Light Rail Manila Corporation

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

Financial Statements
December 31, 2021 and 2020

and

Independent Auditor's Report

Building a better working world

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

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Light Rail Manila Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Light Rail Manila Corporation (a subsidiary of Light Rail Manila Holdings, Inc.) (the Company), which comprise the statements of financial position as at December 31, 2021 and 2020, 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, 2021 and 2020, 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 26 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 the Company. 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.

Aileen L. Saringan
Partner
CPA Certificate No. 72557
Tax Identification No. 102-089-397
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 0096-AR-5 (Group A)
July 25, 2019, valid until July 24, 2022
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-058-2020, December 3, 2020, valid until December 2, 2023
PTR No. 8854363, January 3, 2022, Makati City

March 10, 2022

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱1,358,872,309**	₱801,735,684
Trade and other receivables - net (Note 5)	**191,955,229**	248,519,843
Prepaid and other current assets (Note 6)	**657,313,862**	496,231,856
Total Current Assets	**2,208,141,400**	1,546,487,383
Noncurrent Assets		
Property and equipment (Note 7)	**194,972,176**	206,039,879
Right-of-use assets (Note 8)	**15,467,147**	19,987,747
Service concession asset (Note 9)	**37,721,672,382**	29,924,811,345
Other noncurrent assets (Note 10)	**1,101,289,484**	3,073,353,442
Deferred tax asset – net (Note 19)	**234,052,112**	–
Total Noncurrent Assets	**39,267,453,301**	33,224,192,413
	₱41,475,594,701	₱34,770,679,796
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Note 11)	**₱1,693,741,932**	₱1,125,778,862
Lease liabilities - current (Note 8)	**8,385,788**	8,994,479
Service concession fee payable - current (Note 9)	**257,174,302**	257,174,302
Loan payable - current (Note 12)	**700,768,666**	675,751,533
Total Current Liabilities	**2,660,070,688**	2,067,699,176
Noncurrent Liabilities		
Lease liabilities - noncurrent (Note 8)	**9,409,248**	12,412,229
Service concession fee payable - noncurrent (Note 9)	**3,182,149,168**	3,235,478,047
Loan payable - noncurrent (Note 12)	**19,784,252,757**	15,542,679,868
Retirement liability - net (Note 18)	**141,094,111**	126,783,838
Deferred tax liabilities - net (Note 19)	**–**	24,962,909
Total Noncurrent Liabilities	**23,116,905,284**	18,942,316,891
Equity		
Capital stock (Note 13)	**8,861,613,119**	7,600,000,000
Additional paid-in capital (Note 13)	**5,709,529,458**	4,487,516,833
Retained earnings	**1,093,347,645**	1,657,515,034
Other comprehensive income (Note 18)	**34,128,507**	15,631,862
Total Equity	**15,698,618,729**	13,760,663,729
	₱41,475,594,701	₱34,770,679,796

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	
	2021	2020
REVENUES		
Rail	**₱1,132,827,372**	₱1,263,134,758
Non-rail (Note 20)	**86,534,574**	105,783,103
	1,219,361,946	1,368,917,861
COST OF SERVICES (Note 15)	**(1,430,171,082)**	(1,361,266,727)
GROSS PROFIT (LOSS)	**(210,809,136)**	7,651,134
Operating expenses (Note 16)	**(556,821,576)**	(657,170,953)
Construction revenue (Note 9)	**6,257,397,362**	4,112,169,054
Construction costs (Note 9)	**(6,257,397,362)**	(4,112,169,054)
Interest income (Note 4)	**7,611,006**	19,031,059
Other expenses - net (Note 17)	**(65,938,230)**	(241,575,773)
LOSS BEFORE INCOME TAX	**(825,957,936)**	(872,064,533)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)		
Final	**1,901,274**	3,788,987
Deferred	**(263,691,821)**	(162,789,881)
	(261,790,547)	(159,000,894)
NET LOSS	**(564,167,389)**	(713,063,639)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income not to be reclassified to profit or loss in subsequent period		
Remeasurement gain on retirement liability, net of deferred income tax (Note 18)	**18,496,645**	8,279,193
TOTAL COMPREHENSIVE LOSS	**(₱545,670,744)**	(₱704,784,446)

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, 2021 AND 2020

	Capital Stock (Note 13)	**Additional Paid-in Capital** (Note 13)	**Retained Earnings**	**Other Comprehensive Income** (Note 18)	**Total Equity**
At December 31, 2019	₱6,850,000,000	₱3,745,016,833	₱2,370,578,673	₱7,352,669	₱12,972,948,175
Issuance of capital stock	750,000,000	750,000,000	–	–	1,500,000,000
Costs on issuance of capital stock	–	(7,500,000)	–	–	(7,500,000)
Net loss for the year	–	–	(713,063,639)	–	(713,063,639)
Remeasurement gain on retirement liability, net of deferred tax	–	–	–	8,279,193	8,279,193
At December 31, 2020	**7,600,000,000**	**4,487,516,833**	**1,657,515,034**	**15,631,862**	**13,760,663,729**
Issuance of capital stock	**1,261,613,119**	**1,238,386,881**	**–**	**–**	**2,500,000,000**
Costs on issuance of capital stock	**–**	**(16,374,256)**	**–**	**–**	**(16,374,256)**
Net loss for the year	**–**	**–**	**(564,167,389)**	**–**	**(564,167,389)**
Remeasurement gain on retirement liability, net of deferred tax	**–**	**–**	**–**	**18,496,645**	**18,496,645**
At December 31, 2021	**₱8,861,613,119**	**₱5,709,529,458**	**₱1,093,347,645**	**₱34,128,507**	**₱15,698,618,729**

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	
	2021	2020
CASH FLOWS USED IN OPERATING ACTIVITIES		
Loss before taxes	**(₱825,957,936)**	(₱872,064,533)
Adjustments for:		
Movement in provisions (Notes 6, 15 and 17)	**105,791,883**	166,207,384
Depreciation and amortization (Notes 7, 8, 10 and 16)	**87,739,775**	118,635,335
Interest expense (Notes 8, 12 and 17)	**43,027,515**	37,039,248
Retirement expense (Note 18)	**37,483,718**	45,538,353
Interest income (Note 4)	**(7,611,006)**	(19,031,059)
Unrealized foreign exchange gain - net (Note 17)	**(1,738,354)**	(3,382,493)
Realized foreign exchange loss (gain) - net (Note 17)	**(1,590,399)**	1,755,480
Gain on disposal of property and equipment (Note 7)	**(214,606)**	(262,207)
Operating loss before working capital changes	**(563,069,410)**	(525,564,492)
Decrease (Increase) in:		
Trade and other receivables - net	**56,562,392**	(57,025,544)
Prepaid and other current assets	**(266,873,889)**	(167,457,325)
Decrease in accounts payable and other current liabilities	**(768,871,034)**	(991,617,478)
Net cash flows used in operations	**(1,542,251,941)**	(1,741,664,839)
Interest received	**7,613,228**	20,177,344
Interest paid	**(1,321,762,905)**	(1,108,661,497)
Retirement plan contributions (Note 18)	**–**	(35,000,000)
Income taxes paid	**(1,901,274)**	(30,131,653)
Retirement benefits paid from Company's operating funds	**–**	(12,306,649)
Net cash flows used in operating activities	**(2,858,302,892)**	(2,907,587,294)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to service concession asset (Note 9)	**(3,991,719,529)**	(3,964,902,750)
Decrease in other noncurrent assets	**664,893,025**	117,280,479
Proceeds from disposal of property and equipment (Note 7)	**243,269**	587,220
Purchase of:		
Property and equipment (Note 7)	**(37,894,301)**	(37,727,888)
Intangible assets (Note 10)	**(18,880,612)**	(8,600,026)
Net cash flows used in investing activities	**(3,383,358,148)**	(3,893,362,965)
CASH FLOWS FROM FINANCING ACTIVITIES (Note 22)		
Proceeds from:		
Loan drawdowns (Note 12)	**5,019,099,314**	5,102,886,499
Issuance of capital stock (Note 13)	**2,500,000,000**	1,500,000,000
Payments for:		
Loan principal (Note 12)	**(696,979,610)**	(607,667,853)
Share issuance costs (Note 13)	**(16,374,256)**	(7,500,000)
Lease liabilities (Note 8)	**(8,538,182)**	(11,451,109)
Net cash flows from financing activities	**6,797,207,266**	5,976,267,537

(Forward)

	Years Ended December 31	
	2021	2020
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**₱555,546,226**	(₱824,682,722)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,590,399**	(1,755,480)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**801,735,684**	1,628,173,886
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,358,872,309**	₱801,735,684

See accompanying Notes to Financial Statements.

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. The Company is engaged in the business 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 March 10, 2022.

Equity Ownership in the Company
The Company is a subsidiary of Light Rail Manila Holdings, Inc. (LRMH) with its direct ownership interest of 70.0%. LRMH, whose shareholders are Metro Pacific Light Rail Corporation (MPLRC; 50.0% plus 1 share) and AC Infrastructure Holdings Corporation (AC Infra; 50.0% minus 1 share), is a subsidiary of MPLRC. MPLRC also has a direct ownership interest in the Company of 20.0% while Philippine Investment Alliance for Infrastructure's Macquarie Infrastructure Holdings (Philippines) PTE Ltd. (MIHPL; a company incorporated in Singapore) owns the remaining 10.0%. Thus, these shareholders' effective ownership interest in the Company is as follows:

Shareholders	% of effective ownership
MPLRC	55.0%
AC Infra	35.0%
MIHPL	10.0%

MPLRC, whose shareholders are Metro Pacific Investments Corporation (MPIC; 65.1%) and Sumitomo Corporation (34.9%), is a subsidiary MPIC. Metro Pacific Holdings, Inc. (MPHI) owns 44.0% and 43.1% of the total issued and outstanding common shares of MPIC as at December 31, 2021 and 2020, respectively. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 57.0% and 56.2% as at December 31, 2021 and 2020, respectively.

MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH; 60.0% interest), Intalink B.V. (26.7% interest) and First Pacific International Limited (FPIL; 13.3% interest). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40.0% equity interest in EIH and investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group of companies in Hong Kong.

Concession Agreement (CA)
On October 2, 2014 (the "Signing Date"), the Company (as the "Concessionaire") signed together with the Department of Transportation (DOTr) and the Light Rail Transit Authority (LRTA) (together with DOTr as "Grantors") the CA for the Project. The Grantors 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 CA 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 CA. 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 is September 12, 2015, when the Company took over the LRT 1 operations.

Under the CA, 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 9):

- 10% of the bid amount within twenty (20) days from receipt of the Notice of Award, which 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 CA, which 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" which occurred after the fourth anniversary of the Effective Date as defined under the CA.

The carrying value of future concession fee payments amounted to ₱3,439.3 million and ₱3,492.7 million as at December 31, 2021 and 2020, respectively (see Note 9).

<u>Status of Operations</u>

Corona Virus, or Covid-19, Outbreak
On March 8, 2020, Presidential Proclamation No. 922 was issued, declaring a State of Public Health Emergency throughout the Philippines due to Covid-19. In a move to contain the Covid-19 pandemic, on March 12, 2020, the Office of the President of the Philippines issued a memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020, including the imposition of an enhanced community quarantine, or ECQ, throughout the island of Luzon. With the initial ECQ implementation, operations were suspended starting March 17, 2020. Operations resumed on June 1, 2020 but at a limited capacity of 13% per directive of the DOTr. With the subsequent implementation of Modified ECQ in NCR, LRT 1 operations were again suspended from August 4, 2020 to August 18, 2020. On August 19, 2020, LRT 1 resumed operations after placing NCR back to GCQ. In October 2020, following the DOTr's directive to gradually increase maximum passenger capacities, the Company adjusted passenger loading capacity to 30%. Since then, the Company maintained the 20% to 30% operating capacity and continued to observe physical distancing measures in its operations. On November 4, 2021, the passenger capacity for rail lines and selected public utility vehicles operating in Metro Manila and its adjacent provinces was increased to 70%. The surge of COVID-19 cases at the start of 2022 due to the Omicron variant has naturally kept actual ridership capacity to less than 30%.

In addition, LRMC provided rental assistance to its retail customers in the form of reduced lease payments upon ECQ implementation.

Status of Existing System Rehabilitation and Cavite Extension
Rehabilitation works necessary to bring the existing line to its intended use are still in progress as at December 31, 2021. Refer to Note 20 for the status of major rehabilitation contracts. As at March 10, 2022, the Company has received the Safety Assessor's certification that speed can be safely raised to sixty (60) kilometers per hour.

Construction of the Cavite Extension Basic Right of Way (ROW) Package 1 commenced in April 2019. As at March 10, 2022, ROW Package 1 is 69.4% complete. ROW Packages 2 and 3 have not yet been provided by the Grantors.

Claims and Manner of Settlement with Grantors
Section 5, *Obligations Prior to Effective Date*, of the CA provides for conditions and mechanisms that will ensure and thereby compel the parties to fulfill their obligations in relation to LRT 1 Concession Agreement. 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 CA 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, the Company is entitled to be compensated by the Grantors based on the formula and procedures provided for in the CA.

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 the passengers pursuant to Sections 20.3b and/or 30.4 of the CA. The Notional Fare is the agreed base fare provided in the CA that should have been in effect upon turnover of the LRT 1 operations.

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 CA provides for the provision of Grantors compensation.

Under Section 20.6 of the CA, all these claims are to be settled through the quarterly "Balancing Payments".

As at December 31, 2021, the Company has submitted a total of twenty-five (25) invoices (first to twenty-fifth Balancing Payments) to the Grantors mainly representing its claims for ESR costs, LRV shortfall, fare deficit, SDR costs, and Grantor's compensation payment. These claims are still undergoing discussion as at March 10, 2022.

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 (Philippine Interpretation IFRIC) issued by the Philippine Financial Reporting Standards Council (FRSC) 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 that the Company has adopted the following new accounting pronouncements starting January 1, 2021. Adoption of the pronouncements either did not have any significant impact on the Company's financial position or performance or not applicable to the Company, unless otherwise indicated.

- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*

  The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;

- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

The Company adopted the amendment beginning April 1, 2021.

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Company shall also disclose information about:
  - The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The Company adopted the amendments beginning January 1, 2021.

<u>Pronouncements Issued but not yet Effective</u>
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Company intends to adopt these when they become effective.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential ‘Day 2’gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine Interpretation IFRIC 21, *Levies*, if incurred separately. At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. These amendments are currently not applicable to the Company but may apply to future transactions.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

- *Annual Improvements to PFRSs* 2018-2020 Cycle

  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*

    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

  An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

- Amendments to PAS 8, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:
  - Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies, and

- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, 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. 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 FRSC deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes 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.

  These amendments are currently not applicable to the Company but may apply to future transactions.

Presentation of Financial Statements
The Company has elected to present all items of recognized income and expense in a single statement displaying components of profit or loss and components of other comprehensive income (statement of comprehensive income).

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

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve (12) months after the reporting period; or
- A cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve (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 twelve (12) months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the reporting period.

All other liabilities are classified as noncurrent.

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

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The 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; and
- 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 at fair value 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 remeasured 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
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 subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL). The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at FVOCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four (4) categories:

- financial assets measured at amortized cost (debt instruments)
- financial assets measured at FVPL
- financial assets measured at FVOCI, with recycling of cumulative gains or losses (debt instruments)
- financial assets measured at FVOCI, with no recycling of cumulative gains or losses upon derecognition (equity instruments)

Financial assets at amortized cost (debt instruments)
Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of comprehensive income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost

of the financial asset. Any losses arising from impairment are recognized in the statement of comprehensive income.

The Company's cash and cash equivalents, trade and other receivables - net and refundable deposits are classified as financial assets measured at amortized cost as at December 31, 2021 and 2020 (see Notes 4, 5, 10, 23 and 24).

Reclassifications
The Company reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Company has no reclassifications of financial instruments during the year.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when, and only when:

- the contractual rights to the cash flows from the financial asset expire, or
- the Company transfers the contractual rights to receive the cash flows of the financial asset in a transaction in which it either (i) transfers substantially all the risks and rewards of ownership of the financial asset, or (ii) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but the Company has not retained control.

When the Company retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Company treats the transaction as a transfer of a financial asset if the Company:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it retains control over the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. The extent of the Company's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Company's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Company's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Company could be required to repay ('the guarantee amount').

Modification of contractual cash flows
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of comprehensive income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

Impairment
The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next twelve (12) months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than one (1) year past due. This primarily pertains to the Company's cash and cash equivalents.

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are one (1) year past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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.

Financial Liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

Subsequent measurement
For purposes of subsequent measurement, financial liabilities are classified in two categories:

- financial liabilities measured at FVPL
- financial liabilities at amortized cost (loans and borrowings)

Financial liabilities at amortized cost (loans and borrowings)
This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

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. The EIR amortization on the Company's loan payable and service concession fee payable are capitalized as borrowing cost to service concession asset.

The Company's accounts payable and other current liabilities (excluding statutory payables), loans payable and service concession fee payable are classified as financial liabilities measured at amortized cost as at December 31, 2021 and 2020 (see Notes 9, 11, 12, 23 and 24).

Derecognition
A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EIR, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

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.

Derivatives
The Company uses derivative financial instruments, such as forward currency contracts. Derivatives are entered into as a means of reducing or managing their respective foreign exchange exposures. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of comprehensive income. Derivatives are carried as financial assets when the fair value is positive and financial liabilities when the fair value is negative.

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 10). Subsequently, once the claims have been verified by the IC and agreed to by the Grantors, any approved claims will be reclassified as a receivable under "Trade and other receivables - net". Claims that are not approved shall be reclassified to the "Service concession asset" account.

LRV Shortfall, Fare Deficit/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 spare parts and engineering supplies and stored value cards, 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. NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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 twelve (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 and assets are recognized net of the amount of VAT, if applicable.

- When VAT from sale of services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position.

- When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sale services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

VAT incurred on purchase of assets or services that is not recoverable from the taxation authority is recognized as part of the acquisition cost of the asset or as part of the expense item, as applicable.

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 cost less any impairment in value. These are progressively reduced upon receipt of the equivalent amount of goods delivered and services rendered. These are recognized as current or noncurrent depending on the classification of its underlying asset.

Advances to suppliers, which will be applied as payments for assets to be classified as inventories, that are expected to be consumed in its normal operating cycle even when they are not expected to be realized within twelve (12) months from the reporting date are classified as Other current assets. Advances to contractors and consultants, which will be applied as payments for construction of assets to be classified as property and equipment and service concession asset, are classified as Other noncurrent assets.

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. 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 residual values, useful lives and method of depreciation of property and equipment are reviewed at each reporting date and adjusted prospectively, if appropriate.

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 from the 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.

Leases
The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a Lessee
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

- *Right-of-use assets*
  The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Years
Buildings	10
Transportation equipment	1.5 - 3.5

  Right-of-use assets are subject to impairment assessment. Refer to the accounting policies in section impairment of non-financial assets.

- *Lease liabilities*
  At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

- *Short-term leases and leases of low-value assets*
  The Company applies the short-term lease recognition exemption to its short-term leases of transportation equipment (i.e., those leases that have a lease term of twelve (12) months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value (i.e., below ₱500,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense 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.

Service Concession Asset
The Company accounts for its concession arrangement with the Grantors in accordance with Philippine Interpretation IFRIC 12, *Service Concession Arrangement*, under the Intangible Asset model as it receives the right (license) to charge users of public service. Under the CA, 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 9).

Service concession asset will be amortized using the unit of production 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 sixty (60) kilometers per hour. 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 CA. The amortization period and method for an intangible asset with a finite useful life is 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 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 is tested for impairment annually. The Company makes an estimate of recoverable amount, which is the 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.

Contract Assets

Service concession asset, with on-going construction and upgrade services on concession arrangements under the scope of Philippine Interpretation IFRIC 12, is considered as contract asset. A contract asset is the right to consideration in exchange for goods or services rendered and is recognized when the Company has transferred the goods or has rendered the services before payment is due. Contract assets are initially recognized for revenue earned from the on-going construction and upgrade services as receipt of consideration is conditional on the successful completion of the construction and upgrade services and until the service concession asset is ready for its intended use.

Intangible Assets other than Service Concession Asset

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 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, or other available fair value indicators. Impairment losses are recognized in the statement of comprehensive income in the 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 are recognized as additional paid-in capital. Cost of registering and issuing new shares is a reduction from the proceeds of the shares issued, thus, recognized as reduction from additional paid-in capital.

Retained earnings represent the Company's accumulated earnings, prior period adjustments, effect of changes in accounting policies in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and other capital adjustments, net of any declared dividends.

Other comprehensive income 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 of the Company pertains to net remeasurement gain or loss on retirement liability.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

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.

Revenue from Contracts with Customers
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has generally concluded that it is the principal in its revenue arrangements.

The following summarizes the revenue streams and recognition criteria of the Company:

Rail revenues
Revenue generated from operating the LRT 1 line is generally recognized in the statement of comprehensive income when the journey is completed or rail service is provided. Revenue from fare deficit is recognized when it is virtually certain that the Company will be able to collect from the Grantors.

Non-rail revenues
Advertising revenues from all agreed commercial activities (i.e., advertising, partnerships and sponsorships) are recognized when the service is provided.

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

Interest income is recognized as the interest accrues using the EIR 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.

Construction Revenue and Cost Recognition
The Company recognizes and measures construction revenue in accordance with PFRS 15, *Revenue from Contracts with Customers,* 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. Since the Company subcontracted the works to outside contractors, the construction revenue is equal to the construction cost.

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.

Retirement Benefits
The Company has a 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, past 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. Past service costs are recognized when plan amendment or curtailment occurs.

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.

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.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are earned by the employees. The undiscounted liability for leave expected to be settled within twelve (12) months after the end of the reporting period is recognized for services rendered by employees up to the end of the reporting period. Accumulating leave credits which can be utilized anytime when needed or converted to cash upon employee separation (i.e., resignation or retirement), or at a specified date within twelve (12) months after the end of the reporting period, whichever comes earlier, are presented under "Accounts payable and other current liabilities" account in the statement of financial position.

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 end of each 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 end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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

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

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

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

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 ₱37,721.7 million and ₱29,924.8 million as at December 31, 2021 and 2020, respectively (see Note 9).

The Company also recognizes construction revenues and costs in accordance with PFRS 15. 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 ₱6,257.4 million and ₱4,112.2 million in 2021 and 2020, respectively (see Note 9).

Identifying Components of the Service Concession Asset
The Company's obligation under the CA comprises of the following: (1) Existing System's Operation & Maintenance; (2) Existing System's Rehabilitation; and (3) Construction of the Cavite Extension. Under Philippine Interpretation IFRIC 12, where the operator provides more than one service (for example, construction services, upgrade services and operations services) under a single contract or arrangement, the total consideration received or receivable be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

Based on the above assessment, the Company's accounting for the Service Concession Asset, shall be divided into two (2) components:

- Existing System, which shall include capitalized rehabilitation costs until the system is ready for its intended use. As of December 31, 2021, the existing system has not reached the sixty (60) kilometers per hour speed, and the Safety Assessor's certification has not been received. Therefore, it is not in the state of its intended use. Accordingly, amortization has not started.

- Cavite Extension, which shall include the construction costs for the Cavite Extension.

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.

Cumulative interest from loan and debt issue cost capitalized as part of service concession asset amounted to ₱3,848.4 million and ₱2,522.8 million as of December 31, 2021 and 2020, respectively (see Notes 9 and 12).

Definition of Default and Credit-impaired Financial Assets
The Company defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when the borrower is more than 365 days past due on its contractual payments (i.e. principal and/or interest) or the borrower is experiencing financial difficulty.

The criteria above have been applied to all financial assets held by the Company and are consistent with the definition of default used for internal credit risk management purposes. A financial instrument is no longer in default (i.e. to have cured) when it has exhibited a satisfactory track record.

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 24.

Determination of NRV of Inventories
The Company writes down the value of inventories whenever its NRV becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The NRV of inventories is reviewed on a regular basis to reflect the accurate valuation in the financial statements.

The carrying value of inventories amounted to ₱401.3 million and ₱366.5 million as at December 31, 2021 and 2020, respectively (see Note 6). The Company recognized provision for inventory obsolescence amounting to ₱8.4 million and ₱166.2 million in 2021 and 2020, respectively (see Notes 6 and 17).

Provision for Expected Credit Losses on Trade Receivables
The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product type, customer type and rating).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrices to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation rate) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Incorporation of Forward-looking Information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

To do this, the Company considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. The Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities and selected private-sector and academic institutions.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The Company has identified and documented key drivers of credit risk and credit losses of each financial instrument and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as at December 31, 2021 and 2020 included the following ranges of key indicators for the Philippines:

	December 31, 2021	December 31, 2020
Inflation rates	Base 4.5% Range between 2.2% and 11.1%	Base 2.5% Range between 0.5% and 6.7%

Predicted relationship between the key indicators and default and loss rates on financial assets have been developed based on analyzing historical data over the past 3 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Company has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

The carrying values of trade and other receivables and the related allowance for credit losses of the Company are disclosed in Notes 5 and 21.

No provision for expected credit losses was recognized in 2021 and 2020 (see Notes 5 and 21).

Leases – Estimating the Incremental Borrowing Rate
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

The Company's lease liabilities amounted to ₱17.8 million and ₱21.4 million as of December 31, 2021 and 2020, respectively (see Note 8).

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 ₱37.5 million and ₱45.5 million in 2021 and 2020, respectively. The Company has net retirement liability amounting to ₱141.1 million and ₱126.8 million as at December 31, 2021 and 2020, respectively (see Note 18).

Provisions
The Company recognizes provisions based on estimates of whether it is probable that an outflow of resources will be required to settle an obligation. Where the final outcome of these matters is different from the amounts that were initially recognized, such differences will impact the financial performance in the current period in which such determination is made.

The Company also recognizes its contractual obligations to restore the existing system to a specified level of serviceability. The Company recognizes a provision following PAS 37 as the obligation arises which is a consequence of the use of LRT-1 system.

The provision for the maintenance obligation requires an estimation of the periodic cost to restore the assets to a level of serviceability during the concession term and in good condition before turnover to the Grantors. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation at every maintenance date discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the liability.

Provisions amounted to ₱239.4 million and ₱214.3 million as at December 31, 2021 and 2020, respectively (see Note 11).

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 2021 and 2020.

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, ROU assets, and intangible assets are not impaired.

The carrying amounts of nonfinancial assets of the Company as at December 31, 2021 and 2020 are as follows:

	2021	2020
Service concession asset (Note 9)	**₱37,721,672,382**	₱29,924,811,345
Property and equipment (Note 7)	**194,972,176**	206,039,879
Deferred charges (Note 10)	**30,556,009**	1,198,818,475
Intangible assets (Note 10)	**29,153,273**	36,192,898
Right-of-use assets (Note 8)	**15,467,147**	19,987,747

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 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, 2021 and 2020, the carrying value of the service concession asset amounted to ₱37,721.7 million and ₱29,924.8 million, respectively (see Note 9).

Realizability of Deferred Tax Assets
The Company reviews its deferred 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 tax assets to be utilized. The Company's assessment of the recognition of deferred 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 tax assets is based on the recognition criteria and timing of the reversal of such deferred tax assets. Any deferred tax asset that the Company expects to reverse or be realized after the ITH are recognized, subject to their realizability, while those deferred tax assets that will reverse during the ITH should no longer be recognized.

As at December 31, 2021 and 2020, the Company's deferred tax assets amounted to ₱1,334.2 million and ₱1,170.7 million, respectively (see Note 19).

4. Cash and Cash Equivalents

	2021	2020
Cash on hand	**₱3,630,242**	₱6,831,633
Cash in banks	**1,273,178,270**	491,332,468
Cash equivalents	**82,063,797**	303,571,583
	₱1,358,872,309	₱801,735,684

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents pertain to short-term deposits 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 bank and cash equivalents amounted to ₱7.6 million and ₱19.0 million in 2021 and 2020, respectively. Interest receivable amounted to ₱0.01 million as at December 31, 2021 and 2020 (see Note 5).

5. Trade and Other Receivables - net

	2021	2020
Due from related parties (Note 14)	**₱116,280,212**	₱172,125,535
Trade receivables (Note 20)	**67,491,502**	69,157,974
Receivable from LRTA	**8,567,528**	9,294,979
Interest receivable	**6,905**	9,127
Others	**3,832,474**	2,155,620
	196,178,621	252,743,235
Less provision for expected credit losses (Note 21)	**4,223,392**	4,223,392
	₱191,955,229	₱248,519,843

Due from related parties mainly pertains to amounts paid in advance by the Company related to the relocation of utilities for the Cavite Extension and outstanding balance for the settlement of stored value cards (SVC) transactions and uncollected advertising income arising from rail operations (see Note 14). These are noninterest-bearing with no fixed maturities and are generally collectible on demand.

The Company's trade receivables pertain to uncollected lease or advertising income arising from non-rail contracts. These merchants and advertising clients are provided by the Company with 10 to 15 days credit term.

Receivable from LRTA pertains to the overpayment of concession fees which is included in the second Balancing Payment in accordance with the CA and reimbursements for electricity consumption.

No provision for expected credit losses was recognized in 2021 and 2020.

6. Prepaid and Other Current Assets

	2021	2020
Spare parts and engineering supplies – net	**₱401,317,313**	₱366,456,278
Advances to suppliers and contractors	**220,535,704**	89,222,162
Prepaid expenses	**20,297,096**	23,353,960
Creditable withholding tax	**9,745,483**	6,374,996
Input VAT	**787,310**	1,921,816
Others	**4,630,956**	8,902,644
	₱657,313,862	₱496,231,856

Spare parts and engineering supplies are used for the maintenance of LRVs. The Company recognized allowance for obsolescence of its spare parts and engineering supplies amounting to ₱8.4 million and ₱166.2 million in 2021 and 2020, respectively (see Note 17).

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

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

Creditable withholding tax are recognized on collections relating to non-rail activities.

Input VAT are recognized on purchases relating to non-rail activities. The Company's rail revenue is not subject to VAT but is subject to common carrier's tax.

7. Property and Equipment

	2021						
	Building improvements	**Machineries**	**Office computer, and other equipment**	**Furniture and fixtures**	**Transportation equipment**	**Leasehold improvements**	**Total**
Cost							
Balances at beginning of year	**₱71,851,124**	**₱93,951,519**	**₱242,777,136**	**₱14,565,106**	**₱31,335,856**	**₱2,020,144**	**₱456,500,885**
Additions*	**11,207,597**	**258,673**	**31,108,644**	**31,990**	**275,020**	**–**	**42,881,924**
Disposal	**–**	**–**	**(2,835,865)**	**–**	**–**	**–**	**(2,835,865)**
Balances at end of year	**83,058,721**	**94,210,192**	**271,049,915**	**14,597,096**	**31,610,876**	**2,020,144**	**496,546,944**
Accumulated Depreciation							
Balances at beginning of year	**8,459,281**	**27,402,438**	**174,550,900**	**10,377,821**	**27,650,422**	**2,020,144**	**250,461,006**
Depreciation (Note 16)	**2,390,082**	**9,246,789**	**37,814,324**	**2,083,040**	**2,386,729**	**–**	**53,920,964**
Disposal	**–**	**–**	**(2,807,202)**	**–**	**–**	**–**	**(2,807,202)**
Balances at end of year	**10,849,363**	**36,649,227**	**209,558,022**	**12,460,861**	**30,037,151**	**2,020,144**	**301,574,768**
Net Book Values	**₱72,209,358**	**₱57,560,965**	**₱61,491,893**	**₱2,136,235**	**₱1,573,725**	**₱–**	**₱194,972,176**

**Additions paid during the period amounted to ₱37.9 million*

	2020						
	Building improvements	Machineries	Office computer, and other equipment	Furniture and fixtures	Transportation equipment	Leasehold improvements	Total
Cost							
Balances at beginning of year	₱58,270,661	₱91,305,419	₱222,113,560	₱14,565,106	₱31,335,856	₱3,457,968	₱421,048,570
Additions*	13,580,463	2,646,100	24,779,637	–	–	–	41,006,200
Disposal	–	–	(4,116,061)	–	–	(1,437,824)	(5,553,885)
Balances at end of year	71,851,124	93,951,519	242,777,136	14,565,106	31,335,856	2,020,144	456,500,885
Accumulated Depreciation							
Balances at beginning of year	6,314,939	18,120,148	131,985,942	7,490,558	22,581,177	3,242,294	189,735,058
Depreciation (Note 16)	2,144,342	9,282,290	46,463,843	2,887,263	5,069,245	107,837	65,954,820
Disposal	–	–	(3,898,885)	–	–	(1,329,987)	(5,228,872)
Balances at end of year	8,459,281	27,402,438	174,550,900	10,377,821	27,650,422	2,020,144	250,461,006
Net Book Values	₱63,391,843	₱66,549,081	₱68,226,236	₱4,187,285	₱3,685,434	₱–	₱206,039,879

**Additions paid during the period amounted to ₱37.7 million*

The Company has disposed certain property and equipment at a gain of ₱0.2 million and ₱0.3 million in 2021 and 2020, respectively.

Fully depreciated property and equipment with total costs of ₱142.7 million and ₱58.1million as at December 31, 2021 and 2020, respectively, are still used in operations.

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 12).

8. **Leases**

The Company has lease contracts for various items of buildings and transportation equipment used in its operations. Lease of building has lease term of 10 years, while transportation equipment have lease terms between 1.5 and 3.5 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets.

The Company also has certain leases of transportation equipment with lease terms of twelve (12) months or less and are of low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Right-of-Use Assets. The movements in right-of-use assets account are as follows:

		2021	
	Buildings	**Vehicles**	**Total**
Cost			
Balances at beginning of year	**₱11,936,607**	**₱18,307,358**	**₱30,243,965**
Additions	–	**3,543,535**	**3,543,535**
Disposal	–	**(6,263,448)**	**(6,263,448)**
Balances at end of year	**11,936,607**	**15,587,445**	**27,524,052**
Accumulated Depreciation			
Balances at beginning of year	**1,889,962**	**8,366,256**	**10,256,218**
Depreciation (Note 16)	**1,193,661**	**6,704,913**	**7,898,574**
Disposal	–	**(6,097,887)**	**(6,097,887)**
Balances at end of year	**3,083,623**	**8,973,282**	**12,056,905**
Net Book Values	**₱8,852,984**	**₱6,614,163**	**₱15,467,147**

		2020	
	Buildings	Vehicles	Total
Cost			
Balances at beginning of year	₱14,836,195	₱20,387,236	₱35,223,431
Additions	–	8,103,325	8,103,325
Disposal	(2,899,588)	(10,183,203)	(13,082,791)
Balances at end of year	11,936,607	18,307,358	30,243,965
Accumulated Depreciation			
Balances at beginning of year	2,629,360	8,946,507	11,575,867
Depreciation (Note 16)	1,670,889	8,509,908	10,180,797
Disposal	(2,410,287)	(9,090,159)	(11,500,446)
Balances at end of year	1,889,962	8,366,256	10,256,218
Net Book Values	₱10,046,645	₱9,941,102	₱19,987,747

Lease liabilities. The movements in lease liabilities account during the year are as follows:

	2021	2020
Balances at beginning of year	**₱21,406,708**	₱24,333,767
New leases during the year	**3,437,195**	7,981,183
Interest accretion (Note 17)	**1,654,876**	1,845,497
Disposal	**(165,561)**	(1,302,630)
Lease payments	**(8,538,182)**	(11,451,109)
Balances at end of year	**₱17,795,036**	₱21,406,708

The lease liabilities are presented in the statements of financial position as follows:

	2021	2020
Current	**₱8,385,788**	₱8,994,479
Noncurrent	**9,409,248**	12,412,229
	₱17,795,036	₱21,406,708

The following are the amounts recognized in the statement of comprehensive income:

	2021	2020
Depreciation expense of ROU assets (Note 16)	**₱7,898,574**	₱10,180,797
Interest expense on lease liabilities (Note 17)	**1,654,876**	1,845,497
Rent expense relating to short-term leases and leases of low-value assets (Notes 15 and 16)	**156,695**	5,010,340
	₱9,710,145	₱17,036,634

Maturity analysis of the undiscounted lease payments is shown below:

	Amount
Within 1 year	₱6,142,270
More than 1 year to 2 years	3,971,230
More than 2 years to 3 years	2,459,121
More than 3 years to 4 years	2,018,332
More than 4 years to 5 years	2,119,248
More than 5 years	5,554,918

9. Service Concession Asset and Service Concession Fee Payable

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

		2021	
	Rehabilitation	**Extension**	**Total**
Balances at beginning of year	**₱12,629,736,852**	**₱17,295,074,493**	**₱29,924,811,345**
Additions	**3,178,610,356**	**4,618,250,681**	**7,796,861,037**
Balances at end of year	**₱15,808,347,208**	**₱21,913,325,174**	**₱37,721,672,382**

		2020	
	Rehabilitation	Extension	Total
Balances at beginning of year	₱10,513,050,446	₱13,969,110,062	₱24,482,160,508
Additions	2,116,686,406	3,325,964,431	5,442,650,837
Balances at end of year	₱12,629,736,852	₱17,295,074,493	₱29,924,811,345

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 ₱1,264.6 million and ₱1,050.8 million as at December 31, 2021 and 2020, 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 ₱21,133.5 million and ₱16,537.7 million as at December 31, 2021 and 2020, respectively, and the amortization of related prepaid construction insurance costs capitalized as part of the service concession asset amounting to ₱117.4 million and ₱98.9 million as at December 31, 2021 and 2020, respectively (see Note 20).

d. Costs totaling ₱1,379.8 million and ₱1,291.8 million incurred as at December 31, 2021 and 2020, respectively, in relation to consultation and advisory services on the technical, developmental and operational aspects of the Project (see Note 20).

e. Cumulative interest from loan and debt issue cost amounting to ₱3,848.4 million and ₱2,522.8 million as at December 31, 2021 and 2020, respectively (see Note 12).

f. Advisory fees totaling ₱105.0 million 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 totaling ₱5,227.2 million and ₱3,672.0 million as at December 31, 2021 and 2020, respectively, representing works completed by 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 ₱6,257.4 million and ₱4,112.2 million in 2021 and 2020, respectively.

As at December 31, 2021 and 2020, service concession asset is not yet available for use since the Safety Assessor's certification that the speed can be raised to sixty (60) kilometers per hour for the Existing System has not yet been received and the construction works for the Cavite Extension are still in progress. 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 as at December 31, 2021 and 2020. No impairment loss was recognized in 2021 and 2020.

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

	2021	2020
Pre-tax discount rate	**8.9%**	10.9%
Average revenue growth rate	**7.2%**	6.0%
Forecast period	**26 years**	27 years

Service concession asset with on-going construction and upgrade services amounting to ₱28,672.5 million and ₱22,415.1 million as at December 31, 2021 and 2020, respectively, is considered as contract asset.

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

	2021	2020
Balance at beginning of year	**₱3,492,652,349**	₱3,542,820,476
Interest accretion	**213,816,947**	216,977,699
Concession payment (CP)	**(267,145,826)**	(267,145,826)
Balance at end of year	**₱3,439,323,470**	₱3,492,652,349

The service concession fee payable is presented in the statement of financial position as follows:

	2021	2020
Current	**₱257,174,302**	₱257,174,302
Noncurrent	**3,182,149,168**	3,235,478,047
	₱3,439,323,470	₱3,492,652,349

Total bid premium for the LRT 1 Project amounted to ₱9.35 billion (inclusive of VAT), of which 20% or ₱1.87 billion was settled as at Effective Date in accordance with the CA. 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 quarterly payment due beginning the fourth quarter of 2019. Settlement of the concession fee is through the quarterly balancing payment mechanism reflecting netting of payments due to Grantors against receivable from Grantors. As the fourth anniversary of the effective date is September 12, 2019, the first quarterly CP was paid on October 30, 2019 which is the Balancing Payment date immediately after said anniversary. 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 CA, is as follows:

	2021	2020
Within one year	**₱267,145,826**	₱267,145,826
After one year but not more than five years	**1,068,583,303**	1,068,583,303
More than five years	**5,543,275,884**	5,810,421,709
	₱6,879,005,013	₱7,146,150,838

10. Other Noncurrent Assets

	2021	2020
Advances to suppliers and contractors	**₱945,185,995**	₱1,630,980,070
Deferred financing cost (Note 12)	**64,067,254**	149,350,179
Deferred charges	**30,556,009**	1,198,818,475
Intangible assets – net	**29,153,273**	36,192,898
Prepaid expenses (Note 20)	**8,747,387**	28,189,436
Others	**23,579,566**	29,822,384
	₱1,101,289,484	₱3,073,353,442

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 20).

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 12).

Deferred charges pertain to the costs incurred by the Company for the account of the Grantors. 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).

Prepaid expenses include prepaid licenses and portion of paid construction insurance policies for the EPC of the Existing System and Cavite Extension which will be amortized over the construction period.

Intangible assets consist of the following:

	2021		
	Software, website and domain	**Trademark**	**Total**
Cost			
Balances at beginning of year	**₱182,809,902**	**₱830,302**	**₱183,640,204**
Additions	**18,880,612**	**–**	**18,880,612**
Balances at end of year	**201,690,514**	**830,302**	**202,520,816**
Accumulated Amortization			
Balances at beginning of year	**146,739,575**	**707,731**	**147,447,306**
Amortization (Note 16)	**25,803,516**	**116,721**	**25,920,237**
Balances at end of year	**172,543,091**	**824,452**	**173,367,543**
Net Book Values	**₱29,147,423**	**₱5,850**	**₱29,153,273**

	2020		
	Software, website and domain	Trademark	Total
Cost			
Balances at beginning of year	₱174,209,876	₱830,302	₱175,040,178
Additions	8,600,026	–	8,600,026
Balances at end of year	182,809,902	830,302	183,640,204
Accumulated Amortization			
Balances at beginning of year	104,443,804	503,784	104,947,588
Amortization (Note 16)	42,295,771	203,947	42,499,718
Balances at end of year	146,739,575	707,731	147,447,306
Net Book Values	₱36,070,327	₱122,571	₱36,192,898

11. Accounts Payable and Other Current Liabilities

	2021	2020
Accounts payable	**₱719,630,414**	₱150,739,595
Accrued expenses	**527,846,451**	466,034,500
Provisions	**239,397,780**	214,318,217
Accrued financing costs (Note 12)	**93,656,865**	78,525,584
Due to related parties (Note 14)	**66,739,594**	127,346,155
Statutory payables	**32,808,758**	74,462,064
Customer deposits	**13,662,070**	14,352,747
	₱1,693,741,932	₱1,125,778,862

Accounts payable includes unpaid services to contractors and consultants including services denominated in foreign currency. Related foreign exchange gain amounting to ₱1.6 million and ₱5.0 million were recognized in 2021 and 2020, respectively. Accounts payable are noninterest-bearing financial liabilities that are generally settled within one year.

Accrued expenses primarily include services rendered for existing system rehabilitation and Cavite Extension. It also includes engineering supplies, professional fees, and other expenses.

Provisions represent various employee benefits and other charges based on management estimate with reference to individual and Company's performance. It also includes provision for heavy maintenance which pertains to the present value of the estimated contractual obligations of the Company to maintain the service concession assets to a specified level of serviceability during the concession term and to restore the same assets in good condition prior to turnover of the assets to the Grantors. The amount of provision is reduced by the actual obligations paid for heavy maintenance of the service concession assets.

Accrued financing costs include interest and commitment fees on loans payable (see Note 12). These are normally settled quarterly.

Due to related parties pertains to unpaid services to related parties. These are unsecured, noninterest-bearing and due on demand.

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.

Customer deposits pertain to cash received in advance from customers for which the Company has not yet provided goods or services in exchange.

12. **Loans Payable**

₱24.0 billion Omnibus Loan and Security Agreement (OLSA)

	2021	2020
Principal		
Balance at beginning of year	**₱15,978,341,254**	₱11,983,122,608
Drawdowns	**4,519,099,314**	4,102,886,499
Principal repayments	**(196,979,610)**	(107,667,853)
Balance at end of year	**20,300,460,958**	15,978,341,254
Debt Issue Cost		
Balance at beginning of year	**259,909,853**	203,716,220
Debt issue cost on additional drawdowns	**85,282,925**	77,428,297
Amortization*	**(29,753,243)**	(21,234,664)
Balance at end of year	**315,439,535**	259,909,853
Net Loan Payable	**₱19,985,021,423**	₱15,718,431,401

**Capitalized as part of service concession asset*

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.

On July 31, 2019, LRMC, together with its shareholders and lenders, signed an amendment agreement to the OLSA. Remaining undrawn amount for the Cavite Extension is subject to applicable benchmark rate plus credit spread or interest rate floor of 7%, whichever is higher.

Effective March 7, 2021, the Company repriced its nominal interest rates from 7.1445% to 6.5445% for Tranche A and from 7.4635% to 6.8635% for Tranche B.

Debt issue cost and the related amortization recognized with respect to the withdrawn amounts are summarized as follows:

	2021	2020
Debt Issue Cost		
Total transaction costs	**₱452,919,943**	₱452,919,943
Transaction costs on undrawn amount presented as "Deferred financing cost" (Note 10)	**(64,067,254)**	(149,350,179)
Total debt issue cost on principal - drawn amount	**388,852,689**	303,569,764
Amortization		
Balance at beginning of year	**43,659,911**	22,425,247
Amortization	**29,753,243**	21,234,664
Balance at end of year	**73,413,154**	43,659,911
Unamortized Debt Issue Cost	**₱315,439,535**	₱259,909,853

Cumulative interest expense and debt issue cost capitalized as part of service concession asset amounted to ₱3,848.4 million and ₱2,522.8 million as at December 31, 2021 and 2020, respectively (see Note 9). Commitment fees related to timing of loan drawdowns amounted to ₱8.5 million and ₱6.8 million in 2021 and 2020, respectively (see Note 17). Accrued financing costs amounted to ₱93.7 million and ₱78.5 million as at December 31, 2021 and 2020, respectively (see Note 11).

Scheduled principal repayment of the loan is as follows:

Within one year	₱203,937,558
After one year but not more than five years	3,214,354,764
More than five years	16,882,168,636
	₱20,300,460,958

Debt Covenants

This loan contains restrictive covenants which include, among others, maintenance 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, 2021 and 2020, 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. Available equity investment per Sponsor as at December 31, 2021 is summarized as follows:

	Allocated Equity Investment	Total Capital Contribution	**Available Equity Investment as at December 31, 2021**
LRMH	₱10,742,000,000	₱10,255,000,000	**₱487,000,000**
MPLRC	3,069,000,000	2,930,000,000	**139,000,000**
MIHPL	1,535,000,000	1,465,000,000	**70,000,000**
	₱15,346,000,000	₱14,650,000,000	**₱696,000,000**

In case declaration of default is issued, the Sponsors shall either deposit in an Escrow account or submit an irrevocable stand by letter of credit in favor of the Lenders with 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 CA) 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.

Short-term Loans

On April 1, 2020, LRMC availed a 180-day short-term loan from RCBC amounting to ₱500.0 million with an interest rate of 6% per annum. The proceeds were used to finance working capital requirements. This loan was settled on September 28, 2020.

On April 28, 2020, LRMC availed another 180-day short-term loan from RCBC amounting to ₱500.0 million with an interest rate of 6% per annum. Upon its maturity on October 26, 2020, this loan was rolled-over for a period of 360 days with an interest rate of 5.575% per annum. The proceeds were used to finance working capital requirements.

On May 19, 2021, LRMC availed a 180-day short-term loan from RCBC amounting to ₱500.0 million with an interest rate of 5.4% per annum. The proceeds were used to finance working capital requirements. This loan was settled on November 15, 2021.

On October 21, 2021, LRMC settled the ₱500.0 million short-term loan from RCBC which was rolled over on October 26, 2020. On the same day, LRMC availed a 180-day short-term loan from the same bank amounting to ₱500.0 million with an interest rate of 5.18% per annum. The proceeds were used to finance working capital requirements.

Interest expense on short-term loans amounted to ₱41.4 million and ₱35.2 million in 2021 and 2020, respectively (see Note 17).

The loans payable are presented in the statements of financial position as follows:

	2021	2020
Current	**₱700,768,666**	₱675,751,533
Noncurrent	**19,784,252,757**	15,542,679,868
	₱20,485,021,423	₱16,218,431,401

13. Equity

Capital Stock
The Company's authorized capital stock was ₱7,600.0 million, divided into 7,600.0 million common shares at a par value of ₱1.00 per share as at December 31, 2020. In February 2021, the Company applied for an increase in authorized capital stock from ₱7,600.0 million to ₱9,000.0 million, divided into 9,000.0 million common shares at a par value of ₱1.00 per share. The increase in authorized capital stock was approved by the SEC last September 2, 2021.

In 2021, the Company issued a total of 1,145.5 million common shares at ₱2.00 per share and a total of 116.1 million shares at ₱1.80 per share. Issued shares amounted to ₱8,861.6 million and ₱7,600.0 million as at December 31, 2021 and 2020, respectively.

Additional Paid-in Capital
Additional paid-in capital amounted to ₱5,788.4 million and ₱4,550.0 million as at December 31, 2021 and 2020, respectively. Transaction costs on issuance of shares amounting to ₱78.9 million and ₱62.5 million as at December 31, 2021 and 2020, respectively, were charged against additional paid-in capital.

14. 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	**2021**	2020	**2021**	2020
			(In Thousands)			
Trade and Other Receivables - net (Note 5)						
Manila Electric Company (Meralco)	Other related parties	Relocation of Utilities for the Cavite Extension Project [(a)]	**(₱56,151)**	₱87,548	**₱114,572**	₱170,663
AF Payments, Inc. (AFPI)	Other related parties	AFCS [(b)]	**227**	224	**1,466**	1,463
AF Payments, Inc. (AFPI)	Other related parties	Rental income	**216**	–	**242**	–
			(55,708)	87,772	**116,280**	172,126

(Forward)

	Relationship*	Nature of transaction	Amount of Transactions 2021	Amount of Transactions 2020	Outstanding Balance 2021	Outstanding Balance 2020
				(In Thousands)		
Accounts Payable and Other Current Liabilities (Note 11)						
Meralco	Other related parties	Electricity and power utilities (Notes 11, 15 and 16)	**₱286,507**	₱247,524	**₱31,343**	₱84,632
Ayala Corporation	Investor with significant influence	Management fees [(c)] (Note 16)	**10,322**	9,226	**–**	–
AFPI	Other related parties	AFCS[(b)] (Notes 11 and 16)	**10,893**	7,309	**3,182**	7,119
Bank of the Philippine Islands (BPI)	Other related parties	Rental income	**1,440**	669	**1,000**	1,261
Pharm Gen Ventures Corp. (PharmGen)	Other related parties	Rental income	**456**	153	**152**	179
HCX Technology Partners, Inc. (HCXI)	Other related parties	Application management and hosting fee (Note 16)	**5,950**	5,131	**455**	851
Ayala Land, Inc. (ALI)	Other related parties	Operations and management fees (Notes 11 and 15)[(d)]	**–**	7,452	**13,055**	21,423
Philippine Long Distance Telephone Company (PLDT)	Other related parties	Communication and internet expense (Notes 11, 15 and 16)	**2,206**	2,425	**795**	345
Innove Communications Inc (Innove)	Other related parties	Internet expense (Notes 11, 15 and 16)	**1,585**	2,212	**1,425**	458
Radius Telecoms, Inc. (RTI)	Other related parties	Communication and internet expense (Notes 15 and 16)	**1,438**	1,499	**–**	–
Miescor Logistics, Inc. (MLI)	Other related parties	Repairs & Maintenance and outside services (Notes 11, 15 and 16)	**5,046**	4,341	**12,923**	7,877
Maynilad	Under common control	Water utilities (Notes 11, 15 and 16)	**4,278**	4,849	**687**	1,546
Manila Water Total Solutions Corp. (MWTSC)	Other related parties	Water supplies (Note 11, 15 and 16)	**72**	517	**13**	86
Ayala Multi-Purpose Cooperative (AMPC)	Other related parties	Employee contributions and loan payments	**32,637**	16,581	**1,383**	1,163
Smart Communications, Inc.	Other related parties	Communication- mobile (Notes 11, 15 and 16)	**4,054**	5,307	**327**	406
			366,884	315,195	**66,740**	127,346
Retirement Plan (Note 18)						
BPI	Other related parties	Plan assets contribution	**–**	35,000	**10,287**	15,066
			₱–	₱35,000	**₱10,287**	₱15,066

**Other related parties are related to the Company as follows: Meralco, Smart Communications Inc., Maynilad, PLDT, RTI and MLI are associates or subsidiaries of MPIC. ALI, AMPC, BPI, Globe, HCXI, Innove, PharmGen and MWTSC are associates or subsidiaries of Ayala Corporation, the ultimate parent company of AC Infra. AFPI is a consortium of MPIC and AC groups.*

a. 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 of payment from LRTA, in accordance with the LRTA-Meralco memorandum of agreement.

b. 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 Company is the operator of Level 1 to 3 AFCS devices (i.e. point-of-sale, automatic gates, ticket vending machines, station computers, and central computer system) in LRT 1 and uses the same at no consideration.

The balance outstanding as at December 31, 2021 and 2020 represents amount payable for the purchase of SVCs and settlement of unused SVC purse balance arising from rail operations.

c. Ayala Corporation bills management fees for services of on-loan executives. Management services include key management, operational, financial and administrative decision-making. Management fees amounted to ₱10.3 million and ₱9.2 million in 2021 and 2020, respectively, and is presented as part of "Professional and consultancy fees" (see Note 16).

d. The Company entered into a development management agreement with ALI in 2018 to manage the planning, construction and development of the retail/commercial areas in LRT 1.

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.

The Company's remuneration of key management personnel pertaining to basic salaries and other employee benefits amounted to ₱60.3 million and ₱71.7 million in 2021 and 2020, respectively.

15. **Cost of Services**

	2021	2020
Personnel costs and provision for employee benefits	**₱486,547,702**	₱551,660,086
Repairs and maintenance	**254,486,667**	106,666,508
Utilities	**235,390,434**	208,732,227
Outside services	**229,585,094**	234,225,878
Professional and consultancy fees (Note 20)	**175,456,066**	193,792,028
Taxes and licenses	**38,347,382**	61,049,207
Others	**10,357,737**	5,140,793
	₱1,430,171,082	₱1,361,266,727

16. **Operating Expenses**

	2021	2020
Insurance (Note 20)	**₱139,550,252**	₱142,294,969
Personnel costs and provision for employee benefits	**119,939,329**	158,963,191
Depreciation and amortization (Notes 7, 8 and 10)	**87,739,775**	118,635,335
Outside services	**57,626,433**	72,188,140
Utilities	**55,394,618**	43,640,518
Repairs and maintenance	**27,403,250**	28,269,946
Professional and consultancy fees (Note 20)	**24,723,759**	23,820,243
Taxes and licenses	**22,386,392**	32,533,930
Public relations	**7,511,722**	7,832,531
Rent and communication	**7,024,187**	14,439,762
Others	**7,521,859**	14,552,388
	₱556,821,576	₱657,170,953

17. **Other Expenses - net**

	2021	2020
Interest expense - loans (Note 12)	**₱41,372,639**	₱35,193,751
Commitment fees (Note 12)	**8,535,429**	6,793,362
Provision for inventory obsolescence (Note 6)	**8,390,179**	166,207,384
COVID-related expenses	**6,179,005**	3,655,918
Foreign exchange gain - net (Note 11)	**(3,328,753)**	(1,627,013)
Cards inventory cost	**2,809,127**	3,632,737
Interest expense - lease liability (Note 8)	**1,654,876**	1,845,497
Termination benefits	**572,471**	25,372,898
Others	**(246,743)**	501,239
	₱65,938,230	₱241,575,773

Interest expense on loans is attributable to outstanding short term loans during the year (see Note 12).

Commitment fees pertain to 0.25% commitment penalty for the difference on the cumulative drawn amount from the scheduled cumulative drawdown provided in the OLSA (see Note 12).

Provision for inventory obsolescence pertains to the difference between cost and NRV of inventories due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

COVID-related expenses pertain to expenses incurred for safety measures against COVID-19.

Foreign exchange gains and losses are attributable to settlement of foreign currency denominated transactions and revaluation of accounts denominated in foreign currency.

Cards inventory cost pertain to net cost of SVC issued to passengers during the year.

Termination benefits pertain to employee benefits paid as a result of employees' decision to accept voluntary redundancy in exchange for these benefits.

18. **Retirement Plan**

The Company adopted a noncontributory defined benefit retirement plan covering all regular and permanent employees effective January 1, 2019. The plan provides for a lump sum benefit payment upon retirement. Contributions and costs are determined in accordance with an actuarial valuation made for the plan which is obtained annually. The latest actuarial valuation report is dated January 10, 2022.

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.

Retirement liability. The movements in retirement liability account are as follows:

	2021	2020
Balance at beginning of year	**₱141,849,350**	₱130,407,687
Retirement expense	**38,991,542**	46,817,112
Remeasurement gain recognized in other comprehensive income	**(24,654,756)**	(13,420,498)
Benefits paid	**(4,804,867)**	(21,954,951)
Balance at end of year	**₱151,381,269**	₱141,849,350

Retirement plan asset. The movements in retirement plan asset account are as follows:

	2021	2020
Balance at beginning of year	**₱15,065,512**	₱2,334,784
Actual contributions	**–**	35,000,000
Interest income	**1,507,824**	1,278,759
Loss on return on plan asset	**(1,481,311)**	(1,593,080)
Benefits paid	**(4,804,867)**	(21,954,951)
Balance at end of year	**₱10,287,158**	₱15,065,512

The retirement liability, net of retirement plan asset, is presented in the statement of financial position as follows:

	2021	2020
Retirement liability	**₱151,381,269**	₱141,849,350
Retirement plan asset	**(10,287,158)**	(15,065,512)
	₱141,094,111	₱126,783,838

Retirement expense recognized as part of "Personnel costs" under "Cost of services" and "Operating expenses" in the statement of comprehensive income in 2021 and 2020, respectively, is as follows:

	2021	2020
Current service cost	**₱33,671,045**	₱36,152,096
Past service cost	**–**	4,321,728
Net interest cost	**3,812,673**	5,064,529
	₱37,483,718	₱45,538,353

The cumulative actuarial gain recognized in other comprehensive income as at December 31, 2021 and 2020 is as follows:

	Accumulated Actuarial Gain	Deferred Tax (Note 19)	Net
Balance at December 31, 2019	₱10,503,814	₱3,151,145	₱7,352,669
Remeasurement gain	11,827,418	3,548,225	8,279,193
Balance at December 31, 2020	22,331,232	6,699,370	15,631,862
Remeasurement gain	**23,173,445**	**5,793,361**	**17,380,084**
Effect of change in tax rate	**–**	**(1,116,561)**	**1,116,561**
Balance at December 31, 2021	**₱45,504,677**	**₱11,376,170**	**₱34,128,507**

The actual return on the retirement plan asset amounted to ₱0.03 million gain and ₱0.3 million loss for 2021 and 2020, respectively.

As at December 31, 2021, the Company's retirement plan asset consists of unit investment trust funds.

The assumptions used to determine retirement benefits are as follows:

	2021	2020
Discount rate	**5.10%**	3.87%
Expected rate of salary increase	**6.00%**	6.00%
Mortality rate	**2017 PICM***	2017 PICM*
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	1952 Disability Study, Period 2, Benefit 5

**Philippine Intercompany Mortality Table*

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumptions as at December 31, assuming all other assumptions were held constant:

	Increase (Decrease) in Retirement Liability	
	2021	2020
Discount rate increase by 100 basis points (BP)	**(₱16,491,817)**	(₱17,006,856)
Discount rate decrease by 100 BP	**19,499,497**	20,384,914
Salary increase rate increase by 100 BP	**19,503,301**	20,046,155
Salary increase rate decrease by 100 BP	**(16,783,682)**	(17,088,988)

The average duration of the defined benefit plan is 17.72 years and 18.64 years in 2021 and 2020, respectively.

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

	2021	2020
Next 5 years	**₱41,186,239**	₱28,363,826
5 - 10 years	**168,899,353**	128,028,069
10 - 15 years	**215,025,907**	208,428,172
15 - 20 years	**287,772,326**	280,788,655
Beyond 20 years	**480,493,880**	519,572,432

The Company expects to contribute ₱67.4 million to the retirement fund in 2022.

19. Income Taxes

Provision for current income tax represents final tax on interest income amounting to ₱1.9 million and ₱3.8 million in 2021 and 2020, respectively.

Net deferred income tax asset (liability) using statutory tax rate of 25% in 2021 and 30% in 2020 is comprised of:

	2021	2020
Deferred tax assets		
Service concession fee payable	**₱772,099,335**	₱948,757,584
Net operating loss carry-over	**426,213,458**	110,878,242
Provisions	**94,795,922**	71,959,432
Retirement liability	**38,173,262**	34,562,799

(Forward)

	2021	2020
Unrealized foreign exchange loss - net	**₱2,480,240**	₱3,410,337
Deferred revenue	**404,874**	1,180,716
	1,334,167,091	1,170,749,110
Deferred tax liabilities		
Service concession asset	**(960,839,405)**	(1,061,396,674)
Amortization of upfront concession fee payments	**(86,860,765)**	(83,566,148)
Documentary stamp tax (DST) component of deferred financing cost	**(26,346,796)**	(28,073,168)
Other deferred financing cost	**(25,486,041)**	(22,250,341)
ROU asset	**(581,972)**	(425,688)
	(1,100,114,979)	(1,195,712,019)
	₱234,052,112	(₱24,962,909)

Registration with the BOI
In 2016, the Company 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.

On December 29, 2020, the BOI approved the amendment of the start of commercial operations of the Cavite Extension and ITH incentive reckoning date from April 2021 to November 2023.

Consequently, the Company made forecasts for the timing of reversal of the temporary differences, taking into consideration the ITH period and rate of exemption allowed by BOI for the registered activity. Deferred tax assets on pension liability included in other comprehensive income amounted to ₱11.4 million and ₱6.7 million as at December 31, 2021 and 2020, respectively. Deferred tax on the movement of pension liability included in other comprehensive income amounted to ₱4.7 million and ₱3.5 million deferred tax asset in 2021 and 2020, respectively.

The reconciliation of the benefit from income tax at the applicable statutory tax rate to the benefit from income tax as shown in the statement of comprehensive income is as follows:

	2021	2020
Provision for (benefit from) income tax at statutory tax rate of 25% in 2021 and 30% in 2020	**(₱206,489,484)**	(₱261,619,360)
Add (deduct) the tax effects of:		
Income tax exemption on current taxable income	**–**	153,052,200
Deferred tax effects due to ITH	**5,441,551**	(126,541,064)
Change in unrecognized deferred tax assets	**(58,742,857)**	70,491,428
Non-deductible expenses	**1,045,644**	7,536,232

(Forward)

	2021	2020
Interest income subjected to final tax	**(₱1,477)**	(₱1,920,330)
Remeasurement of deferred tax due to impact of CREATE	**(3,043,924)**	–
	(₱261,790,547)	(₱159,000,894)

Corporate Recovery and Tax Incentive for Enterprises Act or CREATE Law
On March 26, 2021, Republic Act (RA) 11534 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act was signed into law, which introduced reforms to the corporate income tax and incentive systems. It took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation, or on April 11, 2021.

The CREATE Law provides for the following reduction in corporate income tax rates, among others:

- lower corporate income tax from 30% to 25%, retroactive to July 1, 2020, for both domestic and foreign corporations;
- lower corporate income tax of 20% for small and medium domestic corporations (with net taxable income of ₱5 million and below, and with total assets of not more than ₱100 million excluding land); and,
- lower MCIT from 2% to 1% effective July 1, 2020 until June 30, 2023.

The CREATE Law was not considered substantially enacted as of December 31, 2020 and its passage into law on March 26, 2021 is considered as a non-adjusting subsequent event for 2020. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 were computed and measured using the applicable tax rates as of December 31, 2020. Impact of CREATE was recognized in the Company's 2021 profit or loss.

20. Significant Contracts, Agreements and Commitments

Concession Agreement
Refer to Note 1 for the relevant discussions.

Independent Consultant (IC) for the Concession
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 CA. This includes, but is not limited to, monitoring, inspecting and keeping informed the state and progress of remedial works, issuing certification of compliance with the existing system requirements, and conducting 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
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 ten (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 and right of way rental including interconnection services. These agreements cover periods ranging from one (1) to twenty-six (26) years.

Rent income, interconnection and advertising fees (included under "Non-rail revenues") earned relevant to these agreements amounted to ₱86.5 million and ₱105.8 million in 2021 and 2020, respectively. Uncollected amounts of non-rail revenues recognized as trade receivables amounted to ₱67.5 million and ₱69.2 million as at December 31, 2021 and 2020, respectively (see Note 5).

Consultancy and Advisory Fees
The Company has 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
The Company has an EPC Agreement for the rehabilitation of the signaling system and 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. As at December 31, 2021, the Existing System Works and Cavite Extension Works are estimated to be 94.9% and 67.5% complete, respectively.

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, 2018. 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 rehabilitation was completed in June 28, 2019. In reference to the original contract, LRMC engaged FBI and ESCA for various additional works for Tripa bridges pot bearing replacement, additional faulty concrete and damages caused by April 22, 2019 earthquake, which started on September 16, 2019. Due to the COVID-19 pandemic, Tripa bridge 2 works were deferred to 2022. All other works scoped in this contract were completed in March 2020.

On January 12, 2018, the Company entered into an agreement with Voith Digital Solutions Austria GmBH and Co KG for the rehabilitation and upgrade of propulsion, train control and management systems of several trains. The re-engineering project was completed on May 3, 2021.

On October 24, 2018, the Company entered into an agreement with First Balfour, Inc. and Mrail, Inc. for the rehabilitation of rectifier sub-stations (RSS). On the same date, the Company signed a contract with Commsec Inc. for the design, supply, and installation of CCTV, access control, and security network systems. As at December 31, 2021, the RSS rehabilitation project is 99.67% complete. The works on security network systems projects was completed on October 26, 2021.

On February 13, 2019, the DoTR signed the contract for the development of the Unified Common Station (UCS) which will provide a connection between LRT 1, MRT-3, MRT-7 and the Metro Manila Subway. As part of the Existing System signaling work, the EPC Contractor must make provision for the UCS signaling requirements to allow the provision of a signaling system associated with Roosevelt Station and the turnback track up to, and including, the Switch 17 in its new location.

Starting September 5, 2020, LRMC temporarily closed Roosevelt station to enable the UCS contractor to facilitate Switch 17 relocation works. As of December 31, 2021, the provision of Switch 17 by the UCS Contractor has been delayed. This prevents LRMC from reverting to revenue operation in Roosevelt station, and proportionately delays completion of the new signaling system and therefore the testing, commissioning and operation of the Grantors-procured LRVs.

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 cost of service and operating expenses amounted to ₱139.6 million and ₱142.4 million in 2021 and 2020, respectively (see Notes 15 and 16).

The Company also obtained insurance policies for the EPC Existing System and Cavite Extension works. Insurance costs capitalized as part of the service concession asset amounted to ₱117.4 million and ₱98.9 million as at December 31, 2021 and 2020, respectively (see Note 9). Prepaid insurance recognized as part of other noncurrent assets amounted to ₱8.7 million and ₱27.2 million as at December 31, 2021 and 2020, respectively (see Note 10).

21. Allowance for Expected Credit Losses

The Company's ECLs were based on the probability that such financial assets will not be collected upon considering the aging as at reporting date and other qualitative factors, including the historical average days outstanding from billing date until collection date, occurrence of delays, and provision of allowance for expected credit losses in prior periods.

The tables below show the gross carrying amount of financial assets and the loss allowances:

	2021					
	Not Credit-impaired		Credit-impaired		Total	
	Gross Carrying Amount	Allowance on ECL	Gross Carrying Amount	Allowance on ECL	Gross Carrying Amount	Allowance on ECL
	(In Thousands)					
As at January 1, 2021						
Cash and cash equivalents*	**₱794,904**	**₱–**	**₱–**	**₱–**	**₱794,904**	**₱–**
Trade and other receivables	**248,520**	–	**4,223**	**(4,223)**	**252,743**	**(4,223)**
Refundable deposits**	**29,712**	–	–	–	**29,712**	–
New financial assets originated or purchased						
Cash and cash equivalents	**80,010,472**	–	–	–	**80,010,472**	–
Trade and other receivables	**4,650,438**	–	–	–	**4,650,438**	–
Refundable deposits	**3,344**	–	–	–	**3,344**	–
Financial assets that have been derecognized during the period						
Cash and cash equivalents*	**(79,450,134)**	–	–	–	**(79,450,134)**	–
Trade and other receivables	**(4,707,003)**	–	–	–	**(4,707,003)**	–
Refundable deposits**	**(11,386)**	–	–	–	**(11,386)**	–
As at December 31, 2021	**1,568,867**	–	**4,223**	**(4,223)**	**1,573,090**	**(4,223)**
Net carrying value as at December 31, 2021						**₱1,568,867**

**Excluding cash on hand amounting to ₱6,832 and ₱3,630 (in thousands) as at January 1, 2021 and December 31, 2021, respectively*
***Presented as "Others" under "Other Noncurrent Assets" in Note 10*

	2020					
	Not Credit-impaired		Credit-impaired		Total	
	Gross Carrying Amount	Allowance on ECL	Gross Carrying Amount	Allowance on ECL	Gross Carrying Amount	Allowance on ECL
			(In Thousands)			
As at January 1, 2020						
Cash and cash equivalents*	₱1,594,432	₱–	₱–	₱–	₱1,594,432	₱–
Trade and other receivables	192,641	–	4,223	(4,223)	196,864	(4,223)
Refundable deposits**	23,483	–	–	–	23,483	–
New financial assets originated or purchased						
Cash and cash equivalents	146,595,815	–	–	–	146,595,815	–
Trade and other receivables	4,620,979	–	–	–	4,620,979	–
Refundable deposits	6,339	–	–	–	6,339	–
Financial assets that have been derecognized during the period						
Cash and cash equivalents*	(147,395,343)	–	–	–	(147,395,343)	–
Trade and other receivables	(4,565,100)	–	–	–	(4,565,100)	–
Refundable deposits**	(110)	–	–	–	(110)	–
As at December 31, 2020	1,073,136	–	4,223	(4,223)	1,077,359	(4,223)
Net carrying value as at December 31, 2020						₱1,073,136

**Excluding cash on hand amounting to ₱33,741 and ₱6,832 (in thousands) as at January 1, 2020 and December 31, 2020, respectively*
***Presented as "Others" under "Other Noncurrent Assets" in Note 10*

22. Changes in Liabilities Arising from Financing Activities

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

	2021					
	January 1, 2021	**Cash flows**	**Lease additions**	**Interest accretion**	**Others**	**December 31, 2021**
			(In Thousands)			
Loans payable (Note 12)	**₱16,218,431**	**₱4,322,120**	**₱–**	**₱–**	**(₱55,530)**	**₱20,485,021**
Lease liability (Note 8)	**21,407**	**(8,538)**	**3,437**	**1,655**	**(166)**	**17,795**
Service concession fee payable (Note 9)	**3,492,652**	**–**	**–**	**213,817**	**(267,146)**	**3,439,323**
Total liabilities from financing activities	**₱19,732,490**	**₱4,313,582**	**₱3,437**	**₱215,472**	**(₱322,842)**	**₱23,942,139**

	2020					
	January 1, 2020	Cash flows	Lease additions	Interest accretion	Others	December 31, 2020
			(In Thousands)			
Loans payable (Note 12)	₱11,779,406	₱4,495,219	₱–	₱–	(₱56,194)	₱16,218,431
Lease liability (Note 8)	24,334	(11,451)	7,981	1,846	(1,303)	21,407
Service concession fee payable (Note 9)	3,542,820	–	–	216,978	(267,146)	3,492,652
Total liabilities from financing activities	₱15,346,560	₱4,483,768	₱7,981	₱218,824	(₱324,643)	₱19,732,490

23. Financial Instruments Risk Management Objectives and Policies

The Company's principal financial instruments are cash and cash equivalents, loans payable and service concession fees payable. The Company has other financial assets and liabilities such as trade and other receivables - net, 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.

Liquidity Risk

Liquidity risk is the risk of not meeting obligations as they become due because of an inability to liquidate assets or obtain funding. The Company is generally not exposed to significant liquidity risk because of the daily inflows of cash from farebox collections.

The Company monitors its risk to a shortage of funds using a recurring liquidity planning. Cash planning considers the maturity of both its financial investments and financial assets (e.g., trade and other receivables) and projected cash flows from operations.

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 ₱1,358.9 million and ₱801.7 million as at December 31, 2021 and 2020 respectively, and additional short-term loan facility, 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:

	2021						
	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*	₱1,355,242	₱–	₱–	₱–	₱–	₱–	₱1,355,242
Trade and other receivables	11,440	64,235	–	–	–	–	75,675
Due from related parties	20	116,260	–	–	–	–	116,280
Refundable deposits**	–	–	–	–	–	21,670	21,670
Total	1,366,702	180,495	–	–	–	21,670	1,568,867
Financial Liabilities							
Accounts payable and other current liabilities***:							
Accounts payable	196,317	523,313	–	–	–	–	719,630
Due to related parties	3,921	62,819	–	–	–	–	66,740
Accrued expenses	–	527,846	–	–	–	–	527,846
Provisions	–	239,398	–	–	–	–	239,398
Accrued financing costs	–	93,657	–	–	–	–	93,657
Customer deposits	–	13,662	–	–	–	–	13,662
Lease liabilities	–	6,143	3,971	2,459	2,018	7,674	22,265
Loans payable****	–	2,117,830	1,754,578	1,785,517	1,940,487	23,511,593	31,110,005
Service concession fee payable	–	267,146	267,146	267,146	267,146	5,810,421	6,879,005
Total	200,238	3,851,814	2,025,695	2,055,122	2,209,651	29,329,688	39,672,208
Liquidity Position (Gap)	₱1,166,464	(₱3,671,319)	(₱2,025,695)	(₱2,055,122)	(₱2,209,651)	(₱29,308,018)	(₱38,103,341)

**Excluding cash on hand amounting to ₱3,630 (in thousands)*
***Presented as "Others" under "Other Noncurrent Assets" in Note 10*
****Excluding statutory payables amounting to ₱32,809 (in thousands)*
*****Includes interest amounting to a total of ₱10,309,545 (in thousands)*

	2020						
	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*	₱794,904	₱–	₱–	₱–	₱–	₱–	₱794,904
Trade and other receivables	28,220	48,174	–	–	–	–	76,394
Due from related parties	1,463	170,663	–	–	–	–	172,126
Refundable deposits**	–	–	–	–	–	29,712	29,712
Total	824,587	218,837	–	–	–	29,712	1,073,136
Financial Liabilities							
Accounts payable and other current liabilities***:							
Accounts payable	52,528	98,212	–	–	–	–	150,740
Due to related parties	14,854	112,492	–	–	–	–	127,346
Accrued expenses	–	466,034	–	–	–	–	466,034
Provisions	–	214,318	–	–	–	–	214,318
Accrued financing costs	–	78,526	–	–	–	–	78,526
Customer deposits	–	14,353	–	–	–	–	14,353
Lease liabilities	–	8,097	4,741	3,369	2,171	8,443	26,821
Loans payable****	–	1,384,954	864,995	954,862	997,722	17,927,681	22,130,214
Service concession fee payable	–	267,146	267,146	267,146	267,146	6,077,568	7,146,152
Total	67,382	2,644,132	1,136,882	1,225,377	1,267,039	24,013,692	30,354,504
Liquidity Position (Gap)	₱757,205	(₱2,425,295)	(₱1,136,882)	(₱1,225,377)	(₱1,267,039)	(₱23,983,980)	(₱29,281,368)

**Excluding cash on hand amounting to ₱6,832 (in thousands)*
***Presented as "Others" under "Other Noncurrent Assets" in Note 10*
****Excluding statutory payables amounting to ₱74,462 (in thousands)*
*****Includes interest amounting to a total of ₱5,651,873 (in thousands)*

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

Outstanding customer receivables are regularly monitored. At December 31, 2021 and 2020, majority of the Company's trade receivables pertain to receivable from advertising revenues which accounted for approximately 55% and 64% of all the trade receivables, respectively.

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Company does not hold collateral as security.

The Company has no concentration of risk.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions (collectively, as counterparties) is managed by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed and updated on an annual basis. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The Company's maximum exposure to credit risk for the cash in banks and short-term placements at December 31, 2021 and 2020 are equivalent to its respective carrying amounts.

The table below shows the maximum exposure to credit risk of the Company's financial assets before and after considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques.

	2021		
	Gross Maximum Exposure (a)	**Fair Value of Credit Enhancement** (b)	**Net Exposure** (c) = (a) - (b)
		(In Thousands)	
Cash and cash equivalents*	**₱1,355,242**	**₱2,500**	**₱1,357,742**
Trade and other receivables - net	**196,178**	**–**	**196,178**
Refundable deposits**	**21,670**	**–**	**21,670**
	₱1,573,090	**₱2,500**	**₱1,575,590**

**Excluding cash on hand amounting to ₱3,630 (in thousands)*
***Presented as "Others" under "Other Noncurrent Assets" in Note 10*

	2020		
	Gross Maximum Exposure (a)	Fair Value of Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
		(In Thousands)	
Cash and cash equivalents*	₱794,904	₱2,500	₱792,404
Trade and other receivables - net	252,743	–	252,743
Refundable deposits**	29,712	–	29,712
	₱1,077,359	₱2,500	₱1,074,859

**Excluding cash on hand amounting to ₱6,832 (in thousands)*
***Presented as "Others" under "Other Noncurrent Assets" in Note 10*

The aging analysis per class of financial assets is as follows:

	2021				
		Past Due but not Impaired			
	Neither Past Due nor Impaired	**Within one year**	**More than one year**	**Impaired**	**Total**
Cash and cash equivalents*	**₱1,355,242**	**₱–**	**₱–**	**₱–**	**₱1,355,242**
Trade and other receivables	**11,461**	**37,208**	**143,286**	**4,223**	**196,178**
Refundable deposits**	**–**	**3,344**	**18,326**	**–**	**21,670**
Total	**1,366,703**	**40,552**	**161,612**	**4,223**	**1,573,090**
Less allowance for ECL	**–**	**–**	**–**	**(4,223)**	**(4,223)**
	₱1,366,703	**₱40,552**	**₱161,612**	**₱–**	**₱1,568,867**

**Excluding cash on hand amounting to ₱3,630 (in thousands)*
***Presented as "Others" under "Other Noncurrent Assets" in Note 10*

	2020				
		Past Due but not Impaired			
	Neither Past Due nor Impaired	Within one year	More than one year	Impaired	Total
Cash and cash equivalents*	₱794,904	₱–	₱–	₱–	₱794,904
Trade and other receivables	29,683	138,599	80,238	4,223	252,743
Refundable deposits**	–	1,043	28,669	–	29,712
Total	824,587	139,642	108,907	4,223	1,077,359
Less allowance for ECL	–	–	–	(4,223)	(4,223)
	₱824,587	₱139,642	₱108,907	₱–	₱1,073,136

**Excluding cash on hand amounting to ₱6,832 (in thousands)*
***Presented as "Others" under "Other Noncurrent Assets" in Note 10*

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.

Write-off policy
The Company writes-off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. Generally, trade receivables are written-off if past due for more than one year and are not collected after exerting due efforts.

The Company also monitors receivables written-off and any recoveries made. The Company has not written-off any trade and other receivables in 2021 and 2020.

Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2021 and 2020, 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, 2021 and 2020:

	December 31, 2021		
	US Dollar	**Euro**	**Philippine peso Equivalent**
		(In Thousands)	
Financial Assets			
Cash and cash equivalents	**$67**	**€19**	**₱4,510**
Financial Liabilities			
Accounts payable and other current liabilities	**93**	**1,299**	**79,448**
Net foreign currency-denominated financial liabilities	**($26)**	**(€1,280)**	**(₱74,938)**

	December 31, 2020		
	US Dollar	Euro	Philippine peso Equivalent
		(In Thousands)	
Financial Assets			
Cash and cash equivalents	$80	€28	₱5,485
Financial Liabilities			
Accounts payable and other current liabilities	6	157	9,502
Net foreign currency-denominated financial liabilities	$74	(€129)	(₱4,017)

The exchange rates used to determine the Philippine peso equivalent are as follows:

	US Dollar	Euro
December 31, 2021	**₱51.00**	**₱57.51**
December 31, 2020	48.02	58.69

Foreign Currency Risk Sensitivity Analysis
The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Euro 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.

	2021		2020	
	Foreign Currency Appreciates (Depreciates)*	**Effect on Income Before Tax** *(In Thousands)*	Foreign Currency Appreciates (Depreciates)*	Effect on Income Before Tax *(In Thousands)*
US Dollar	**₱0.26**	**(₱7)**	₱0.39	₱29
	(0.26)	**7**	(0.39)	(29)
Euro	**1.13**	**(1,446)**	1.39	(179)
	(1.13)	**1,446**	(1.39)	179

**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.

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 ₱8,861.6 million and ₱7,600.0 million as at December 31, 2021 and 2020, respectively.

24. Financial Assets and Financial Liabilities

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, derivative assets and accounts payable and other current liabilities and short-term loan reasonably approximate their fair values because of their short-term nature.

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

	2021		2020	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Loans payable*	**₱19,985,021**	**₱20,788,522**	₱15,718,431	₱18,509,725
Service concession fee payable	**3,439,323**	**3,292,892**	3,492,652	3,802,766
	₱23,424,344	**₱24,081,414**	₱19,211,083	₱22,312,491

**Excludes short-term loan*

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% and 6.8635% for drawdowns related to Cavite Extension and 7.1445% and 6.5445% for drawdowns related to Existing System for the years ended December 31, 2021 and 2020, respectively. For the remaining facility related to the Cavite Extension after the OLSA amendment, estimated fair value is based on the discounted value of future cash flows using higher of applicable benchmark rate plus credit spread or interest rate floor of 7%.

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.

25. Subsequent Events

On January 13, 2022, the Company received the Safety Assessor's certification that speed restrictions in the existing LRT-1 system can be lifted and the speed can be safely raised to sixty (60) kilometers per hour.

On January 28, 2022, the Company submitted the invoices for its twenty-sixth Balancing Payment amounting to ₱79.0 million. This includes claims for fare deficit, EPC escalation costs, delay in common station and other payments in CA, net of concession payments.

On February 10 and 11, 2022, the Company received from its shareholders a total of ₱775.0 million as subscription for 430.6 million shares with par value of ₱1.00 per share and subscription price of ₱1.80 per share.

On March 1 and 3, 2022, the Company partially collected its Business Interruption Claim for Infectious Disease (COVID-19) from its insurers/reinsurers amounting to ₱31.2 million.

26. 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, 2021 are as follows:

a. VAT

As at December 31, 2021, output VAT recognized from rent, train and station advertisements presented as "Non-rail revenues" in the statement of comprehensive income amounted to ₱12,204,976. 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	₱1,921,816
Add current year's domestic purchases of goods and services	1,322,615
Less input VAT applied against Output VAT	(2,412,291)
Balance at the end of the year	₱832,140

b. Withholding Taxes

Details of withholding tax payments for the year ended December 31, 2021 are as follows:

Expanded withholding taxes	₱306,182,706
Tax on compensation	57,857,684
Final withholding taxes	2,911,437
	₱366,951,827

c. Taxes and Licenses

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

Common carrier's tax	₱33,984,821
Documentary stamp tax	19,448,762
Business permits and local taxes	4,026,606
Other taxes	3,235,297
Listing and filing fees	38,288
	₱60,733,774

DST paid on issuance of capital stock presented under equity amounted to ₱4.1 million in 2021.

d. Tax assessments and cases

As of December 31, 2021, the Company has no tax deficiency assessment or tax case under investigation, litigation and/or prosecution.