Trade receivables	**₱85,658,075**	₱74,060,577
Due from a related party (Note 13)	**10,344,246**	–
Receivable from LRTA	**8,348,307**	8,348,307
Interest receivable	**843,015**	2,406,938
Others	**1,347,741**	3,340,478
	106,541,384	88,156,300
Less provision for doubtful accounts	**(2,464,288)**	–
	₱104,077,096	₱88,156,300

The Company's trade receivables pertain to uncollected lease or advertising income arising from non-rail contracts (see Note 18). 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.

The Company recognized provision for doubtful accounts on uncollectible receivables amounting to ₱2.5 million in 2017. No provision for doubtful accounts were recognized in 2016.

6. Prepaid and Other Current Assets

	2017	2016
Inventories	**₱442,129,272**	₱28,425,938
Advances to suppliers and contractors	**20,121,062**	159,714,235
Prepaid expenses (Note 18)	**14,172,827**	42,481,890
Input VAT	**10,163,021**	2,014,720
Others	**3,790,689**	6,612,707
	₱490,376,871	₱239,249,490

Inventories mainly pertain to engineering supplies for the maintenance of LRVs.

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.

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

Input VAT represents claim relating to non-rail activities. The Company's rail revenue is not subject to VAT but is subject to common carrier's tax.

Others include refundable deposits and derivative assets. Derivative assets pertain to foreign currency forward contracts entered into by the Company to hedge, at a certain extent, the payment of foreign-currency denominated consultancy and professional fees (see Note 18). Change in the fair value of these forward contracts amounted to ₱2.4 million unrealized loss and ₱1.0 million unrealized gain in 2017 and 2016, respectively, and are included under "Others" in the statement of comprehensive income.

7. Property and Equipment

	2017						
	Building improvements	**Machineries**	**Office, computer, and other equipment**	**Furniture and fixtures**	**Transportation equipment**	**Leasehold improvements**	**Total**
Cost							
Balances at beginning of year	**₱45,588,899**	**₱8,878,348**	**₱117,325,076**	**₱4,993,085**	**₱29,689,136**	**₱2,020,144**	**₱208,494,688**
Additions	**3,803,436**	**66,544,658**	**46,945,840**	**3,894,554**	**–**	**1,437,824**	**122,626,312**
Disposal	**–**	**–**	**(112,152)**	**–**	**(2,345,000)**	**–**	**(2,457,152)**
Balances at end of year	**49,392,335**	**75,423,006**	**164,158,764**	**8,887,639**	**27,344,136**	**3,457,968**	**328,663,848**
Accumulated Depreciation							
Balances at beginning of year	**977,891**	**321,835**	**19,937,817**	**713,904**	**5,814,940**	**2,020,144**	**29,786,531**
Depreciation (Note 15)	**1,544,664**	**1,500,132**	**31,617,637**	**1,684,019**	**5,580,507**	**359,456**	**42,286,415**
Disposal	**–**	**–**	**(89,051)**	**–**	**(820,750)**	**–**	**(909,801)**
Balances at end of year	**2,522,555**	**1,821,967**	**51,466,403**	**2,397,923**	**10,574,697**	**2,379,600**	**71,163,145**
Net Book Values	**₱46,869,780**	**₱73,601,039**	**₱112,692,361**	**₱6,489,716**	**₱16,769,439**	**₱1,078,368**	**₱257,500,703**

	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

The Company has disposed certain property and equipment at a loss of ₱0.2 million and ₱0.1 million for the years ended December 31, 2017 and 2016, respectively.

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:

	2017		
	Rehabilitation	**Extension**	**Total**
Balance at beginning of year	**₱3,163,060,926**	**₱3,199,026,005**	**₱6,362,086,931**
Additions	**1,306,127,674**	**1,473,959,320**	**2,780,086,994**
Balance at end of year	**₱4,469,188,600**	**₱4,672,985,325**	**₱9,142,173,925**

(Forward)

	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

The significant components of service concession asset are as follows:

a. Present value of the remaining service concession fee payable amounting to ₱2,775.8 million and cumulative interest accretion amounting to ₱418.6 million and ₱229.3 million as at December 31, 2017 and 2016, respectively (see Note 1).

b. Upfront concession fee payments amounting to ₱1,870.0 million, inclusive of VAT.

c. Costs incurred for the engineering, procurement, and construction (EPC) of the LRT 1 Cavite Extension and Existing System works amounting to ₱1,500.7 million in 2017 and the amortization of related prepaid construction insurance costs capitalized as part of the service concession asset amounting to ₱14.1 million as at December 31, 2017. No amortization of prepaid construction costs was recognized in 2016 (see Note 18).

d. Costs totaling to ₱1,065.9 million and ₱1,031.8 million incurred as at December 31, 2017 and 2016, respectively, in relation to consultation and advisory services on the technical, developmental and operational aspects of the Project (see Note 18).

e. Cumulative interest from loan amounting to ₱189.4 million and ₱36.8 million in 2017 and 2016, respectively (see Note 11).

f. Advisory fees aggregating to ₱105.0 million paid in 2015 to Development Bank of the Philippines and International Finance Corporation which assisted DOTr 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.

g. Other costs amounted to ₱1,202.7 million and ₱313.4 million as at December 31, 2017 and 2016, respectively, representing payments 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 construction of Cavite Extension amounted to ₱2,588.6 million and ₱570.0 million in 2017 and 2016, respectively.

As at December 31, 2017 and 2016, service concession asset related to the Cavite Extension is not yet available for use since it is yet to be constructed. Such asset is subjected to 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 years ended December 31, 2017 and 2016.

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

	2017	2016
Discount rate	8.5%	7.7%
Average revenue growth rate	8.5%	8.0%
Forecast period	30 years	31 years

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

	2017	2016
Balance at beginning of year	**₱3,005,081,154**	₱2,826,972,838
Interest accretion	**189,329,708**	178,108,316
Balance at end of year	**₱3,194,410,862**	₱3,005,081,154

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 at the same time of the first "Balancing Payment" after the fourth 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:

	2017	2016
Within one year	**₱–**	₱–
After one year but not more than five years	**868,223,934**	601,078,108
More than five years	**6,611,859,186**	6,879,005,012
	₱7,480,083,120	₱7,480,083,120

9. Other Noncurrent Assets

	2017	2016
Advances to suppliers and contractors	**₱1,634,590,711**	₱235,259,769
Deferred charges	**548,329,805**	93,986,239
Deferred financing cost (Note 11)	**365,149,214**	440,521,312
Intangible assets	**55,185,723**	55,386,563
Prepaid expenses (Note 18)	**46,074,164**	–
Construction bond	**110,561**	167,800
	₱2,649,440,178	₱825,321,683

Advances to suppliers and contractors represent advance payments for the mobilization of the contractors and consultants involved in the Project. These are progressively reduced upon receipt of the equivalent amount of services rendered by the contractors and consultants (see Note 18).

Deferred charges pertain to the costs incurred by the Company to restore the Existing 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 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).

Prepaid expenses pertain to the portion of paid construction insurance policies for the EPC of the Cavite Extension which will be amortized over the construction period.

Intangible assets consist of the following:

	2017		
	Software, website and domain	**Trademark**	**Total**
Cost			
Balances at beginning of year	**₱67,235,755**	**₱373,887**	**₱67,609,642**
Additions	**21,418,285**	**–**	**21,418,285**
Balances at end of year	**88,654,040**	**373,887**	**89,027,927**
Accumulated Amortization			
Balances at beginning of year	**12,131,182**	**91,897**	**12,223,079**
Amortization (Note 15)	**21,544,348**	**74,777**	**21,619,125**
Balances at end of year	**33,675,530**	**166,674**	**33,842,204**
Net Book Values	**₱54,978,510**	**₱207,213**	**₱55,185,723**

	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

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

	2017	2016
Accrued expenses	**₱130,827,712**	₱195,902,710
Provisions	**170,034,814**	171,499,342
Accounts payable	**164,627,597**	65,593,296
Due to related parties (Note 13)	**97,036,095**	32,519,717
Statutory payables	**59,254,734**	37,151,176
Interest on loan payable (Note 11)	**22,774,189**	4,082,793
Customer deposits	**4,338,087**	1,916,575
	₱648,893,228	₱508,665,609

Accrued expenses include professional fees, engineering supplies, personnel costs, utilities, and other expenses.

Provisions represent various employee benefits and other charges based on management estimate with reference to individual and Company's performance.

Accounts payable includes unpaid services to foreign contractors and consultants denominated in foreign currency. Related foreign exchange gain (loss) amounting to ₱7.1 million loss and ₱6.8 million gain is recognized in 2017 and 2016, respectively, and are included under "Others" in the statement of comprehensive income. Accounts payable are noninterest-bearing financial liabilities that are generally settled within one (1) year.

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

11. **Loan Payable**

	2017	2016
Principal		
Balance at beginning of year	**₱656,997,226**	₱–
Drawdowns	**3,993,929,570**	656,997,226
Balance at end of year	**4,650,926,796**	656,997,226
Debt Issue Cost		
Balance at beginning of year	**12,381,897**	–
Debt issue cost on additional drawdowns	**75,372,098**	12,398,631
Amortization	**(2,634,085)**	(16,734)
Balance at end of year	**85,119,910**	12,381,897
Net Loan Payable	**₱4,565,806,886**	₱644,615,329

On February 11, 2016, the Company signed a 15-year Omnibus Loan and Security Agreement (OLSA) with various financial institutions (collectively, as "Lenders") 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 System. Total transaction costs incurred for the availment of the loan amounted to ₱452.9 million. The loan is subject to interest rates of 7.1445% for the Existing System and 7.4635% for the Cavite Extension, payable quarterly and 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:

	2017	2016
Debt Issue Cost		
Total transaction costs	**₱452,919,943**	₱452,919,943
Transaction costs on undrawn amount presented as "Deferred financing cost" (Note 9)	**(365,149,214)**	(440,521,312)
Total debt issue cost on principal - drawn amount	**87,770,729**	12,398,631
Amortization		
Balance at beginning of year	**16,734**	–
Amortization	**2,634,085**	16,734
Balance at end of year	**2,650,819**	16,734
Unamortized Debt Issue Cost	**₱85,119,910**	₱12,381,897

Cumulative interest expense capitalized as part of service concession asset amounted to ₱189.4 million and ₱36.8 million in 2017 and 2016, respectively (see Note 8). Accrued interest expense amounted to ₱22.8 million and ₱4.1 million as at December 31, 2017 and 2016, respectively (see Note 10). The Company also incurred commitment fees related to timing of loan drawdowns primarily due to delayed receipt of right of way amounting to ₱18.7 million and ₱1.1 million in 2017 and 2016, respectively, and are included under "Others" in the statement of comprehensive income.

Scheduled principal repayment of the loan is as follows:

Within one year	₱–
After one year but not more than five years	187,897,443
More than five years	4,463,029,353
	₱4,650,926,796

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, 2017 and 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, LRMH, MPLRC and MIHPL (collectively, 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, which is allocated to the sponsors as follows:

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 capital stock of the Company is pledged as a consequence of the loan, including a chattel mortgage which consists of:

- all present and future movable assets that exist and are owned by the Company, 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 the Company;
- 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
The Company's authorized capital stock amounts to ₱4,200.0 million, divided into 4,200.0 million common shares at a par value of ₱1.00 per share. As at December 31, 2017 and 2016, total issued shares was 4,050.0 million shares, amounting to ₱4,050.0 million.

Equity Reserves
The Company's stock issuance costs for SEC registration fees and documentary stamp taxes (DST) amounted to ₱20.1 million as at December 31, 2017 and 2016.

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 considered as related parties. 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, unsecured, and expected to be settled in cash, are as follows:

			Amount of Transactions		Outstanding Balance	
	Relationship*	Nature of transaction	**2017**	2016	**2017**	2016
			(In Thousands)			
Trade and Other Receivables						
Manila Electric Company (Meralco)	Other related parties	Relocation of Facilities for the Cavite Extension Project [(d)] (Note 5)	**₱10,344**	₱–	**₱10,344**	₱–

(Forward)

	Relationship*	Nature of transaction	Amount of Transactions 2017	2016	Outstanding Balance 2017	2016
			(In Thousands)			
Accounts Payable and Other Current Liabilities						
Meralco	Other related parties	Electricity and power utilities (Notes 10, 14 and 15)	**₱378,779**	₱307,379	**₱69,082**	₱27,871
Ayala Corporation	Investor with significant influence	Management fees [c] (Notes 10, 14 and 15)	**21,562**	14,945	**16,858**	–
Mrail Inc. (formerly Miescorrail, Inc.)	Other related parties	Technician support (Notes 8 and 10)	**39,321**	5,355	**7,799**	–
AF Payments, Inc. (AFPI)	Other related parties	Automated fare collection system[a] (Note 10)	**78,538**	74,087	**1,846**	558
Maynilad Water Services, Inc.	Under common control	Water utilities (Notes 10, 14 and 15)	**7,656**	8,137	**928**	1,432
Ayala Land, Inc. (ALI)	Other related parties	Lease of office space (Notes 10 and 15)[b]	**2,280**	5,770	**479**	868
Manila Water Total Solutions Corp.	Other related parties	Water supplies (Note 10)	**373**	565	**44**	43
Ayala Multi-Purpose Cooperative (AMPC)	Other related parties	Employee contributions and loan payments	**11,512**	1,428	–	49
Smart Communications, Inc.	Other related parties	Communication- mobile (Notes 14 and 15)	**3,878**	3,602	–	2
Philippine Long Distance Telephone Company (PLDT)	Other related parties	Communication and internet expense (Notes 14 and 15)	**2,796**	991	–	–
Globe Telecom, Inc.	Other related parties	Communication- mobile (Notes 14 and 15)	**169**	133	–	–
Curo Teknika	Other related parties	Technician support (Note 14)	–	274	–	–
MPLRC	Intermediary Parent	Cash advances	–	–	–	1,697
					₱97,036	₱32,520

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

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 using stored value card (SVC) and single journey tickets.

   The Full System Acceptance of the AFCS was achieved on December 16, 2015, and as such, full revenue operations have commenced with the Company as the operator of Level 1 to 3 devices (i.e. point-of-sale, automatic gates, ticket vending machines, station computers, and central computer system) in LRT 1.

   The Company uses the AFCS at no consideration. The balance outstanding as at December 31, 2017 and 2016 represent amount payable for the 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 for services of on-loan executives. Management services include key management, operational, financing and administrative decision-making. Management fees amounted to ₱21.6 million and ₱14.9 million for the years ended December 31, 2017 and 2016, respectively.

The Company's remuneration of key management personnel pertaining to short-term employee benefits amounted to ₱64.1 million and ₱72.7 million for the years ended December 31, 2017 and 2016, respectively.

d. In 2017, the Company entered into a memorandum of agreement with Meralco to pay in advance all costs and expenses to be incurred for the relocation of its electrical sub-transmission and distribution facilities affected by the construction works of the LRT 1 Cavite Extension. Meralco shall reimburse the Company of the relocation charges upon receipt from LRTA, in accordance with the LRTA-Meralco memorandum of agreement.

e. Other transactions with related parties (Meralco, Maynilad, and others) were made in the ordinary course of business and are for daily operation and general administration. These intercompany accounts are noninterest-bearing.

14. **Cost of Services**

	2017	2016
Personnel costs (Note 16)	**₱526,606,596**	₱486,500,210
Utilities	**357,941,486**	269,752,425
Outside services	**320,557,041**	314,356,383
Professional and consultancy fees	**176,928,562**	230,743,107
Taxes and licenses	**122,060,852**	96,496,182
Repairs and maintenance	**122,026,860**	266,073,298
Provision for employee benefits	**119,926,349**	138,232,750
Others	**27,282,150**	47,989,817
	₱1,773,329,896	₱1,850,144,172

15. **Operating Expenses**

	2017	2016
Personnel costs (Note 16)	**₱153,901,758**	₱136,662,503
Insurance (Note 18)	**82,829,446**	86,043,758
Outside services	**67,315,317**	38,965,376
Depreciation and amortization (Notes 7 and 9)	**63,905,540**	36,615,407
Professional and consultancy fees	**57,711,568**	67,679,476
Provision for employee benefits	**30,651,075**	47,608,220
Utilities	**28,493,269**	45,764,732
Repairs and maintenance	**21,067,313**	9,746,739
Rent and communication	**17,916,769**	13,779,009
Supplies	**15,252,984**	18,726,913
Public relations	**14,537,333**	19,628,262
Others	**27,768,806**	22,471,628
	₱581,351,178	₱543,692,023

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 statement of financial position, and retirement expense recognized in the statement of comprehensive income.

The components of retirement liability recognized in the statement of financial position as at December 31, 2017 and 2016, respectively, are as follows:

	2017	2016
Balance at beginning of year	**₱33,283,036**	₱–
Current service cost	**27,141,108**	31,815,852
Interest cost	**1,907,118**	669,817
Remeasurement loss (gain) recognized in other comprehensive income	**(865,583)**	797,367
Balance at end of year	**₱61,465,679**	₱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 years ended December 31, 2017 and 2016, respectively, is as follows:

	2017	2016
Current service cost	**₱27,141,108**	₱31,815,852
Interest cost	**1,907,118**	669,817
	₱29,048,226	₱32,485,669

The cumulative actuarial loss recognized in other comprehensive loss as at December 31, 2017 and 2016 is as follows:

	Accumulated Actuarial Gain (Loss)	Deferred Tax (Note 17)	Net
Balance at December 31, 2015	₱–	₱–	₱–
Remeasurement loss	(797,367)	(239,210)	(558,157)
Balance at December 31, 2016	(797,367)	(239,210)	(558,157)
Remeasurement gain	865,583	259,675	605,908
Balance at December 31, 2017	₱68,216	₱20,465	₱47,751

The assumptions used to determine retirement benefits are as follows:

	2017	2016
Discount rate	**5.31%**	5.73%
Expected rate of salary increase	**6.00%**	6.00%

The sensitivity analysis based on reasonably possible changes of the assumptions as at December 31, 2017 is as follows:

	Increase (Decrease) in Retirement Liability
Discount rate increase by 100 basis points (BP)	(₱53,448,888)
Discount rate decrease by 100 BP	71,372,041
Salary increase rate increase by 100 BP	71,498,014
Salary increase rate decrease by 100 BP	(53,203,870)

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 24.23 years.

The expected future benefit payments as at December 31, 2017 are as follows:

Next 5 years	₱39,817,896
5 - 10 years	52,295,248
10 - 15 years	95,373,683
15 - 20 years	203,370,120
Beyond 20 years	1,243,401,874

17. Income Taxes

Provision for current tax represents the following:

	2017	2016
Regular Corporate Income Tax (RCIT)	**₱246,357,220**	₱202,883,380
Final tax on interest income	**2,512,861**	3,923,164
	₱248,870,081	₱206,806,544

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.

Net deferred income tax liability using statutory tax rate of 30% is comprised of:

	2017	2016
Deferred tax assets		
Service concession fee payable	**₱775,790,819**	₱749,991,468
Retirement liability	**18,439,704**	9,984,911
Provisions	**739,286**	51,449,803
Unrealized foreign exchange loss	**717,877**	–
	795,687,686	811,426,182

(Forward)

	2017	2016
Deferred tax liabilities		
Service concession asset	**(860,105,498)**	(767,715,110)
Amortization of upfront concession fee payments	**(34,054,937)**	(15,307,630)
DST component of deferred financing cost	**(28,285,366)**	(29,029,602)
Unrealized foreign exchange gain	**–**	(309,360)
	(922,445,801)	(812,361,702)
	(₱126,758,115)	(₱935,520)

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 (3) years from January 2018 for the Existing System and April 2021 for the Cavite Extension;
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 amounting to ₱82.0 million and ₱151.5 million for the years ended December 31, 2017 and 2016, respectively. The Company also recognized deferred tax liability amounting to ₱29.4 million for the year ended December 31, 2017 and derecognized deferred tax liability amounting to ₱154.0 million for the year ended December 31, 2016. 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 tax as shown in the statement of comprehensive income is as follows:

	2017	2016
Income tax computed at statutory tax rate	**₱264,558,575**	₱217,168,735
Adjustment for:		
Reversals of deferred taxes due to ITH	**111,414,708**	(2,424,768)
Non-deductible expenses	**58,043**	611,145
Interest income subject to final tax	**(1,598,325)**	(2,322,737)
	₱374,433,001	₱213,032,375

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, DOTr 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 is 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 the Company.

Non-Rail Activities
In November 2015, the Company 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 effectivity of granted rights commenced on February 1, 2016 and will be in effect for a period of 10 years. The Company earns a profit share from these revenues in exchange for the rights granted.

The Company also has operating lease agreements as a lessor with various companies for retail space rental and interconnection services. These agreements cover periods ranging from two (2) months to 21 years.

Rent income, interconnection and advertising fees (included under "Non-rail revenues") earned relevant to these agreements amounted to ₱96.9 million and ₱75.5 million in 2017 and 2016, respectively.

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 regular reviews of 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
On February 11, 2016, the Company signed an 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 commenced upon the Grantors' issuance of the Permit to Enter certificate. The Cavite Extension is currently on its design phase as at February 27, 2018.

On March 21, 2017, the Company entered into a two-year agreement with First Balfour, Inc. for its Structural Restoration Project which includes the parapets, faulty concrete and repair of river bridges of the LRT-1 Existing System. The notice to proceed was signed and issued on March 17, 2017. In line with this project, the Company also signed an Independent Contractor Agreement with ESCA Incorporated for the expertise and services necessary in managing the Structural Restoration Project with First Balfour, Inc. The structural restoration project is 26.49% complete as at December 31, 2017.

The Company also has 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.

Insurance
The Company has obtained insurance policies for sabotage, general accident, and property damage/business interruption for the Existing System. Insurance costs recognized as part of operating expenses amounted to ₱82.8 million and ₱86.0 million in 2017 and 2016, respectively (see Note 15).

The Company also obtained insurance policies for the construction of the Cavite Extension. Premiums amounting to ₱60.2 million was prepaid in 2017, ₱14.1 million of which was capitalized as part of the service concession asset (see Notes 8 and 9).

19. Changes in Liabilities Arising from Financing Activities

Movement in the Company's liabilities from financing activities are as follows:

	January 1, 2017	Cash flows	Debt issue cost on drawdowns	Amortization of debt issue cost	Interest accretion	December 31, 2017
			(In Thousands)			
Loan payable	₱644,615	₱3,993,930	(₱75,372)	₱2,634	₱–	₱4,565,807
Interest paid	–	(133,895)	–	–	–	(133,895)
Service concession fee payable	3,005,081	–	–	–	189,330	3,194,411
Total liabilities from financing activities	**₱3,649,696**	**₱3,860,035**	**(₱75,372)**	**₱2,634**	**₱189,330**	**₱7,626,323**

	January 1, 2016	Cash flows	Debt issue cost on drawdowns	Amortization of debt issue cost	Interest accretion	December 31, 2016
			(In Thousands)			
Loan payable	₱–	₱656,997	(₱12,399)	₱17	₱–	₱644,615
Interest paid	–	(32,767)	–	–	–	(32,767)
Loan transaction costs	–	(452,920)	–	–		(452,920)
Service concession fee payable	2,826,973	–	–	–	178,108	3,005,081
Total liabilities from financing activities	₱2,826,973	₱171,310	(₱12,399)	₱17	₱178,108	₱3,164,009

Effect of accrued but not yet paid interest are included in the Company's accounts payable and other liabilities.

20. Financial Risk Management Objectives and Policies

The Company's principal financial instruments are 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 these 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.

<u>Liquidity Risk</u>
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 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 ₱1,174.3 million and ₱1,143.1 million as at December 31, 2017 and 2016, 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:

	2017						
	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*	**₱1,168,724**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,168,724**
Trade and other receivables	**249**	**93,484**	–	–	–	–	**93,733**
Due from a related party	–	**10,344**	–	–	–	–	**10,344**
Refundable deposits	**1,236**	–	–	–	–	–	**1,236**
Total	**1,170,209**	**103,828**	–	–	–	–	**1,274,037**
Financial Liabilities							
Accounts payable and other current liabilities:							
Accounts payable	–	**164,628**	–	–	–	–	**164,628**
Due to related parties	**97,036**	–	–	–	–	–	**97,036**
Accrued expenses	–	**130,827**	–	–	–	–	**130,827**
Provisions	–	**170,035**	–	–	–	–	**170,035**
Interest on loan payable	–	**22,774**	–	–	–	–	**22,774**
Customer deposits	–	**4,338**	–	–	–	–	**4,338**
Long-term debt	–	–	–	**41,549**	**68,944**	**4,455,314**	**4,565,807**
Service concession fee payable	–	–	**66,786**	**267,146**	**267,146**	**6,879,005**	**7,480,083**
Total	**97,036**	**492,602**	**66,786**	**308,695**	**336,090**	**11,334,319**	**12,635,528**
Liquidity Position (Gap)	**₱1,073,173**	**(₱388,774)**	**(₱66,786)**	**(₱308,695)**	**(₱336,090)**	**(₱11,334,319)**	**(₱11,361,491)**

**Excluding cash on hand amounting to ₱5,532,292*

	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	–	65,593	–	–	–	–	65,593
Due to related parties	32,520	–	–	–	–	–	32,520
Accrued expenses	–	195,903	–	–	–	–	195,903
Provisions	–	171,499	–	–	–	–	171,499
Interest on loan payable	–	4,083	–	–	–	–	4,083
Customer deposits	–	1,917	–	–	–	–	1,917
Long-term debt	–	–	–	–	5,866	638,749	644,615
Service concession fee payable	–	–	–	66,786	267,146	7,146,151	7,480,083
Total	32,520	438,995	–	66,786	273,012	7,784,900	8,596,213
Liquidity Position (Gap)	₱1,124,399	(₱368,331)	₱–	(₱66,786)	(₱273,012)	(₱7,784,900)	(₱7,368,630)

**Excluding cash on hand amounting to ₱5,368,697*

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, 2017 and 2016:

	2017			
	Neither Past Due nor Impaired			
	High Grade	**Standard Grade**	**Impaired**	**Total**
		(In Thousands)		
Cash and cash equivalents*	**₱1,168,724**	**₱–**	**₱–**	**₱1,168,724**
Trade and other receivables	**86,851**	**14,762**	**2,464**	**104,077**
Refundable deposits	**1,236**	**–**	**–**	**1,236**
	₱1,256,811	**₱14,762**	**₱2,464**	**₱1,274,037**

**Excluding cash on hand amounting to ₱5,532,292*

	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	62,832	25,324	–	88,156
Refundable deposits	1,719	–	–	1,719
	₱1,202,259	₱25,324	₱–	₱1,227,583

**Excluding cash on hand amounting to ₱5,368,697*

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.

<u>Foreign Currency Risk</u>
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, 2017 and 2016, the Company'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, 2017 and 2016:

	December 31, 2017		
	US Dollar	**Euro**	**Philippine Peso Equivalent**
		(In Thousands)	
Financial Assets			
Cash and cash equivalents	**$1,672**	**€26**	**₱85,033**
Financial Liabilities			
Accounts payable and other current liabilities	**62**	**168**	**13,110**
Net foreign currency-denominated financial assets (liabilities)	**$1,610**	**(€142)**	**₱71,923**

	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

The exchange rates used to determine the ₱ value are as follows:

	US Dollar	Euro	Japanese Yen	British Pound	Australian Dollar
December 31, 2017	**₱49.93**	**₱59.61**	**N/A**	**N/A**	**N/A**
December 31, 2016	49.72	51.84	0.43	60.87	35.78

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.

	2017		2016	
	Foreign Currency Appreciates (Depreciates)*	**Effect on Income Before Tax**	Foreign Currency Appreciates (Depreciates)*	Effect on Income Before Tax
		(In Thousands)		*(In Thousands)*
US Dollar	**₱1.78**	**₱2,866**	₱1.18	₱104
	(1.78)	**(2,866)**	(1.18)	(104)
Euro	**1.02**	**(145)**	1.00	(35)
	(1.02)	**145**	(1.00)	35
Japanese Yen	**N/A**	**N/A**	0.03	(20)
	–	**–**	(0.03)	20
British Pound	**N/A**	**N/A**	1.40	(10)
	–	**–**	(1.40)	10
Australian Dollar	**N/A**	**N/A**	1.71	(12)
	–	**–**	(1.71)	12

**Based on average movement of foreign currency exchange rates for the last five (5) 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 ₱0.1 million and ₱2.5 million and notional amount of €0.3 million and €1.1 million as at December 31, 2017 and 2016, 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, 2017 and 2016.

21. 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:

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Liability				
Long-term debt	**₱4,565,807**	**₱4,621,703**	₱644,615	₱685,279
Service concession fee payable	**3,194,411**	**2,769,881**	3,005,081	2,718,545
	₱7,760,218	**₱7,391,584**	₱3,649,696	₱3,354,002

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 7.4635% for drawdowns related to Cavite Extension and 7.1445% for drawdowns related to the rehabilitation of Existing System for the years ended December 31, 2017 and 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.

22. Subsequent Events

On January 10 and February 6, 2018, the Company made drawdowns amounting to ₱253.6 million and ₱589.4 million, respectively, to finance the rehabilitation of LRVs, structural defects and station improvements, and construction of Cavite Extension.

On January 30, 2018, the Company submitted invoice for the tenth Balancing Payment amounting to ₱240.9 million. This includes claim for fare deficit, SDR costs, and Grantor's compensation payment.

23. **Others**

R.A. No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances for the year ended December 31, 2017.

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

RR 15-2010 requires taxpayers 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, 2017 are as follows:

a. VAT

As at December 31, 2017, output VAT recognized from rent, train and station ads presented as "Non-rail revenues" in the statement of comprehensive income amounted to ₱10,007,241. The basis of VAT is actual collections, hence, may not be equivalent to 12% of the non-rail revenue per statement of comprehensive income.

Balance at beginning of year	₱2,014,720
Add:	
Current year's domestic purchases of goods and services	17,400,415
Purchase of capital goods exceeding ₱1.0 million deferred for succeeding period	755,127
Less input VAT applied against Output VAT	(10,007,241)
Balance at the end of the year	₱10,163,021

b. Withholding Taxes

Details of withholding tax payments for the year ended December 31, 2017 are as follows:

Expanded withholding taxes	₱127,122,013
Tax on compensation	112,402,084
Final withholding taxes	2,944,900
Withholding tax on VAT	2,274,275
	₱244,743,272

c. Taxes and Licenses

The Company's taxes and licenses under cost of sales and operating expenses (lodged to "Others") consist of the following:

Common carrier's tax	₱94,657,635
Custom duties and tariff fees	21,740,722
Business tax	7,588,038
Local taxes	284,595
	₱124,270,990

d. 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.