

NORTH LUZON RAILWAYS CORPORATION
2015 YEAR-END REPORT

TABLE OF CONTENTS

1	Overview.....	2
	1.1 About the Corporation.....	2
2	The NORTHRAIL Project.....	4
	2.1 The NORTHRAIL Project Under President Fidel V. Ramos.....	4
	2.2 The NORTHRAIL Project Under President Joseph Ejercito Estrada.....	5
	2.3 The NORTHRAIL Project Under President Gloria Macapagal-Arroyo.....	5
	2.4 The NORTHRAIL Project Under President Benigno Simeon Aquino III.....	9
3	Important Events and Activities Undertaken in 2015.....	14
4	Right of Way Acquisition.....	19
5	Financial Matters.....	20
	5.1 Financial Report as of December 31, 2015.....	20
	5.2 Sources of Funding for Phase I Sections I and II.....	22
	5.3 Updates on the Loans to Finance Phase I.....	24
6	Plans and Programs.....	28
	ANNEXES.....	37-63

1 OVERVIEW

1.1 About the Corporation

The North Luzon Railways Corporation (NORTHRAIL) is a pre-operating subsidiary of the Bases Conversion and Development Authority (BCDA), whose primary purpose is to develop, construct, operate and manage a railroad system to serve Metro Manila, Central Luzon and Northern Luzon. Presently, NORTHRAIL is an attached agency of the Department of Transportation and Communications (DOTC).

The secondary purpose of NORTHRAIL is to develop, construct, manage, own, lease, sublease and operate establishments and facilities of all kinds along the railroad system for residential, commercial, business, mixed development, institutional, recreational, tourism, amusement and other purposes. Further, the corporation is to develop, construct, manage, own, lease, sublease, operate, secure, maintain the resources and generally carry out all the activities of a railway line, commercial development and/or operate, maintain various infrastructure, power and electrical, facilities, drainage and sewerage, telecommunications and utility systems and common facilities.



NORTHRAIL Project Phases. NORTHRAIL Project was originally envisioned to be implemented in the following phases:

Phase I – The rail line between Caloocan City in Metro Manila and the Clark Freeport Zone (CFZ) in Pampanga;

Phase II - Branch line to Subic Economic Freeport Zone;

Phase III - Extension from Caloocan to Bonifacio Global City and Ninoy Aquino International Airport (NAIA); and

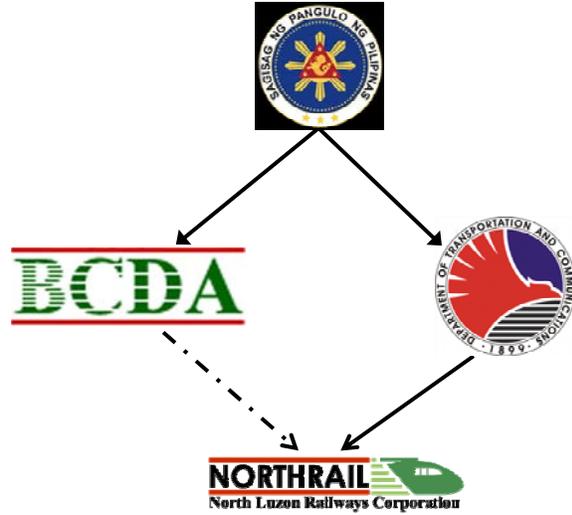
Phase IV - Extension from Pampanga to San Fernando, La Union.

Phase I of the project is divided into two sections. Section I is between Caloocan and Malolos while Section II is between Malolos and Clark Freeport Zone. Phase I will use the Philippine National Railway's Right-of-Way of the Main Line North, which has been abandoned for decades.

Giving life anew to the abandoned railway line to the north, NORTHRAIL will support the further development of the former Clark Air Base, particularly the Clark International Airport (CIA).

Institutional Setup. The Bases Conversion and Development Authority (BCDA), the government agency responsible for the Manila-Clark-Subic economic zone, was the main proponent of the Project with the support of the Philippine National Railways.

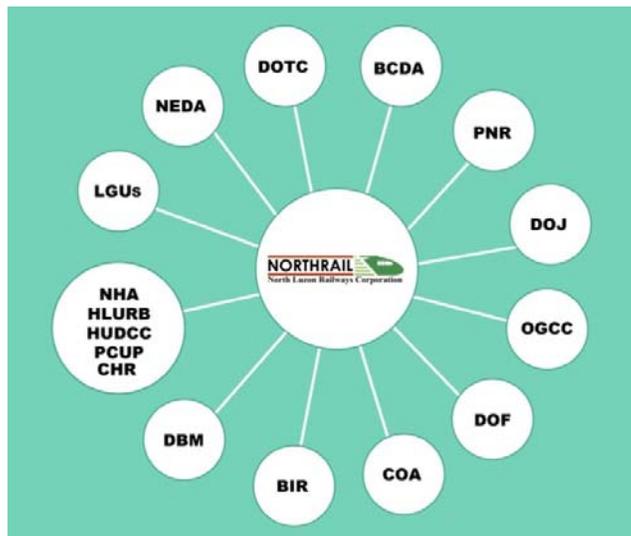
In 1995, the North Luzon Railways Corporation (NORTHRAIL) was formed and organized by the Bases Conversion and Development Authority (BCDA) thru the Securities and Exchange Commission (SEC) as a wholly owned subsidiary to revive the abandoned rail service North of Metro Manila. The Project is also part of the Subic-Clark Alliance for Development (SCAD) Project, which is an integral component of the “W Growth” Corridor concept for North Luzon.



Institutional Setup

While NORTHRAIL is a subsidiary of BCDA, Executive Order No. 232 Series of 2003 directed the DOTC Secretary to exercise oversight functions over NORTHRAIL and the Northrail Project. Subsequently, NORTHRAIL was attached to the Department of Transportation and Communications by virtue of Executive Order no. 859 Series of 2010 issued by former President Gloria Macapagal-Arroyo.

The task of implementing and clearing Phase 1 was made possible with NORTHRAIL’s close coordination with other government agencies such as the National Housing Authority, Housing and Land Use Regulatory Board, Housing and Urban Development Coordinating Council, Presidential Commission for the Urban Poor, Commission on Human Rights, Department of Budget and Management, Bureau of Internal Revenue, Commission on Audit, Department of Finance, Office of the Government Corporate Counsel, Department of Justice, Philippine National Railways, Bases Conversion and Development Authority, Department of Transportation and Communications, National Economic and Development Authority (NEDA) and concerned Local Government Units.



Partners in Development

2 THE NORTHRAIL PROJECT

2.1 THE NORTHRAIL PROJECT UNDER PRESIDENT FIDEL V. RAMOS

- 2.1.1** In September 1994, a Memorandum of Understanding was signed by BCDA and the Spanish Railways Group (SRG), during the visit of then President Fidel V. Ramos to Spain, to jointly develop the rail system in Northern Luzon. Then on March 30, 1995, a group composed of BCDA, the Philippine National Railways (PNR), SRG and Euroma Development Corporation (EUROMA) approved a plan to develop a railway system connecting Fort Bonifacio and Clark Air Base in Pampanga, to be known as the Manila-Clark Rapid Railways System (MCRRS) Project. BCDA started the preconstruction activities on the first phase of the project, Caloocan City in Metro Manila to Malolos City in Bulacan.
- 2.1.2** In order to accelerate the development of the infrastructure and the delivery of basic services at a pace synchronized with the vision of Philippines 2000, a Joint Venture Agreement (JVA) was executed on June 10, 1995 by the BCDA, the Philippine National Railways (PNR), the SRG and the Euroma Development Corporation (EUROMA). This JVA defined the roles of each of the parties in the planning, design, construction, operation, and maintenance of the project. Subsequently, on August 22, 1995, NORTHRAIL was incorporated, with 100% of the shares owned by BCDA.
- 2.1.3** On November 14, 1995, NORTHRAIL with the approval of President Ramos engaged the services of Parsons Brinkerhoff (Asia) Ltd to undertake the alignment study along the PNR ROW. Pending submission and approval of the study, NORTHRAIL entered into an Engineering, Procurement and Construction (EPC) Contract with SRG on February 08, 1996, for the railway line, Caloocan to Clark, for US\$365 million. NORTHRAIL paid an initial advance payment of US\$33 million on March 21, 1996.
- 2.1.4** As regards the JVA, it was amended on February 8, 1996, with D.M. Consunji, Inc. (DMCI) joining as one of the partners. Also, the Metro Pacific Corporation (MPC) and Fort Bonifacio Development Corporation (FBDC) joined the Joint Venture later. MPC subsequently assigned all its rights to FBDC. The FBDC shares were subsequently transferred to BCDA by virtue of the Global Settlement Agreement executed between BCDA and FBDC on April 16, 2003.
- 2.1.5** Early on, the relocation of informal settlers along the PNR ROW was a major problem. On April 25, 1997, NORTHRAIL and the Provincial Government of Bulacan (PGB) signed a Memorandum of Agreement (MOA) for the relocation of more than 10,000 informal settler families along the PNR ROW in Bulacan. Under the said MOA, NORTHRAIL would donate 60 hectares of land to PGB for its development under the Bulacan Housing and Agro-Industrial (BUHAI) Project for the relocation of affected families in the Bulacan portion of the PNR-ROW. Additionally, NORTHRAIL would provide PGB with Php52,500,000.00 financial assistance. On July 27, 1997, NORTHRAIL bought two adjacent parcels of land totaling 60 hectares in Barangay Matictic, Norzagaray, Bulacan for Php42,358,028.00.

2.1.6 The Deed of Donation to PGB for the 60-hectare land, was executed on January 06, 1998. In partnership with a private developer, Alto Project Asia, Inc. (APAI), PGB tried to develop the area. However, nothing substantial was accomplished. Only 10 hectares of the 60 hectares had been subdivided into 813 lots and 63 housing units were constructed. Of the reported more than 10,500 families in the ROW in Bulacan, not even one family was relocated to the area. Instead, other sites were used for the relocation.

2.2 THE NORTHRAIL PROJECT UNDER PRESIDENT JOSEPH EJERCITO ESTRADA

2.2.1 To give impetus to the project, in September 1998, the Office of the President affirmed the flagship status of the NORTHRAIL Project. On November 11, 1999, President Estrada issued EO 176 placing NORTHRAIL, together with other railway and mass transit projects under the overall supervision of DOTC. In year 2000, the SRG has backed out from the Project after its failure to raise the necessary funds. Thereafter, NORTHRAIL and BCDA tried but failed to get funding for the Project through the Obuchi Fund of Japan. In 2001, the Japan Bank for International Cooperation (JBIC) opted to finance the Subic-Clark-Tarlac Expressway (SCTEX) Project instead of the NORTHRAIL Project because of the "absence of railway plan and presence of informal settlers along the alignment."

2.2.2 During the term of President Estrada, the effort to relocate informal settlers continued. On May 11, 2000, NORTHRAIL bought an additional 103 hectares for Php72,349,550.00, also in Barangay Matictic, adjacent to the 60-hectare property that was bought in July 1997. The 103-hectare area was also intended for donation to PGB for relocation site and for development under the BUHAI Project. As part of the commitment of NORTHRAIL, it released to PGB a total of Php26,344,285.00 for an 8.3-kilometer access road from Barangay Bangkal to Matictic, Norzagaray, Bulacan on October 27, 1999 and May 11, 2000. (During the term of President Arroyo another Php73,198,420.00 was released to PGB for the construction of said road. In all, NORTHRAIL had released Php99,542,705.00.) PGB has to liquidate yet Php13,175,043.06 of the amount given by NORTHRAIL. The 103-hectare was not donated to PGB because the development of the initial 60-hectare had failed.

2.3 THE NORTHRAIL PROJECT UNDER PRESIDENT GLORIA MACAPAGAL-ARROYO

2.3.1 NORTHRAIL Project was considered important for development. In July 2002, under the administration of President Gloria Macapagal Arroyo, the NORTHRAIL Project was included in her 8-point agenda for development.

2.3.2 The Chinese started getting involved in the NORTHRAIL Project. On September 14, 2002, NORTHRAIL and China National Machinery and Equipment Corporation (CNMEG) signed a Memorandum of Understanding (MOU) for the conduct of a Feasibility Study to reactivate the railway line between Metro Manila and San Fernando City, La Union.

2.3.3 The Original Contract Phase I, Section I Caloocan City to Malolos, Bulacan was awarded to CNMEG. NORTHRAIL integrated the Feasibility Study prepared by CNMEG and those feasibility studies done much earlier by the Pacific Consultants, Inc., Asia Halcrow Inc., Parsons Brinkerhoff (Asia) Ltd., and SRG. On May 9, 2003,

NORTHRAIL submitted to NEDA-ICC the NORTHRAIL Project seeking approval of Phase I - Section 1, with the financing that was initially offered by CNMEG. NEDA-ICC approved Phase I Section 1 on December 18, 2003, but with the financing from ChinaEXIM Bank, to be secured by DOF and to be relented to NORTHRAIL amounting to US\$400M which is equivalent to 95% of the construction cost. The NEDA Board confirmed the same on December 22, 2003. The following day, December 23, 2003, the NORTHRAIL Board approved the draft Supply Agreement between NORTHRAIL and CNMEG amounting to US\$421.05M. A week later, on December 30, 2003, the Original Contract between NORTHRAIL and CNMEG for the construction of the railway system for Phase I Section I, Caloocan to Malolos was signed. The effectivity of the contract, however, was subject to the compliance of certain conditions, notable of which were the payment of the 5% of the contract price as down payment to CNMEG and that the loan agreement between DOF and ChinaEXIM Bank has become effective. The 2003 Supply Contract between NORTHRAIL and CNMEG became effective only on September 13, 2004 when the loan of DOF from ChinaEXIM Bank became effective. *(Turn to page 44 to 45 for the basic information about the Original Contract)*

2.3.4 The Funding for the Project was secured after the Original Contract was signed.

Before the execution of the Supply contract between NORTHRAIL and CNMEG, a Memorandum of Understanding (MOU) was signed on August 30, 2003 between DOF and ChinaEXIM Bank for the US\$400 million financing to be utilized for the NORTHRAIL Project, Phase I, Section I. (US\$400 million is 95% of the Contract Price amounting to US\$421.05 million). The US\$400 million Buyer Credit Loan Agreement (BCLA) was eventually signed between the DOF and the ChinaEXIM Bank on February 26, 2004, the effectivity of which was subject to certain conditions one of which was the payment of the 5% down payment to CNMEG. NORTHRAIL paid the 5% downpayment on June 1, 2004, out of the proceeds of a US\$22 million syndicated loan arranged by DBP dated May 21, 2004. While the down payment was made in June 2004, it was only on September 13, 2004 when the BCLA with ChinaEXIM Bank became effective. Two weeks later, or on September 29, 2004, CNMEG received the 25% advance payment equivalent to US\$105.26 million. Effectively, CNMEG already got 30% of US\$421.05 or a total of US\$126.32 million by September 2004. It was only on April 5, 2005, however, when a "Partial Notice to Proceed to the Prime Contractor for the Conduct of the Survey, Site Investigation and Preliminaries," was issued to CNMEG.

Incidentally, the relending agreement between NORTHRAIL and DOF on the US\$400 million loan with ChinaEXIM Bank was signed on August 08, 2005.

2.3.5 The Notice to Proceed was issued to CNMEG Three Years after the Signing of the Original Contract.

Between the time of the signing of the contract with CNMEG on December 30, 2003 up to December 2006, nothing much was accomplished by CNMEG. In fact, the "Full Notice to Proceed" was issued to CNMEG only on February 26, 2007, after NORTHRAIL had commissioned the SES-Joint Venture on January 30, 2007, as its Project Management Support Team (PMST). The SES-JV is composed of the Systra S.A., E.S. De Castro, and Systra Philippines.

2.3.6 A Case was Filed for the Annulment of the CNMEG - NORTHRAIL Contract.

On August 25, 2005, a group of lawyers led by then Dean Raul C. Pangalangan of the UP College

of Law, submitted to then Senate President Franklin Drilon, the opinion of the UP Law Center on the legal, economic, financial and technical aspects of the NORTHRAIL-CNMEG and DOF-ChinaEXIM Bank contracts. The UP Law Center recommended the nullification of the NORTHRAIL-CNMEG Contract for lack of competitive bidding, and lack of Certifications of Appropriation and Availability of Funds. As regards the BCLA, it recommended further study.

On February 13, 2006, Atty. Harry Roque filed with the Makati Regional Trial Court (RTC), Branch 145, a case for the annulment of the NORTHRAIL-CNMEG contract for non-compliance with the requirements of the Procurement Law (RA 9184) as it did not pass through public bidding and there were no Certificates of Appropriation and Availability of Funds. SINOMACH filed a Motion for the Dismissal of the case on the grounds that the contract is an Executive Agreement, and as such, was exempted from public bidding and other requirements of RA 9184. Likewise, SINOMACH argued that it is immune from suit as it is representing the Peoples Republic of China. The Makati RTC denied the Motion. An Appeal was filed with the Court of Appeals which upheld the RTC decision. The case was elevated to the Supreme Court which ruled on February 7, 2012 that the contract is not an Executive Agreement and that SINOMACH is not immune from suit. SINOMACH filed a Motion for Reconsideration. On April 24, 2012 the Supreme Court denied SINOMACH's Motion for Reconsideration and ordered that the case be remanded to the RTC, for further proceedings as regards the validity of the contracts subject of Civil Case No. 06-203.

2.3.7 The Construction and Financing Contracts for Phase I, Section II, Malolos, Bulacan to Clark, Pampanga were signed.

While there was a case pending at the Makati RTC, Branch 145, NORTHRAIL proceeded in pursuing another contract with CNMEG for the construction of Phase I Section II, Malolos City in Bulacan to Clark in Pampanga. On November 15, 2006, NORTHRAIL and SINOMACH (formerly CNMEG) signed the contract for the construction of the NORTHRAIL Project Phase I, Section II in the amount of US\$586.91 million. Of this amount, 85.2%, or US\$500 million, will be sourced from a loan from ChinaEXIM Bank under the Memorandum of Understanding (MOU) signed between the DOF and the ChinaEXIM Bank on April 27, 2006. An additional loan of US\$57.56 million (to complete the 95% foreign funded portion of the contract price) was already agreed in principle between DOF and ChinaEXIM Bank. The 5% balance was to be financed by the Philippine Government. On January 15, 2007 the Preferential Buyer's Credit Loan Agreement between ChinaEXIM Bank and DOF for Phase I, Section II amounting to US\$500 million was signed. Notably the effectivity of the construction contract with SINOMACH and the effectivity of the Loan Agreement between DOF and ChinaEXIM Bank are intertwined with the effectivity of one being dependent on the effectivity of the other. Though the contracts were signed, the conditions precedents to their respective effectivity were not complied with. Thus, the contracts were not implemented.

2.3.8 SES-JV was hired to be the Project Management Support Team (PMST).

As earlier mentioned relative to the contract for Phase I Section I (Caloocan to Malolos), NORTHRAIL hired the services of SES-JV on January 30, 2007 as its PMST. Before hiring SES-JV, NORTHRAIL conducted a public bidding. In the Terms of Reference (TOR), the proponents were required to enclose in their respective financial offer a proposal from an international or domestic financial institution (or a combination of both), to

finance the consultant's services. If acceptable to NORTHRAIL, it commits to provide the financial institution named by the winning bidder the guarantee of the Philippine Export Import Credit Agency (PhilEXIM) on the payment of the amount plus other charges that will be drawn to pay the billings of the consultant.

SES-JV won the bidding. Before the financial arrangement could be finalized, NORTHRAIL and SES-JV signed the PMST contract amounting to US\$8.39 million on January 30, 2007. The funders of the SES-JV required the signed contract for the PMST before it would process the financing for the activity. Curiously, OGCC Contract Review No. 44 did not find the said requirement objectionable. Eventually, the financial offer of SES-JV did not materialize because PhilEXIM failed to guarantee the NORTHRAIL loan. As an alternative, NORTHRAIL, with the concurrence/clearance from the OGCC by virtue of the OGCC Opinion No. 143 Series of 2007, was able to secure a year later or on February 14, 2008, a US\$90 million Credit Facility Agreement with DBP as Arranger, DBP Trust Services as Loan Agent and Barclays Bank PLC as the Original Lender. The utilization of the loan covers expenses for Phase I Sections I and II including the payment for the US\$8.39 million PMST Contract, and the Operating Expenses of NORTHRAIL. .

Evidently, NORTHRAIL signed its contract with SES-JV without the required funds. When the current management asked OGCC for an opinion on the validity of the contract with SES-JV, OGCC issued Opinion No. 240, Series of 2011 stating that the contract is void as there were no Certificates of Appropriation and Availability of Funds when the contract was signed.

2.3.9 Problems in the Project Implementation Cropped Up. NORTHRAIL issued the Notice to Proceed (NTP) to SES-JV on January 31, 2007, to be effective 14 days upon receipt of NTP or on February 14, 2007. Subsequently, NORTHRAIL issued the Full Notice to Proceed to CNMEG on February 26, 2007. It would seem that work on the NORTHRAIL Project would finally run smoothly. But the opposite happened. The implementation of the Project was bumpy. To illustrate, the contract with CNMEG specified 0.15g as the acceleration speed of peak value for seismic force (otherwise known as the Peak Ground Acceleration or PGA). Under the National Structure Code of the Philippines, however, the PGA should be 0.4g. Many other problems cropped up and in February 2008, SINOMACH suspended its construction activities. It went back to work only in December 2008 when an amendment to the 2003 Original Contract was already being discussed with a possible increase of contract price to US\$784.41 million for variations in project scope and design, and effects of inflation and foreign exchange rate adjustments.

2.3.10 The Amended Contract for Phase I Section I Caloocan to Malolos was signed. From June 2008, NORTHRAIL worked for the amendment of the Original Contract for Phase 1 Section 1, Malolos Bulacan to Caloocan City. A Revised Feasibility Study, this time for the whole of Phase 1, Caloocan City to Clark Pampanga was submitted to NEDA for approval on November 14, 2008. The NEDA-ICC approved on March 25, 2009 the changes in project cost, scope and specifications and on March 31, 2009, the NEDA Board approved the same together with the provision of **(a)** additional National Government funding support to finance the increase in project cost for the whole Phase 1 and **(b)** the realignment of Barclays Loan Facility to augment the project

financing for Phase I Section II, Malolos to Clark, among others. On September 29, 2009, an Amended Contract for Phase I, Section 1, Caloocan to Malolos, was signed. The Project construction cost increased by US\$172.83 million, (from US\$421.05 to US\$593.88 million) but, the scope of work and deliverables were decreased. Although the length of viaduct increased from 3.5kms. to 7.28kms, some of the other components of the contract decreased. The nineteen (19) train sets in the Original Contract was reduced to three (3) prototype train sets; from five (5) stations to only two (2) stations; the depot to be constructed in the NFA area in Valenzuela City in the Original Contract was removed in the Amended Contract; the narrow gauge (1.067m) for the rail was changed to standard gauge (1.435 m); and the length of the tracks was reduced by 200 meters. Because of these changes, there would not be any operational train system to speak of, between Caloocan and Malolos, even if the project is completely constructed based on the Amended Contract. There is no depot to serve the operation of the railway between Caloocan and Malolos.

2.3.11 Funding Support for the Amended Contract is not sufficient. As mentioned earlier, there was an increase in the construction cost of the NORTHRAIL Project. Pursuant to the NEDA approval of the revised project, the National Government was supposed to provide the funds for the increase in the contract price for Phase 1 Caloocan City to Clark Pampanga. On June 15, 2009, President Gloria Macapagal-Arroyo issued a directive to then DBM Secretary Rolando G. Andaya for the immediate release of the required financing for the Project. However, when the Amended Contract was signed on September 29, 2009, no funds had been released yet by DBM to NORTHRAIL.

Out of the required US\$147 million government participation for the Project Phase I Section I, DBM released only P100 million on January 18, 2010. The Amended Contract was signed on September 29, 2009 with insufficient funds.

2.3.12 NORTHRAIL was attached to DOTC. On February 08, 2010, President Gloria Macapagal-Arroyo issued EO 859 making NORTHRAIL an agency attached to the DOTC. Prior to this, DOTC had only oversight functions over NORTHRAIL, per EO 232 dated November 11, 2003.

2.4 THE NORTHRAIL PROJECT UNDER PRESIDENT BENIGNO SIMEON AQUINO III

2.4.1 Under the administration of President Aquino, a review of the NORTHRAIL Project was conducted starting August 2010 during the tenure of former DOTC Secretary Jose P. de Jesus. All contracts entered into by NORTHRAIL and all billings of SINOMACH and SES-JV were required by the DOTC Task Force to be submitted to them for evaluation. SINOMACH reacted by slowing down on its activities pending the result of the DOTC review. As regards SES-JV, it appeared it welcomed the review as DOTC designated it as the consultant of the DOTC Task Force. This designation of SES-JV, however, was questioned by NORTHRAIL in 2011 because of the conflict of interest issue. SES-JV was also a consultant of the Project it was assigned to evaluate.

The DOTC Task Force has not issued to NORTHRAIL its evaluation report. However, NORTHRAIL got copies of SES-JV's report to the DOTC Task Force.

- 2.4.2 DBM cut the funding for the NORTHRAIL Project.** On November 12, 2010, DBM stated that the new Philippine administration under President Aquino, will not fund the NORTHRAIL Project. DBM suggested to DOTC to consider tapping supplemental ODA loans for the additional funding requirements.
- 2.4.3 A New Management Team was appointed.** In December 2010, four new Directors of the eleven-seat (11) Board joined NORTHRAIL. One of the four new Directors was elected President. In January 2011, another four Directors were elected to the Board, one of whom was named the new Chairman. Early on, the Board conducted a review of the Original and Amended Contracts and the accomplishments of SINOMACH.
- 2.4.4 Two months suspension of the Contract was implemented.** The review of the SINOMACH contracts disclosed that they are onerous, disadvantageous to the Filipino people, highly questionable and should not be pursued. The Board wanted to terminate the contract. However, at that time in late February and early March 2011, DOTC was avoiding to antagonize the Chinese and cause a diplomatic row. The contracts could not possibly be terminated. The NORTHRAIL Board decided to meet the Chinese counterparts to discuss the issues and find diplomatic solution. There was a meeting on March 22, 2011 where it was agreed to suspend the implementation of the contract for two months starting March 28, 2011. During the suspension, a Technical Working Group (TWG) composed of representatives from NORTHRAIL and SINOMACH would meet to find solutions to the problems. There was a two-month suspension but the TWG was never formed because SINOMACH did not send its representatives. The problems persisted.
- 2.4.5 NORTHRAIL Reorganized.** With the suspension of the implementation of the contract, NORTHRAIL laid-off 70 personnel out of the total 168 people on May 1, 2011. Eventually, six months later, on November 1, 2011, the services of 98 personnel were terminated. In November 2011, only 70 personnel were left with the company. As of December 31, 2013 there were only 59 personnel with NORTHRAIL.
- 2.4.6 NORTHRAIL recommended the Termination of the Contract.** Meanwhile, the NORTHRAIL Board decided during its May 05, 2011 Board meeting to recommend to then DOTC Secretary Jose P. De Jesus the termination of the contract with SINOMACH. NORTHRAIL needs the written consent of the government to terminate the SINOMACH contract as a requirement under the US\$400M BCLA between DOF and ChinaEXIM Bank and under the relending agreement between DOF and NORTHRAIL. On May 27, 2011, the Board sent a letter to Secretary De Jesus recommending the termination of the contract. Unfortunately, this letter was not acted upon because Secretary De Jesus submitted his resignation as DOTC Secretary before the end of May 2011. The resignation would be effective on June 30, 2011.
- 2.4.7 The Original Contract is void, so is the Amended Contract.** Prior to these developments, NORTHRAIL had sought the opinions of Undersecretary Aristotle B. Batuhan, DOTC Undersecretary for Legal, and of the OGCC on the validity of the Amended Contract with SINOMACH. On June 13, 2011, Undersecretary Batuhan wrote NORTHRAIL that the Amended Contract is void for lack of public bidding and Certificates of Appropriation and Availability of Funds, as required under Sections 46 and 47, Chapter 8, Subtitle B, Title I, Book V of Executive Order No. 292 (Administrative

Code of 1987). On July 14, 2011, the OGCC rendered its opinion that the two contracts with SINOMACH, the Original and Amended, are both void *ab initio* in view of the following: (i) The BCLA between the ChinaEXIM Bank and DOF is not an Executive Agreement and the infirmities of the BCLA have negative effects on the contracts with SINOMACH; (ii) No public bidding of the construction contract was conducted as required under RA 9184; (iii) The designation of SINOMACH violated Section II, RA 8182 (The ODA Act of 1996); and (iv) No certifications as to the existence of Appropriation and Availability of Funds as required under the 1987 Administrative Code.

2.4.8 NORTHRAIL under Secretary Manuel A. Roxas. When Secretary Roxas assumed office as DOTC Secretary on July 04, 2011, winding up of business relations with the Chinese apparently was not the direction. In fact, the Philippine-China foreign relations was being revived, proof of which was a scheduled official visit of President Aquino, with Secretary Roxas, to China in late August to September 03, 2011.

While the news of the Official Visit of President Aquino to China was in the air in July and August 2011, SINOMACH proposed to NORTHRAIL the extension of the suspension of the project implementation. The extension agreement was signed on August 08, 2011.

When Secretary Roxas came back from the official visit to China, he announced that the NORTHRAIL Project would be "reconfigured," meaning an Airport Express Rail connecting NAIA to Manila and Clark in Pampanga would be pursued instead. Funding support could still come from China and with Chinese contractor to undertake the reconfigured project. It was also announced that the issues of NORTHRAIL with SINOMACH would be tackled at the Ministerial level by Secretary Roxas and his Chinese counterpart.

2.4.9 A Last Meeting with SINOMACH was held to End the Project Diplomatically. After six months from September 2011, it appeared that there was no progress in the diplomatic effort to resolve the problems about the contract. Thus, in February 2012, Secretary Roxas directed NORTHRAIL to meet with the SINOMACH officials to discuss the problems again. In the meeting with SINOMACH on March 23, 2012, NORTHRAIL brought up the issue of disengagement, of mutually agreeing not to continue with the implementation of the project. To assist the DOTC Secretary and his Chinese counterpart in their discussion of disengagement, NORTHRAIL requested SINOMACH to submit their claims. NORTHRAIL would evaluate the claims before the meeting of the Secretary and his Chinese counterpart. However, SINOMACH would not want to submit their claims. They insisted that the contracts are valid and that if NORTHRAIL does not want to pursue the project, NORTHRAIL has to terminate the contracts. On the other hand, NORTHRAIL could not terminate the contracts, which have been considered void by both DOTC and OGCC because a void contract cannot be terminated. The meeting ended without resolving anything.

2.4.10 NORTHRAIL met with President Aquino for Policy Direction. In June 2012, NORTHRAIL, together with Secretary Roxas and Justice Raoul Creencia, GCC-OGCC, got the approval of President Aquino to notify SINOMACH that NORTHRAIL can no longer proceed with the implementation of the Project due to some serious legal

consideration and problems in the contract. The letter was sent to SINOMACH on July 06, 2012.

2.4.11 SINOMACH issued the Notice of Termination of Contracts to NORTHRAIL. In reply to NORTHRAIL's July 06, 2012 letter, SINOMACH gave NORTHRAIL a Notice of Termination of the Original and Amended Contracts on August 17, 2012. This was soon followed on August 22, 2012, by SINOMACH's Claim Report demanding payment of US\$84.315 million on top of the US\$106 million unrecouped advance and down payments. As discussed earlier in paragraph 2.3.4, NORTHRAIL paid SINOMACH a total of US\$126.32M for the advance and downpayment for the original contract. NORTHRAIL paid an additional US\$8.64M downpayment on the US\$172.83M price increase of the Original to Amended Contract. In all NORTHRAIL paid SINOMACH advance and downpayment for a total amount of US\$135M. Every billing of SINOMACH was deducted 30% as recoupment of the advance and downpayments. When the contracts were terminated, NORTHRAIL had so far recouped only US\$29M; thus, SINOMACH has still US\$106M out of the US\$135M paid to it.

2.4.12 Subsequently, on September 27, 2012 NORTHRAIL received SINOMACH's Notice of Arbitration. This set the arbitration in motion. As provided under the contracts, the arbitration will be at the Hong Kong International Arbitration Center (HKIAC) following the rules of the United Nations Commission on International Trade Law (UNCITRAL). On 11 October 2012, SINO MACH named its party-appointed arbitrator, Mr. David Bateson, a Hong Kong-based arbitrator

2.4.13 China EximBank called on the US\$400M loan by DOF. On March 16, 2012 China EximBank notified DOF that if the issues between NORTHRAIL and SINOMACH will not be resolved within 60 business days, it would terminate the BCLA. On July 06, 2012, China EximBank advised DOF that it is cancelling the undisbursed balance of the US\$400M loan and demanded immediate payment of US\$ 180.79M drawn from the US\$400M loan. DOF was able to negotiate with China EximBank to pay the US\$180.79M principal plus interests in four equal installments in two years starting on September 21, 2012.

2.4.14 Motion for a TRO for the Payment of the US\$180.79M to the China EximBank by DOF. On January 14, 2013, Atty. Harry Roque filed a motion with the Makati RTC Branch 145 for a TRO on DOF to proceed with the payment of US\$180.79M plus interest to China EximBank. As of December 31, 2013, the motion has not yet been acted upon by the Makati RTC. DOF has paid China EximBank the full amount of US\$180.79 plus interest on January 21, 2014.

2.4.15 Hiring of Counsel for the Arbitration in Hong Kong. On 04 October 2012, the new DOTC Secretary Joseph Emilio Aguinaldo Abaya coordinated with the DBM for the release of the SARO in the amount of Php221.27 million as the budget for the arbitration expenses. This paved the way for NORTHRAIL Management, under the guidance and assistance of the OGCC and in accordance with Republic Act 9184 to recommend to the NORTHRAIL Board the hiring of Atty. Eduardo R. Ceniza, with two lawyers as his staff, as NORTHRAIL's counsel for the arbitration in Hong Kong. The NORTHRAIL Board approved this on October 18, 2012 subject to the concurrence of both OGCC and COA as required. On October 19, 2012, NORTHRAIL obtained the OGCC's conformity with the hiring of Atty. Ceniza. On December 10, 2012, NORTHRAIL received the COA's concurrence with the OGCC conformity to hire Atty. Ceniza, but with some comments. Thus, the corresponding revisions on the contract

were made to conform to COA's comments. Thereafter, the Individual Consultancy Contract was signed by Atty. Ceniza and NORTHRAIL on December 13, 2012. The agreement is effective on October 19, 2012. Since October 22, 2012, Atty. Ceniza and his lawyers have been engaged in the arbitration with SINOMACH.

2.4.16 Creation of the Arbitral Tribunal. Subsequently, on November 07, 2012, under the direct guidance and supervision of the OGCC and with the assistance of Atty. Ceniza, NORTHRAIL appointed Mr. Vinayak Pradhan as NORTHRAIL's arbitrator. He is a Malaysia-based, London-educated and well respected arbitrator not only in Hong Kong but in other international arbitration venues. The composition of the Arbitral Tribunal was completed with the designation of Dr. Colin Y.C. Ong as Chairman. Coordination with the Tribunal was undertaken by Justice Creencia and Atty. Ceniza on the Terms of Engagement of the Arbitral Tribunal, Procedural Directions, Timetable and other details relative to the Arbitration process.

2.4.17 Agenda of Issues and Directions Issued by the Arbitral Tribunal. On 26 February 2013, NORTHRAIL, through the OGCC, received the "Agenda of Issues and Directions" from the Arbitral Tribunal. As directed by the Arbitral Tribunal, SINOMACH submitted its Statement of Claims on June 07, 2013. NORTHRAIL's Legal Defense was supposed to be due on 7 October 2013 but the Arbitration Team had to request for two weeks extension, or until 21 October 2013, since the draft Statement of Defence and Counterclaims had to be submitted to various offices, *i.e.*, the Office of the President, DOTC and the Department of Justice, for comments. The Arbitral Tribunal granted the request for extension. The draft was finalized after the comments of the said offices were received and was sent to the Arbitral Tribunal via courier three days in advance of the deadline, or on 18 October 2013.

2.4.18 On 30 April 2014 NORTHRAIL served and filed an *Application for Bifurcation of Arbitral Proceedings* asking the tribunal to bifurcate the proceeding into a liability phase and, thereafter, damages phase to determine quantum. NORTHRAIL contends that the bifurcation is justified on compelling grounds of economy and orderly procedure considering that the issues involved in the substantive defenses on liability are complex. Hearing on NORTHRAIL's application for Bifurcation took place in Hong Kong (HKIAC) on 18 August 2014. After hearing the Parties' arguments, the Tribunal ruled that it is indeed necessary to first determine the validity or nullity of the subject contracts as a Preliminary Issue.

2.4.19 On 30 September 2014, the Tribunal issued Procedural Order No. 3 pertaining to the Timetable leading up to the Preliminary Issues Hearing on 9 March 2015. Pursuant to the Timetable, the Parties submitted their respective requests for production of Documents on 13 October 2014. On same date SINOMACH submitted a Request for Stipulation of Facts. After a series of exchanges of e-mails and a meeting held at the Manila Peninsula on 7 November 2014 between the Parties' counsels, they were able to finalize the Statement of Agreed Facts. Same was submitted to the Tribunal on 11 November 2014. On 24 November 2014, still pursuant to the Tribunal's Timetable, the parties have submitted a list of their intended witnesses for the Preliminary Issues Hearing. The respective sworn statements of the witnesses were submitted to the Tribunal on 15 December 2014.

2.4.20 NORTHRAIL Board of Directors. The NORTHRAIL Board with eleven (11) seats has never been fully filled up since 2011. At present, only six (6) Directors are in the Board including ex-officio Co-chairman, DOTC Undersecretary Rene K. Limcaoco and ex-officio Board member, the representative of the BCDA President and CEO, Vice Admiral Ferdinand S. Golez, pursuant to Section 16, RA 7227.

3 IMPORTANT EVENTS and ACTIVITIES UNDERTAKEN IN 2015

The following were the important events that happened and activities undertaken by NORTHRAIL:

3.1 Appointment of New Members of the NORTHRAIL Board

During the year,, four members of the NORTHRAIL Board resigned and two were appointed. Since October 2012, there is no Chairman that has been appointed to the NORTHRAIL Board.

The present NORTHRAIL Board is composed of the following:

1. DOTC Undersecretary Rene K. Limcaoco – *Ex-Officio Co-Chairman*
2. Mr. Conrado K. Tolentino - *President*
3. Ms. Levilinda C. Angeles
4. Mr. Romeo D. Roderos
5. Atty. Serafin U. Salvador, Jr.
6. Vice Admiral Ferdinand S. Golez – *representative of the BCDA President and CEO*, pursuant to Section 16, RA 7227.

3.2 Securing the PNR Right of Way of the Phase 1

The PNR right-of-way (ROW) in Section I Phase 1, Caloocan to Malolos is cleared of informal settlers.. PPortions of Section II of the PNR ROW has also been cleared of informal settlers.. NORTHRAIL secured these areas. The security guards are tasked to:

- a. Prevent the return of informal settlers and the building of illegal structures;
- b. Secure, protect and guard NORTHRAIL employees, authorized personnel and visitors from assault, harassment, threat; and
- c. Secure, protect and guard properties of NORTHRAIL from theft, robbery, arson or other offenses and crimes resulting in the destruction or damage to property.

The new Contract for Security Service between NORTHRAIL and its security service provider, Variance Security Agency Corporation (VSAC), commenced

on 01 April 2015 and will end on March 31, 2016. On the new contract, a total of 80 security guards were deployed to secure the NORTHRAIL Office, NFA Compound, and the PNR ROW from Caloocan City to Angeles City, Pampanga.

However, on 16 August 2015, the deployment was reduced by 27 guards since the BCDA's Clark Rail Transport System (CRTS) Project will not utilize PNR ROW from Apalit to Angeles City, Pampanga. The said ROW portion was turned over to PNR.

On 04 September 2015, security on the PNR ROW from Samson Road, Caloocan City to Karuhatan, Valenzuela City was turned over to DPWH in connection with the construction of the NLEX Harbor Link Project Segment 10.

Due to the closing of the SINOMACH site office at NFA Compound, Valenzuela City covering around 5 hectares, additional 3 guards (on 8-hour shift) were deployed to secure the said area effective 25 September 2015.

As of 31 December 2015, there are 56 security guards deployed to secure the NORTHRAIL Office, NFA Compound, and the PNR ROW from Valenzuela City to Calumpit, Bulacan.

3.3 Assistance to the JICA Study Team in the conduct of Feasibility Study

In March 2013, the Final Report, titled "Study on Railway Strategy for Clark-Metro Manila for the Greater Capital Region" was completed. It recommended the implementation of an Airport Express Railway project connecting Clark International Airport (CIA) and the Ninoy Aquino International Airport (NAIA) in Manila, utilizing the existing PNR right-of-way.

Immediately, after the submission of the Final Report of the Pre-Feasibility Study, the full Feasibility Study (FS) was conducted by JICA Study Team. As earlier mentioned, NORTHRAIL personnel composed the local counterpart study team. They provided the necessary documents and input to the JICA Study Team which in turn expedited the conduct of the study.

In the middle of 2013, there was a change in the focus of the FS. Instead of an AER between Metro Manila and Clark, the FS was on the North-South Commuter Railway (NSCR) between Malolos City and Calamba in Laguna. On December 17, 2013, DOTC required NORTHRAIL to evaluate the FS for the NSCR Project that was prepared by JICA.

NORTHRAIL engineers conducted an in-depth evaluation of the existing Feasibility Study for NSCR, Malolos-Calamba section. The evaluation report was subsequently transmitted to DOTC and to JICA Study Team for possible resolution and clarifications.

DOTC submitted the project proposal for the NSCR to NEDA. On February 16, 2015, NEDA approved the NSCR Project.

3.4 Assistance to the DOTC on preliminary activities for the NSCR Project

Following the approval of the NSCR Project by NEDA in February 2015, the DOTC has issued **Special Order (SO) No. 2015-169** dated 04 May 2015, formally designating NORTHRAIL as the Pre-Operating Implementing Agency for the NSCR Project Phase I (Malolos to Tutuban). Said SO mandates NORTHRAIL to provide assistance to the DOTC in the performance of pre-operating activities, such as, but not limited to:

- (1) acquiring right-of-way;
- (2) resettlement of project affected families;
- (3) securing necessary approvals from the relevant Regional Development Councils;
- (4) securing necessary environmental permits;
- (5) handling pre-construction deliverables such as detailed engineering designs, site preparatory works and utilities diversion;
- (6) handling construction management; and
- (7) handling such other services that may be needed from time to time by the DOTC.

Furthermore, NORTHRAIL shall be responsible for the day-to-day activities which are necessary for the implementation of the Project. Moreover, it shall be duty-bound to monitor the progress of the Project and ensure compliance with the project requirements and timelines

All other aspects of the Project, including securing funding in case DOTC applies for Official Development Assistance (ODA) and procurement of the detailed engineering consultancy, the construction contractor and rolling stock shall be handled by DOTC with the assistance of NORTHRAIL.

Pursuant to the said Special Order, DOTC and NORTHRAIL coordinated in laying down the groundwork necessary for both agencies to effectively carry out their roles in the implementation of the NSCR Project. Foremost among the items that were discussed in 2015 is the composition of the Project Management Office. A Table of Organization (TO) for the NSCR PMO was drafted and the essential positions were identified. The TO is still for approval by the DOTC. Nevertheless, the resulting draft TO was used in estimating the 2016 budget of NORTHRAIL.

NORTHRAIL engineers have also provided technical assistance to DOTC in the design interfacing of the NSCR and the MNTC's Segment 10 Project. The familiarity of the NORTHRAIL engineers with the right-of-way (ROW) features of the alignment, as well as knowledge of the structural requirements of the NSCR were invaluable in establishing the proper center line, and the required vertical and horizontal clearances between the structures of both projects so that they could be constructed on the same Caloocan to Valenzuela corridor. In addition, NORTHRAIL's cooperation made it possible for the MNTC to finally proceed with their mobilization, after

a joint inventory and evaluation of the existing NORTHRAIL structures (e.g. trackworks, embankment, drainages, box culvert) that will be affected by the Segment 10 construction.

Also in 2015, DOTC has informed NORTHRAIL about the Transit Oriented Development (TOD). TOD involves the integration of NSCR Tutuban Terminal with other projects such as the proposed LRTA Line 2 extension and North-South Railway Project (NSRP), developing the area into a multimodal transportation hub. It was moreover disclosed that the NSCR Project shall be breaking ground in the said area.

Other notable developments in the NSCR Project were the signing of the Minutes of Discussion between DOTC and JICA, in July 2015, and the issuance of draft Records of Discussions on the Detailed Engineering Design, as well as the Terms of Reference (TOR) for the Detailed Design Study, and Consulting Services, in August 2015. NORTHRAIL was not involved by DOTC in these activities.

In August 2015, the Philippine Government received a pledge for a JPY 240 billion loan (or US\$ 2 billion) ODA package for the North-South Commuter Railway (NSCR) Project from the Japanese Government. On 27 November 2015, NORTHRAIL learned that the two Governments formally signed the loan agreement for the NSCR Project. It is expected that this milestone would spur further activities in 2016 for NORTHRAIL if DOTC will utilize it as PMU.

On 07 December 2015, DOTC issued **Special Order (SO) No. 2015-530**, a supplemental SO to SO 2015-169. It tasked NORTHRAIL to:

- (1) Continue to provide security over its assets, including but not limited to the Right-of-Way (ROW), to prevent entry of informal settlers and any dissipation of government property;
- (2) Continue to lease the NFA Property in Valenzuela until the Sublease Agreement between it and the DOTC is executed; and
- (3) Proceed with the acquisition of required additional ROW

3.5 Updating of Feasibility Study for NORTHRAIL Project Section 2 (Malolos-Clark Section)

One issue raised by the Regional Development Council 3 (RDC-3) in the evaluation of NSCR Project (Malolos-Tutuban Section) is the link of the line connecting NSCR to the Clark Airport and the rest of Central Luzon. DOTC requested BCDA to initiate a feasibility study to address such issue. BCDA agreed not only in pursuing the conduct of feasibility study for this section but also for the eventual implementation of the project, now dubbed as the Clark Rail Transit System (CRTS). After all, the project (CRTS) will greatly enhance

the economic viability of the Clark Green City which the BCDA is currently developing.

For its part, NORTHRAIL initiated during the last part of 2014 the updating of the feasibility study of section 2 of NORTHRAIL Project which covers Malolos-Clark Section, as a component of CRTS. The study covered an alignment study from Malolos to Clark, extending up to Tarlac City, with links to Clark Airport and Clark Green City. The study hopes to address the issue of a reliable mass transit link of NSCR to the rest of Region III and the transport need of Clark Green City.

On 02 March 2015, NORTHRAIL presented to BCDA, the alignment study for the CRTS Project which would traverse the City of Malolos, Bulacan, Clark International Airport, the Clark Green City (CGC), and Tarlac City, Tarlac. The routes considered in the study are the PNR-ROW and another alignment west of the PNR-ROW.

NORTHRAIL recommended the new alignment west of the PNR-ROW for the proposed Clark Rail Transit System (CRTS) for the following reasons:

- a. No relocation of informal settlers is required;
- b. Right-of-Way acquisition is cheaper;
- c. Lower in design and construction cost; and
- d. Larger areas for stations have more potential for real estate development.

However, BCDA suggested to consider another alignment that would traverse along the east side of the PNR-ROW where there are fewer residential lots, thus with lesser ROW acquisition cost. Furthermore, BCDA requested NORTHRAIL to consider the following in the alignment study;

- a. A multi-modal terminal;
- b. The proposed lines should pass the Clark International Airport and the Clark Green City. The line going further to Tarlac could be developed later on;
- c. Provide different possible alignments in the study; and
- d. The SCTEX ROW could be used as an alternative route.

On 28 September 2015, NORTHRAIL proposed a Memorandum of Agreement (MOA) to BCDA for the following activities on the CRTS Project;

- a. Preparation of an Alignment Study for a railway system that would connect the North-South Commuter Railway (NSCR) Project at Malolos, Bulacan, the Clark International Airport (CIA), the Clark Green City (CGC), and the Tarlac City, Tarlac;
- b. Conduct of Engineering Survey particularly topographic survey, as-built survey on existing structures, and hydrographic survey along approximately

93 kms. railway alignment covering 560 hectares from Malolos, Bulacan up to Tarlac City, Tarlac; and

- c. Determination of affected lots and the size or area that would be required for right-of-way acquisition.

BCDA has not commented on this MOA.

3.6 Arbitration Activities

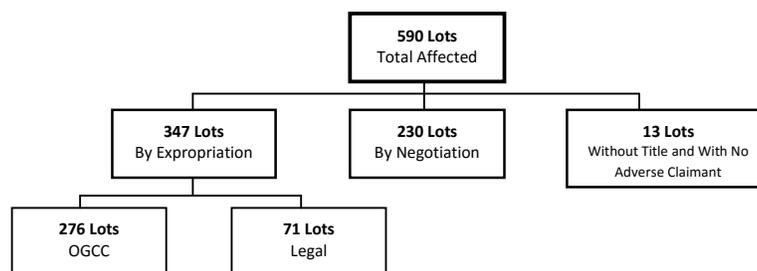
Following the Tribunal’s favorable ruling on NORTHRAIL’s application for Bifurcation of Arbitral Proceedings, the Preliminary Issue was heard on 9-13 March 2015. NORTHRAIL is waiting for the Tribunals decision on whether the contracts with SINOMACH are valid or void.

4 RIGHT OF WAY ACQUISITION

The additional right-of-way is based on SINOMACH’s intended design for the NORTHRAIL Project under the terminated contract. The embankment design of SINOMACH covering 23 kilometers of the 31.9 kilometers Caloocan-Malolos line (Section 1, Phase 1 of the NORTHRAIL Project) called for the acquisition of land in addition to the already existing PNR Right of Way (ROW). The total area of this additional land is **9.1 hectares**, comprising of **590 lots**.

The actions taken on the 590 lots are shown in the diagram below. Of said number of lots, **347** lots are under expropriation through the Courts, **230** lots are subject of out-of-the-court negotiation and **13** lots are with no adverse claimants.

4.1 Status of ROW Acquisition



Total Affected Lots and Processing of Cases

From January 2015 up to the end of December 2015, eleven (11) Transfer Certificates of Title (or TCTs) in NORTHRAIL’s name had been released by various Register of Deeds bringing the number of TCTs in NORTHRAIL’s name to **226** by end of **December 2015**, while **53** lots were still under process for titling.

Titled Lots for Phase I Section 1

Segment	2012	2013	2014	2015
Valenzuela	32	33	36	36
Meycauayan	36	41	43	43
Marilao	15	15	17	19
Bocaue	41	57	68	74
Balagtas	6	10	15	15
Guiguinto	14	16	20	22
Malolos	14	15	16	17
Total	158	187	215	226

5 FINANCIAL MATTERS

5.1 Financial Report as of 31 December 2015

5.1.1 The Company Statement of Financial Position is comprised of the following:

Current Assets	Php	9,663,422,561
Non-Current Assets		11,744,420,640
Total Assets	Php	21,407,843,201
Current Liabilities	Php	448,604,279
Non-Current Liabilities		21,481,649,566
Total Liabilities	Php	21,930,253,845
Capital Deficiency	Php	(522,410,644)
Total Liabilities, Net of Capital Deficiency	Php	21,407,843,201

- See Annex A – 1, Statement Of Financial Position, Page 38

5.1.2 Changes in the Financial Position mainly pertain to the following:

A. Assets

1. Increase in Cash and Cash Equivalents as a result of the collection of advances to National Housing Authority.
2. Receipt of interest income from short term placements and investments in Government Securities

3. Increase in Project Development Costs for ROW expenses and security services
4. Effects of Foreign Exchange Rate Adjustments

B. Liabilities

1. Payment and accrual of interest and financing charges on loans and BTr advances and billings of suppliers and service providers.
2. Increase of advances from the National Treasury for the servicing of the Barclays loans, which also caused the reduction in the Foreign Loans Payable
3. Effects of Foreign Exchange Rate Adjustments

C. Capital Deficiency

Increase in Capital Deficiency due to the net effects of foreign currency adjustments and net pre-operating expense for the year

5.1.3 Results of Operation for the year ending 31 December 2015

NORTHRAIL still has no commercial operations. Inflow of funds is only generated from investment of existing funds. Following are the highlights of the results of pre-operating activities for the year 2015:

5.1.3.1 Interest Income from investment of funds

For the year 2015, NORTHRAIL generated a total of Php46.86 million interest income from the investment of funds mainly in time deposits. The earnings for the year 2015 is 35.59% lower than the earnings during for the year 2014 of Php72.75 million mainly due to the gain on sale of Government Securities in 2014

Interest Income From Investments (Php million)

	2015	2014	Increase/(Decrease)	
			Amount	%
Interest income from Time Deposits – Net of Tax	Php38.97	Php31.43	7.54	23.96%
Interest Income from Government Securities – Net of Tax	Php7.89	Php16.14	(8.25)	(51.10%)
Gain on Sale of Investment on Gov't Securities – Net of Tax	Php0.00	Php25.17	(25.17)	(100.00%)
Total	Php46.86	Php72.74	(25.88)	(35.59%)

It is worth mentioning that the earnings of Php46.86 million is 8.64% more than the total operating expense (before EBITDA and Arbitration) of Php43.13 million that NORTHRAIL incurred for the year 2015. The Php19.76 million spent for arbitration is not included in the evaluation

because it is covered by a separate funding source that was provided by the DBM.

5.1.3.2 Operating Expenses Excluding Arbitration Expenses

For the year 2015, NORTHRAIL spent Php275.27 million for operations and debt servicing. This is 19.80% lower than the expenses in 2014 of Php343.10 million. The decrease was mainly due to the reduction in interest expenses as a result of the full repayment of the US\$180 million drawn funds from ChinaEXIM Bank. The Pre-operating Expenses for 2015 and 2014 are presented in *Annex A-2 in page 39*.

5.1.4 Statement of Cash Flows for the year ending 31 December 2015

From the balance of Php2,855,516,019 as of 31 December 2014, Cash and Cash equivalents have increased to Php3,072,666,461 for the year ending 31 December 2015. The increase resulted from the net effect of the following inflows and outflows of funds:

- i. Collection of Receivables;
- ii. Receipt of interest on short term placements and investments in Government Securities (GS);
- iii. Effect of foreign exchange adjustments; and
- iv. Payment for operating expenses, project development costs, and arbitration expenses.

- See *Annex A-3 Statement of Cash Flows, Page 40*

5.1.5 Statement of Changes in Equity as of 31 December 2015

The additional equity contributions from the BCDA is currently being recorded as Deposits for Future Subscription and classified under Non-Current Liabilities.

As of 31 December 2015, the Capital Deficiency increased by Php179.20 million. The increase is attributed to the decrease in the Retained Earnings as a net result of pre-operating expense and foreign currency adjustments.

- See *Annex A-4, Statement of Changes in Stockholder's Equity, Page 41*

5.2 Sources of Funding for Phase I Sections I and II

5.2.1 Phase I of the NORTHRAIL Project is from Caloocan to Clark. This is divided into Section I, Caloocan to Malolos and Section II, Malolos to Clark. In 2003, NEDA approved the construction of Section I with a total

Project Cost of US\$503.04 million. The construction cost of US\$421.05 million would be funded by the US\$400 million DOF loan from China-EXIM Bank re-lent to NORTHRAIL. The balance of US\$21.05 would be taken from a syndicated loan arranged with the DBP on May 21, 2004 amounting to US\$22 million. The balance of US\$81.99 million for the total project cost of US\$503.04 million was expected to be sourced from commercial borrowings.

- *See Annex B, Original Project Cost and Financing Plan Section I, 2003, Page 60*

5.2.2 In 2006, NORTHRAIL submitted a proposal to NEDA for the approval of the whole Phase I of the NORTHRAIL Project. In the NEDA approval, project cost of Section I was reduced from US\$503.04 million to US\$452.32 million by removing the US\$50.72 million for taxes in the 2003 project cost. Construction cost of US\$421.05 million was maintained. For Section II, the project cost was US\$673.67 million with construction cost of US\$586.91 million and other costs at US\$86.76 million.

The total project cost for Phase I was US\$1.126 billion. NORTHRAIL intended to finance this by borrowing an additional US\$557.56 million from China-EXIM Bank, (US\$500million will be taken from the US\$500 million financing offered by ChinaEXIM Bank under the MOU executed between the DOF and ChinaEXIM Bank on 27 April 2006 and a supplemental loan of US\$57.56 million also from the ChinaEXIM Bank) and US\$147.38 million from commercial banks. These amounts would be in addition to the US\$400 million from China EXIM Bank and the US\$21.05 million loan from DBP which were secured in 2004.

The NEDA approval of 2006 for the NORTHRAIL Project Phase I was used as a basis in signing the NORTHRAIL-SINOMACH construction contract for Section II amounting to US\$586.91 million on November 15, 2006. Later, the DOF-China EXIM Bank Preferential Buyer's Loan Agreement amounting to US\$500 million was signed on January 15, 2007. However, these contracts did not become effective because the conditions for their effectivity were not satisfied.

- *See Annex C, Project Cost and Financing Plan for Phase I, Sections I & II, 2006, Page 61*

5.2.3 The implementation of the SINOMACH contract for Section I was beset with problems. There were delays in the construction and SINOMACH attributed the cause of delays to the failure of NORTHRAIL to clear the PNR-ROW. SINOMACH demanded time extension, increases in cost due to inflation, foreign exchange rate adjustments, among others.

Thus, in November 2008, NORTHRAIL submitted a revised project proposal for Phase I to NEDA for approval.

In March 2009 NEDA approved the revised Northrail Phase I project. Total project cost increased from US\$1.126 billion to US\$1.3 billion. Section I project cost increased from US\$452.32 million to US\$602.42 million. The construction cost component also increased from US\$421.05 million to US\$593.88 million. The funding source for Phase I Section I would be the US\$400 million loan from China EXIM Bank, the US\$21.05 million syndicated loan arranged by DBP, US\$34.38 million from the US\$90 million loan from Barclays, US\$146.9 million from the National Government and US\$0.82 million from the BCDA.

For Section II, the project cost increased from US\$673.67 million to US\$699.17 million. Construction cost increased from US\$586.91 million to US\$687.43 million. The funding source would be US\$500 million loan from China EXIM Bank, US\$28.83 million from the US\$90 million Barclays Loan and US\$170.34 million from the National Government.

- See Annex D, Revised Project Cost and Financing Plan Sections I & II, 2009, Page 62

5.3 Updates on the Loans to Finance Phase I

5.3.1 US\$22 million DBP Arranged Loan

On May 21, 2004, NORTHRAIL got the loan arranged by DBP to pay the 5% downpayment, equivalent to US\$21.05 million, to SINOMACH for the US\$421.05 million construction contract for Section I. This loan arranged by DBP was fully paid on October 04, 2004. The funds came from the US\$23.24 million advanced by SINOMACH to NORTHRAIL out of the agreed US\$27.54 million allotted for ROW Expenses and Public Utilities Diversion. NORTHRAIL agreed to clear the ROW and divert public utilities in the alignment provided SINOMACH allots the funds amounting to US\$27.54 million.

5.3.2 ChinaEXIM Bank Loans

There are two loan agreements signed by the DOF with ChinaEXIM Bank, the US\$400 million on February 26, 2004 for Section I and the US\$500 million on January 15, 2007 for Section II. The US\$400 million loan for Section I became effective. However, the US\$500 million for Section II did not become effective because the conditions precedent to its effectivity such as the payment of the downpayment for the construction contract with SINOMACH for Section II was not made.

The US\$400 million loan of DOF was relented to NORTHTRAIL. The total drawdown amounts to US\$180.79 million. These are the payments made for the 25% advances to SINOMACH amounting to US\$105.26 million and the amount of US\$75.53 million for Progress Billings 1 to 16, net of recoupment.

- See Annex E for the Details of Disbursements to SINOMACH, Page 63

On July 6, 2012, China EXIM Bank cancelled the US\$500 million loan for Section II and the undrawn balance of US\$219.21 million from the US\$400 loan for Section I. When the loan was terminated, the total interest paid was US\$31.21 million while the total commitment fees paid was US\$4.52 million. Regarding the repayment of US\$180.79 million drawn from the loan, China EXIM Bank agreed to be paid in four equal installments of principal plus interests, starting on September 21, 2012. The schedule of repayment is as follows:

No.	Due Date	Principle	Interest	Fee	Total
1	Sep. 21, 2012	US\$45.2M	US\$3,676,160.70	US\$203,373.72	US\$49,078,231.56
2	Jan. 21, 2013	US\$45.2M	US\$1,378,560.26		US\$46,577,257.40
3	Jul. 21, 2013	US\$45.2M	US\$1,363,494.03		US\$46,562,191.17
4	Jan. 21, 2014	US\$45.2M	US\$ 693,046.69		US\$45,891,743.83
		US\$180.8M	US\$7,111,261.68		US\$188,109,423.97

Details and status of the US\$400 million China EXIM Bank Loan as of 31 December 2015 is as follows:

Debt Account No.	: BLA NO. 04055
Creditor Country	: China EXIM Bank (PROC)
Date of Facility Agreement	: 26-Feb-04
Maturity/Grace Period (Years)	: 20 yrs inclusive of 8.25 yrs grace
Commitment	: US\$400M
Total Drawn	: US\$180.79M
Cancelled Amount	: US\$219.12M
Date of Cancellation	: 06 July 2012
Revised Repayment Schedule	: 4 equal installment
Outstanding Principal Balance	: US\$0.00

North Luzon Railways Corporation								
As of 31 December 2015								
(In US Dollar)								
US\$400M DOF Re-Lent Loan (No. BLA 04055)								
STATUS OF LOAN								
Date of Transaction	Due Date	Undrawn Amount	Availment	Payments			Unpaid Principal Balance	Remarks
				Principal	Interest	Commitment Fees		
		400,000,000.00						
		294,737,500.00	105,262,500.00	-		-	105,262,500.00	25% Advance Payment
29-Sep-04					999,993.75	468,889.31		
14-Sep-05	21-Jan-05				1,587,709.38	296,374.93		
22-Jan-05	21-Jul-05				1,614,025.00	301,287.22		
12-May-06	21-Jan-06							
6-Jun-06		287,470,167.34	7,267,332.66				112,529,832.66	1st Progress Billing
21-Jul-06	21-Jul-06				1,614,961.87	294,558.10		
22-Jan-07	21-Jan-07				1,725,457.43	293,858.39		
23-Jul-07	21-Jul-07				1,697,324.98	289,067.22		
22-Jan-08	21-Jan-08				1,725,457.43	293,858.39		
5-Mar-08		279,507,751.34	7,962,416.00				120,492,248.66	2nd Progress Billing
22-Jul-08	21-Jul-08				1,798,933.78	284,515.53		
21-Jan-09	21-Jan-09				1,847,547.81	285,719.03		
22-Jul-09	21-Jul-09				1,817,424.75	281,060.57		
21-Jan-10	21-Jan-10				1,847,547.81	285,719.03		
8-Feb-10		260,614,885.93	18,892,865.41				139,385,114.07	3rd - 8th Progress Billing
20-May-10		246,379,437.55	14,235,448.38				153,620,562.45	9th - 10th Progress Billing
18-Jun-10		235,895,001.29	10,484,436.26				164,104,998.71	11th & 13th Progress Billing
22-Jul-10	21-Jul-10				2,176,434.86	257,126.57		
24-Jan-11		219,205,211.43	16,689,789.86				180,794,788.57	12th & 14th-16th Progress Billing
21-Jan-11	21-Jan-11				2,516,276.65	241,137.11		
21-Jul-11	21-Jul-11				2,726,988.06	220,423.02		
21-Jan-12	21-Jan-12				2,772,186.76	224,076.44		
17-Aug-12	21-Aug-12				2,742,054.29	203,373.72		
21-Sep-12	21-Sep-12			45,198,697.14	934,106.41		135,596,091.43	1st Principal Repayment
21-Jan-13	21-Jan-13			45,198,697.14	1,378,560.26		90,397,394.29	2nd Principal Repayment
19-Jul-13	19-Jul-13			45,198,697.14	1,348,427.80		45,198,697.15	3rd Principal Repayment
21-Jan-14	21-Jan-14			45,198,697.15	700,579.81		(0.00)	4th Principal Repayment
		219,205,211.43	180,794,788.57	180,794,788.57	35,571,998.89	4,521,044.59	(0.00)	
Note:								
a.) A US\$400 million Buyers Credit Loan Agreement between DOF and China EXIM Bank was signed by the parties on 26 February 2004 for the financing of NorthRail Project.								
b.) Subsidiary Loan Agreement (SLA) was executed between the DOF and NorthRail on 08 August 2005 for the re-lent of the entire proceeds of the US\$400M Loan								

5.3.3 US\$90 million Barclays Loan

NORTHRAIL was able to secure the US\$90 million loan with DBP as arranger, DBP Trust Services as loan agent and Barclays Bank PLC as the Original Lender on February 14, 2008. The utilization of the loan is indicated below.

Barclays Bank PLC Credit Facility (In US\$)

	Section 1	Section 2	Total
Infrastructure and Equipment			
Site and Survey Investigation			
<i>Survey and Site Investigation</i>	337,059	1,693,882	2,030,941
<i>Preliminaries</i>	1,326,526		1,326,526

Civil and Trackworks			
<i>Permanent Way</i>	19,788,227	12,070,584	31,858,811
<i>Stations</i>	-563,095	756,130	193,035
<i>Depot and Other Facilities for Operation</i>	1,750,613	869,991	2,620,604
Signaling and Communications			
<i>Communications</i>	197,864	1,564,898	1,762,762
<i>Way-side Signaling</i>	859,660		859,660
<i>Cab Signaling (ATP)</i>	360,000		360,000
<i>Ticketing System</i>	178,660	132,963	311,623
<i>Power Supply</i>	222,168		222,168
Total Infrastructure and Equipment	24,457,682	17,088,448	41,546,130
Other Costs			
Project Management	8,457,703	11,740,000	20,197,703
Others (Contingency)	1,466,855		1,466,855
Total Other Costs	9,924,558	11,740,000	21,664,558
Total	34,382,240	28,828,448	63,210,688
ROW Expenses			14,886,859
Management Fee			1,306,116
Operating Expenses			10,011,837
Upfront Fee			584,500
GRAND TOTAL			90,000,000

The details and status of the Barclays Loan as of 31 December 2015 is indicated below.

Creditor	: Barclays Bank PLC
Date of Facility Agreement	: 14-Feb-08
Maturity Grace Period (Years)	: 10 yrs inclusive of 4 yrs grace
Commitment	: US\$90M
Interest Rate	: 6-month LIBOR plus margin of 3.465%
Principal Repayment	: 13 equal semi-annual installments commencing at the end of the 48 th month from initial drawdown
Start of Repayment	: March 28, 2012
Termination Date	: March 28, 2018
Outstanding Principal Balance	: US\$34.62 million

Status of Credit Facility with Barclays Bank PLC, CY2015

North Luzon Railways Corporation										
As of 31 December 2015										
(In US Dollar)										
US\$90M Credit Facility										
STATUS OF LOAN										
Date of Transaction	Date	Interest rate	Undrawn Amount	Drawdowns	Payments			Unpaid Principal Balance	Loan Utilization/ Expenses	Unused Loan Drawdown Balance
					Principal	Interest	Commitment Fees			
			90,000,000.00							
28-Mar-08		0.0000%	33,943,167.33	56,056,832.67	-	-	-	56,056,832.67		
29-Sep-08	29-Sep-08	6.0969%	26,798,174.78	7,144,992.55	-	1,756,327.21	89,243.65	63,201,825.22		
30-Mar-09	30-Mar-09	7.1663%	22,621,837.66	4,176,337.12	-	2,289,762.63	67,367.63	67,378,162.34		
29-Sep-09	29-Sep-09	5.2594%	18,585,194.10	4,036,643.56	-	1,791,523.87	58,026.61	71,414,805.90		
31-Mar-10	31-Mar-10	4.1044%	14,984,824.42	3,600,369.68	-	1,481,851.59	46,979.24	75,015,175.58		
29-Sep-10	29-Sep-10	3.9019%	11,576,068.31	3,408,756.10	-	1,487,892.75	38,086.43	78,423,931.69		
28-Mar-11	28-Mar-11	3.9291%	5,111,238.90	6,464,829.42	-	1,549,236.67	29,100.95	84,888,761.10		
28-Sep-11	28-Sep-11	3.9250%	(0.00)	5,111,238.90	-	1,702,962.87	13,062.05	90,000,000.00		
28-Mar-12	28-Mar-12	4.0067%	(0.00)	-	6,923,076.92	1,823,057.60	(0.00)	83,076,923.08		
28-Sep-12	28-Sep-12	4.2043%	(0.00)	-	6,923,076.92	1,785,210.46	(0.00)	76,153,846.16		
27-Mar-13	27-Mar-13	4.1079%	-	-	6,923,076.92	1,564,161.92	-	69,230,769.24		
30-Sep-13	30-Sep-13	3.9109%	-	-	6,923,076.92	1,406,419.81	-	62,307,692.32		
28-Mar-14	28-Mar-14	3.8325%	-	-	6,923,076.92	1,187,337.98	-	55,384,615.40		
29-Sep-14	29-Sep-14	3.7945%	-	-	6,923,076.92	1,079,973.08	-	48,461,538.48		
30-Mar-15	30-Mar-15	3.7964%	-	-	6,923,076.92	930,118.00	-	41,538,461.56		
28-Sep-15	28-Sep-15	3.8669%	-	-	6,923,076.92	812,049.00	-	34,615,384.64	39,782,669.09	50,217,330.91
			-	90,000,000.00	55,384,615.36	22,647,885.44	341,866.56	34,615,384.64	39,782,669.09	50,217,330.91

6 Plans and Programs

The ongoing arbitration between SINOMACH and NORTHRAIL continues as far as the terminated contract with SINOMACH is concerned. With the ruling of the Arbitral Tribunal in 2014 essentially granting NORTHRAIL's Application for Bifurcation, the first quarter of 2015 is dedicated mostly in preparing for the hearing of the Preliminary Issues or determination of nullity or validity of the SINOMACH contracts. The Tribunal's ruling on the Preliminary Issues will further determine the succeeding proceedings in the arbitration particularly in the nature and volume of evidence to be presented and the length of time needed to complete such presentation of evidence for purposes of determining the quantum phase of the proceedings.

Aside from pursuing the case before the Arbitral Tribunal, the protection of the PNR-ROW and the completed works on site will be considered also. Regardless of the result of the arbitration, the cleared ROW and the completed works have to be preserved because of the substantial amount of money already spent for them.

The Special Order (SO) issued by the DOTC in May 2015 already enumerates the tasks that NORTHRAIL has to perform as the pre-operating implementing agency of the NSCR Project. However, very little of these were actually carried out in spite of the

efforts undertaken by NORTHRAIL in 2015. DOTC has not required the active participation of NORTHRAIL in the implementation of the NSCR.

With the recent signing of the loan agreement for the Project by the Philippines and Japan, it is hoped that DOTC and NORTHRAIL could now focus on establishing the requisite mechanism crucial to bringing the Project into full motion, to wit:

- 1) Creation / finalization of the project management group (PMO/PMU);
- 2) Allocation of budget, as well as agreeing on the policy and procedures in compensating NORTHRAIL for its services; and,
- 3) Mobilization of the required personnel and the necessary logistics

After resolving these NORTHRAIL could act on its role mandated by the SO, which shall initially include:

- Acquisition of the required right-of-way for the alignment, stations and other areas for facilities.
- Implementation of the Resettlement Action Plan (RAP)
- Relocation of affected utilities
- Securing all necessary approvals, clearances and permits
- Establish public relations and or coordination with all stakeholders

It is likewise anticipated that design activities would commence in 2016. Consequently, NORTHRAIL shall provide assistance on:

- Review of design documents to be submitted by the JICA Design Consultants
- Updating of existing studies and relevant data to confirm the feasibility of the proposal made by JICA
- Field survey and investigation (geological, hydrological, traffic, etc.)
- Assessment of viable sites for depot and stations
- Procurement and management of the project management support team

As can be seen, it should be expected that the activities in 2016 may cover only some of the items under preliminary works considering the present circumstances of the NSCR Project.

In addition, the concern raised by the Regional Development Council III in the evaluation of NSCR was also being considered by the Corporation. This concern involve the possible inclusion and extension of the link to Clark Special Economic Zone in the proposed NSCR Project. In October 2014, the NORTHRAIL President initiated the updating of the Feasibility Study covering Malolos (Bulacan) – Clark (Pampanga) section of the line, to complement the implementation of NSCR Malolos-Tutuban section.

Consistent with this, NORTHRAIL and the BCDA likewise continue its coordination towards the conduct of feasibility study extending the railway line all the way to Tarlac City via the proposed Clark Railway Transit System (CRTS).

With this development, NORTHRAIL will be guided in the medium-term by the following major activities to support its mandate of developing a railroad system linking Metro Manila and Central/Northern Luzon:

- A. North-South Commuter Railway (NSCR) Project**
 - 1. Pre-construction
 - a. Detailed Design and Procurement
 - b. Procurement of Civil Work Contractor
 - 2. Construction
 - 3. Operations
- B. Clark Rail Transit System (CRTS) of BCDA**
- C. Asset Preservation**
 - 1. Preservation of PNR right-of-way from all forms of intrusion;
 - 2. Ground control establishments and clearing of encroachments; and,
 - 3. Acquisition of required right-of-way

Below is the outline of the activities to be undertaken in 2016:

I. The NORTH-SOUTH COMMUTER RAILWAY (NSCR) PROJECT:

- A. Upon direction from DOTC, to review the design documents and reports to be submitted by the JICA Design Consultant as outputs/results for the following activities in the Consulting Services:
 - 1. Update and upgrade of data/information of existing studies
 - a. Review of existing studies and relevant data/information and confirm feasibility of the proposal made by JICA.
 - b. Depot site selection and land acquisition.
 - 2. Engineering services for Civil Works, Electrical-Mechanical Works, and Rolling Stock
 - a. Field survey and investigation on the following:
 - i. Alignment investigation, topographic survey and mapping;
 - ii. Soil conditions, geological data, water levels and deep well impact;
 - iii. River, canal, drainage networks;
 - iv. Utility surveys;
 - v. Road traffic survey for traffic management planning during construction;

- vi. Hydrological survey; and
 - vii. Historical importance/Archaeological survey.
- b. Basic design and cost estimation for the following components of the train system:
- i. Route alignment and track layout for both tracks at ground and elevated level;
 - ii. Station Plaza;
 - iii. Station platform and building facilities, station entrances, facilities for connecting with other modes of transportation;
 - iv. Rolling stock performance and dimension, stabling yard, list of depots and workshop facilities;
 - v. All electrical and mechanical facilities for passenger services, train operations;
 - vi. Sub-station for power supply with stand-by power supply facility;
 - vii. Fare collection system;
 - viii. Passenger information system;
 - ix. Power supply and SCADA system;
 - x. Safety and security system in normal and in emergency;
 - xi. Trains (cars) maintenance depot;
 - xii. Administration Building; and
 - xiii. Other related facilities that JICA Consultant requires.
- c. Detailed design for Civil Works and cost estimation for the following:
- i. Track layout, including main lines, stations and stabling yard and depot;
 - ii. Access/connecting roads;
 - iii. Structures for the ballast-less elevated main line;
 - iv. Structures for elevated tracks approaching the depot with ballast tracks;
 - v. Station plaza;
 - vi. Stations on the viaduct, including entrance areas;
 - vii. Utility protection and removal; and
 - viii. Depot and administration buildings including the Control Center and facilities.
- d. Preparing the Particular Design Performance Specifications (PDPS) for the following components of E&M Works including Depot and Rolling Stock:
- i. Electrical-Mechanical Works, including specification of rolling stock, signaling system, telecommunication system, automatic fare collection (AFC) system, sub-station power supply and power distribution, overhead catenary system, track works, and depot equipment;
 - ii. Station service facilities which includes lighting, escalators, air conditions, and ventilation, platform doors, sanitation systems, and firefighting systems;
 - iii. Maintenance equipment and facilities;
 - iv. Rail and road service vehicles and rescue equipment and facilities; and
 - v. Other components that JICA Design Consultant considers necessary.
- e. Study the following and advise the Employer and the contractors to incorporate such information into the Bid Documents, for safe, smooth and efficient construction work:

- i. Availability of land for depots for the construction material and machinery (permanent and temporary);
 - ii. Location of utility and the responsible body/owner of the utility;
 - iii. Preliminary plan of utility relocation and its cost estimation; and
 - iv. Road detour designing for traffic management during construction.
 - f. Preparation of tender documents for the Civil, Architectural, Electrical and Mechanical System, and Rolling Stock contract packages.
 - 3. Environmental and Social Consideration
 - a. Assistance to DOTC in updating the Resettlement Action Plan (RAP) and other related documents for resettlement and land acquisition, and implementation of RAP which includes the following:
 - i. Review and revise the RAP including the procedures for land arrangements based on RAP;
 - ii. Detailed Measurement Survey (DMS);
 - iii. Public consultations and meetings with relevant entities during updating of RAP;
 - iv. Arrangement on land acquisition and resettlement activities and their implementation;
 - v. Arrangement on temporary land for construction; and
 - vi. Carrying out the internal RAP monitoring and reporting.
 - b. Assistance to DOTC in revising the Environmental Performance Report and Management Plan (EPRMP) and the Environmental Monitoring Plan (EMP) if necessary prior to the preparation of the Tender Document.
 - c. Preparation of Public Relations Strategy Plan which illustrates the public relation activities of the Employer, JICA Design Consultant, and the contractors.
 - 4. Coordination with relevant projects
- B. Provide assistance in the implementation of the Resettlement Action Plan (RAP) which includes the following activities:
 - 1. Social preparation
 - a. Creation of PMO-RAP Implementing Monitoring Team (PMO-RIMT);
 - b. Detailed Measurement Survey (DMS) to validate the census master list of Project Affected Persons (PAPs). Revision of RAP if Right-of-Way (ROW) is changed;
 - c. Creation of Local Inter-Agency Committee (LIAC);
 - d. Holding of public consultation meetings before DMS and after finalization of RAP;
 - e. Hiring of external consultant or request assistance from and appropriate government agency to conduct Social Preparation;
 - f. Creation of Grievance Redress Mechanism;
 - g. Verification of eligibility of Project Affected Families (PAFs); and
 - h. Implementation of livelihood training before relocation.
 - 2. Additional ROW Acquisition (for Non-ISF)
 - a. Parcellary Survey and Structural Survey; and

- b. Appraisal of lots, structures, & improvements.
3. Relocation of Informal Settlers
 - a. Determination of relocation sites;
 - b. Finalization of lot assignment; and
 - c. Construction of housing units.
- C. Provide assistance to DOTC for the implementation of the following projects included in the Transit Oriented Development (TOD) plan in Tutuban PNR property:
 1. Dagupan St. Widening; and
 2. Station Plaza/Information Center.

II. Clark Rail Transit System (CRTS) of BCDA

- A. Conduct Alignment Study for the proposed CRTS Project;
- B. Conduct Engineering Survey which includes Topographic Survey, As-Built Survey, and Hydrographic Survey along the preferred alignment of BCDA; and
- C. Gathering of data and computation of affected lots to be acquired for the CRTS alignment.

These activities will depend on the acceptance of the MOA submitted to BCDA.

III. Asset Preservation

- A. Preserve the PNR-ROW from shrubs and any future intrusions
 - To secure the PNR alignment from Caloocan to Angeles City, Pampanga from informal settlers and encroachments.
 - To conduct grass cutting and disposal within the PNR alignment from Malolos, Bulacan up to Angeles City, Pampanga.
 - To assess various requests from LGU on PNR-ROW temporary utilization
 - To assess and monitor the installation/rehabilitation of Public Utilities
- B. Clear the PNR ROW from encroachments
 - To update the inventory of affected properties within PNR right-of-way
 - To update the inventory of Informal Settlers and affected public utilities
- C. Establish the PNR boundaries.
 - To continue the installation of pre-cast concrete monuments along PNR boundaries.
- D. Acquisition of Right-of-Way
 - Acquire additional ROW based on the requirements of the new design
 - Assess the need for new depot sites as against the existing NFA-Valenzuela site and PNR site in Caloocan
 - Conduct site investigation
 - Resolve outstanding ROW issues from the previous contract

These activities will depend on the financial support that will be provided by DOTC.

IV. Arbitration Proceedings for SINOMACH-NORTHRAIL Contract

After the Arbitral Tribunal favored NORTHRAIL's application for bifurcation, the Parties mutually agreed on what Preliminary Issues are to be heard and the timetable to be followed. Accordingly, the Tribunal issued Procedural Order (PO) No. 3 setting the Timetable leading to the hearing of Preliminary Issues.:

V. Mediation/Arbitration Proceedings for SES JV – NORTHRAIL Contract

1. Project Management Support Team (PMST)

NORTHRAIL procured the services of Systra SA, ESCA, Systra Philippines Inc. - Joint Venture (SES-JV) as consultant or the PMST for the NORTHRAIL Project (Phase 1, Section 1).

Under the contract, SES-JV was to perform its services in three (3) stages, namely: pre-construction, construction, and post-construction stages.

To cover one year post-construction activities of the Northrail Project, the PMST was contracted for 48 months as the construction period by SINOMACH was supposed to be completed in 36 months. It is clear that the activities and works of SES-JV were intended to validate the accomplishments of SINOMACH.

The PMST contract was signed on January 30, 2007 and the Notice to Proceed was served on January 31, 2007. The PMST contract was renewed, on a monthly basis, from February 2011 until August 2011. (Yet, SES-JV still claims payment for work purportedly done beyond August 2011.)

Total payments made to SES-JV has amounted to 66.43% of the total PMST contract of **Php431.285 Million (or US\$ 8,396,510.40)**. The PMST billings were based on the number of personnel deployed plus reimbursable cost incurred for the covered period.

Inability of the Consultant to secure funding source

One of the conditions in the Invitation to Apply for Eligibility and to Bid was for the participating bidders to arrange financing for the consultancy services. Thus, each interested proponent shall include in its bid, an offer for acceptable financing to cover the international and local components of its offer.

After evaluation and post qualification, SES-JV was declared as the highest rated responsive bidder with the BNP Paribas and First Metro Investment Corporation (FMIC) as the consultant's funding institution.

The consultancy contract was signed on January 30, 2007. As it happened, the loan negotiations with FMIC failed due to its refusal to accept the guarantee proposed by Trade and Investment Development Corporation (TIDCORP). *[FMIC's refusal arose from the issuance by a Philippine court (in a case not related to NORTHRAIL*

whatsoever) of a temporary restraining order and, later, a preliminary injunction order, enjoining recovery from TIDCORP's guarantee. To FMIC, said orders showed that TIDCORP's guarantee was not "sovereign" in character. Thus, it refused TIDCORP's guarantee.]

Subsequently, the new NORTHRAIL Board of Directors, in its regular meeting held on 8 September 2011, learned that when the contract with SES-JV was signed on 30 January 2007, there were no funds to support it. In fact, it was only after a year or on 14 February 2008 when the US\$90M loan from Barclays became effective, that funds became available.

Thus, NORTHRAIL requested the opinion of the Office of the Government Corporate Counsel (OGCC) regarding the validity of the contract with SES-JV. In its **Opinion No. 240**, Series of 2011 dated 08 November 2011, the OGCC said that the contract between NORTHRAIL and SES-JV is void because it was executed without the necessary requirements explicitly provided under the 1987 Administrative Code.

Details on the contract, payments and unpaid billings on the PMST contract are as follows:

Contract and Billing Details of the PMST Contract

ITEM	Amount in US\$
Total Contract Price	8,396,510.40
15% Advance Payment	1,259,476.52
Paid Billings Net of Recoupment (1 st to 46 th)	4,318,098.46
Total Amount Paid to SES-JV	5,577,574.98
Amount Remaining from Contract	2,818,935.42
Unrecouped Amount	179,951.91
Unpaid Billings (47 th to 55 th)	222,163.30

Since January 2013, SES-JV has written letters to NORTHRAIL to follow up the payment.

In its replies, NORTHRAIL has maintained that it cannot make payments for claims arising from the PMST contract in view of the findings of the OGCC that the PMST contract is **void**.

2. Mid-Term Evaluation Report

Meanwhile in 2010, the DOTC and the National Economic and Development Authority (NEDA) were tasked by President Aquino to review the NORTHRAIL Project. Subsequently, the DOTC issued Department Order No. 2010-26 dated 31 August 2010 wherein, among others, it appointed SES-JV to be its consultant for the review of the NORTHRAIL Project. The same order provided that the payment for the services of SES-JV be drawn from NORTHRAIL's budget for its PMST Contract with SES-JV.

NORTHRAIL requested the OGCC's opinion on the propriety of the appointment of SES-JV as consultant to the DOTC Task Force for the review of the NORTHRAIL Project and the DOTC's directive that payment for SES-JV's services be drawn from NORTHRAIL's budget for the PMST contract. The OGCC said in its **Opinion No. 202**,

Series of 2011 dated 14 September 2011 that the DOTC Department Order may not be considered an appropriation or a law or a specific authority which can justify payment out of government funds which was already allocated for a specific purpose. The OGCC concluded that the funds allocated by NORTHRAIL to pay its contractual obligation with SES-JV may not be used to pay the undertaking between DOTC and SES-JV.

On March 02, 2015 SYSTRA served on the Republic of the Philippines its Notification of Claim pursuant to Article 8 of the “Agreement between the Government of the French Republic and the Government of the Republic of the Philippines on the Promotion and Protection of Investments” or Bilateral Investment Treaty (BIT).

On August 24, 2015 NORTHRAIL received a copy of SYSTRA’s Request for Mediation under the International Bar Association Rules for Investor-State Mediation of 2012 (IBA rules).

On 15 December 2015 the Office of the Solicitor General (OSG) wrote to the International Center for ADR in Paris, France conveying the Philippine Government’s agreement to participate in the mediation proceedings. Writing on the Republic’s behalf, the OSG also proposed that the initial mediation conference be held sometime in February 2016 and that the proceedings be terminated within six months from the initial conference unless earlier terminated.

Following are SYSTRA’s claims:

CONTRACT	FOREIGN PORTION	LOCAL PORTION
LRT (w/ DOTC)	EUR 277,319.78	Php23,788,347.11
NORTHRAIL MTE	USD 799,561.49	Php7,753,932.33
NORTHRAIL PMST	USD 59,997.18	Php28,437,293.14
TOTAL	EUR 277,319.78 USD 859,558.67	Php59,979,572.58

FINANCIAL STATEMENTS

For the Year Ended December 31, 2015

Prepared by:



AMIE H. VIDAD
Treasury Officer

Reviewed by:



PIO C. ASUNCION III
Manager

Certified Correct:



EVELYN V. PERALTA
AVP- Finance

STATEMENT OF FINANCIAL POSITION

ANNEX A-1

NORTH LUZON RAILWAYS CORPORATION				
(A Pre-operating Subsidiary Wholly-Owned by the Bases Conversion and Development Authority)				
STATEMENT OF FINANCIAL POSITION				
December 31, 2015				
(With comparative figures as of December 31, 2014)				
(In Philippine Peso)				
	Notes		2015	2014
ASSETS				
Current Assets				
Cash and Cash Equivalents	2 & 3	P	3,072,666,461	2,855,516,019
Receivables	4		22,434,033	122,577,435
Prepayments	5		6,567,877,418	6,559,883,359
Other Current Assets	6		444,649	444,649
Total Current Assets			9,663,422,561	9,538,421,462
Non-Current Assets				
Investment in Stocks	2 & 7		450,000	450,000
Investment in Bonds-Local & Foreign Currency	2 & 8		215,186,535	211,844,338
Property and Equipment-net	2 & 9		9,265,994	12,005,742
Project Development Cost	2 & 10		8,200,563,528	8,179,039,547
Other Assets	11		3,318,954,583	3,318,954,583
Total Non-Current Assets			11,744,420,640	11,722,294,210
TOTAL ASSETS		P	21,407,843,201	21,260,715,672
LIABILITIES AND EQUITY				
Current Liabilities				
Payables	12	P	8,010,955	8,408,102
Inter-Agency Payables	13		760,978	818,913
Other Liability Accounts	14		439,832,346	416,471,834
Total Current Liabilities			448,604,279	425,698,849
NON CURRENT LIABILITIES				
Due to National Treasury	15		13,304,246,890	12,589,661,993
Due to Parent/Subsidiaries	16		250,093,033	250,093,033
Interest Payable	17		786,559,188	670,382,011
Financing Charges Payable	17		248,078,427	224,803,449
Loans Payable-Foreign Currency	18		1,632,669,232	2,162,208,462
Deferred Credits	19		3,448,212,074	3,469,287,805
Deposits for Future Subscription	20		1,811,790,722	1,811,790,722
Total Non-Current Liabilities			21,481,649,566	21,178,227,475
TOTAL LIABILITIES			21,930,253,845	21,603,926,324
CAPITAL DEFICIENCY			(522,410,644)	(343,210,652)
TOTAL LIABILITIES, NET OF CAPITAL DEFICIENCY		P	21,407,843,201	21,260,715,672

SCHEDULE OF PRE-OPERATING EXPENSES

ANNEX A-2

NORTH LUZON RAILWAYS CORPORATION		
(A Pre-operating Subsidiary Wholly-Owned by the Bases Conversion and Development Authority)		
SCHEDULE OF PRE-OPERATING EXPENSES		
For the year ended December 31, 2015		
(With comparative figures for the year ended December 31, 2014)		
(In Philippine Peso)		
	2015	2014
Pre- Operating Expenses		
Salaries and Wages	21,705,911	24,457,369
Other benefits, bonuses/allowances	9,794,469	10,030,890
Council/Board Members Allow. & Other Benefits	202,000	243,000
Rental	1,777,246	1,637,320
Depreciation Expense	2,962,451	5,763,175
Taxes and Licenses	515,400	443,618
Insurance	465,802	586,035
Legal Fees	40,350	17,550
Transportation and travel	366,001	363,716
Travelling Expense(foreign & local)	122,016	122,297
Training and Seminars/Team Building	427,997	245,709
Supplies and Materials	583,525	599,313
Communication Expense	554,277	577,383
Utility Expense	742,519	907,481
Gasoline and Oil	1,019,930	1,519,410
Personnel Benefit Contribution	982,501	1,027,662
Representation	509,711	362,913
Repairs and Maintenance	1,186,143	938,638
Security Services	1,840,594	1,783,860
Advertising	15,300	26,700
Auditing fees	138,037	-
Subscription/membership dues	12,970	44,587
Miscellaneous Expense	109,255	143,643
Other Maintenance and Operating Expense	-	5,179
Bank Charges	17,122	56,201
Doubtful Account Expense	9,476,807	3,405
Sub-total	55,568,334	51,907,054
MISCELLANEOUS EXPENSES		
Arbitration Expense	19,761,869	7,746,028
Guarantee Fees	23,274,978	17,779,332
Interest Expense	195,929,465	271,161,572
Impairment Loss		2,250,000
Other Financial Charges	400,000	-
Sub-total	239,366,312	298,936,932
Total Expenses	294,934,646	350,843,986
MISCELLANEOUS INCOME		
Interest Income from Time Deposits	46,857,961	72,745,365
Miscellaneous Income	63,000	121,000
Subsidy Income from National Government	26,996,165	12,229,028
Gain (Loss) on Foreign Exchange Rate Changes	140,156,232	11,402,833
Sub-total	214,073,358	96,498,226
NET PRE-OPERATING (EXPENSE) INCOME	(80,861,288)	(254,345,760)

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY ANNEX A-4

NORTH LUZON RAILWAYS CORPORATION			
(A Pre-operating Subsidiary Wholly-Owned by the Bases Conversion and Development Authority)			
STATEMENT OF CHANGES IN EQUITY			
For the year ended December 31, 2015			
(With comparative figures for the year ended December 31, 2014)			
(In Philippine Peso)			
	Notes	2015	2014
CAPITAL STOCK	21		
Balance at Beginning of the Year		100,000,000	100,000,000
Balance at End of the Year		100,000,000	100,000,000
RETAINED EARNINGS (DEFICIT)			
Balance at Beginning of the Year		(443,210,652)	(127,983,389)
Prior Period Adjustment		30,564,085	
Pre-operating (Expense)/ Income, net	22	(80,861,288)	(254,345,760)
Gain (Loss) on Foreign Exchange Rate Changes	2	(128,902,789)	(60,881,503)
Balance at End of the Year		(622,410,644)	(443,210,652)
CAPITAL DEFICIENCY	P	(522,410,644)	(343,210,652)

NORTH LUZON RAILWAYS CORPORATION

(A Pre-Operating, Wholly-Owned Subsidiary by the Bases Conversion and Development Authority)

NOTES TO FINANCIAL STATEMENTS

1. HISTORICAL BACKGROUND

North Luzon Railways Corporation (NORTHRAIL) was registered with the Securities and Exchange Commission on August 22, 1995 with Registry No. AS95008215. The Corporation, a pre-operating, wholly-owned subsidiary by the Bases Conversion and Development Authority (BCDA), was created to develop, construct, operate, and manage a railroad system to serve Metro Manila, Central Luzon, and Northern Luzon; and to develop, construct, manage, own, lease, sublease, and operate establishments and facilities of all kinds related to the railroad system. NORTHRAIL has an authorized capital stock of P100 million fully subscribed and paid for by the BCDA.

Briefly, the following are the milestones of NORTHRAIL's projects.

A. NORTHRAIL UNDER PRESIDENT FIDEL V. RAMOS (FVR) (1992-1998)

1. The Manila - Clark Rapid Railways System (MCRRS)
 - a. The MCRRS is a project to connect Manila and Clark with a fast train.
 - b. The MCRRS was approved by the joint venture composed of:
 - BCDA
 - Philippine National Railways (PNR)
 - Spanish Railways Group (SRG)
 - Euroma Development Corporation (EUROMA)
2. NORTHRAIL was incorporated by BCDA on August 22, 1995:
 - a. To develop, construct, operate and manage a railroad system to serve Metro Manila, Central Luzon and Northern Luzon, and
 - b. To develop, construct, manage, own, lease, sublease, and operate establishments and facilities of all kinds related to the railroad system.
3. NORTHRAIL entered into an Engineering, Procurement and Construction (EPC) Contract with SRG for the construction of the railway system between Caloocan and Malolos. This failed because SRG could not raise the necessary funds.
4. The clearing of the PNR-ROW of informal settlers has always been a major problem of NORTHRAIL. To clear the alignment of the railways, NORTHRAIL:
 - a. Tied-up with the Provincial Government of Bulacan (PGB) to relocate about 15,000 families who were staying at the PNR-ROW;
 - b. Donated to PGB 60 hectares of land in Matictic, Norzagaray, Bulacan as relocation site; and

- c. Committed to provide P52.5 million financial support to PGB.
5. During the term of President FVR, the Project Development Cost amounted to P1.431 million. This was the amount left after reclassifying to Retained Earnings account as suggested by COA in 2005 the P1.132 billion spent by NORTHRAIL during FVR's term for developing a railway system from Manila to Clark.

B. NORTHRAIL UNDER PRESIDENT JOSEPH ESTRADA (1998 – 2001)

1. NORTHRAIL and BCDA tried getting the funding for the NORTHRAIL Project from the Obuchi Fund of Japan.
2. The Japan Bank for International Corporation (JBIC) financed the Subic, Clark, Tarlac Expressway (SCTEX) instead.
3. The clearing of the PNR-ROW was still pursued.
 - a. NORTHRAIL bought 103 hectares adjacent to the 60-hectare property in Matictic, Norzagaray, for additional relocation site and for the Bulacan Housing and Agro-Industrial (BUHAI) Project.
 - b. NORTHRAIL committed to fund the construction of the 8.3 km Matictic-Bangkal Access Road amounting to P120 million.
4. During the term of President Estrada, P29.202 million was added to the Project Development Cost (P99.154 million spent during the period was reclassified to Retained Earnings). When President Estrada left the Office of the President, Project Development Cost was P30.631 million.

C. NORTHRAIL UNDER PRESIDENT GLORIA MACAPAGAL-ARROYO (PGMA) (2001-2010)

1. China National Machinery and Equipment Corporation (Group) (CNMEG) conducted a feasibility study for the train system from Metro Manila up to San Fernando City, La Union on September 14, 2002.
2. Executive Order (EO) No. 232 was promulgated on August 19, 2003, directing the Department of Transportation and Communications (DOTC) to exercise primary oversight functions over the NORTHRAIL Project, transferring the supervision of NORTHRAIL from the Office of the President to the DOTC and reorganizing the respective governing boards of NORTHRAIL and the PNR.
3. NORTHRAIL signed the Original Contract with CNMEG for the construction of the Phase I, Section I, Caloocan to Malolos, amounting to US\$421.05 million, on December 30, 2003.
4. There were problems encountered in the implementation of the Original Contract. The major problems were:

- a. The contract was signed without public bidding, and Certificates of Appropriation and Availability of Funds. A case was filed in the Makati RTC Branch 145 on February 13, 2006 for its nullity.
 - b. The contract specified Chinese Standards while the Project Consultant, SYSTRA-ESCA-SPI Joint Venture (SES-JV), was tasked to evaluate the work accomplishments according to the International Standards. (SES-JV is a Joint Venture of Systra S.A., E.S. De Castro and Systra Philippines).
 - c. The Peak Ground Acceleration (PGA) used in the contract is .15g only. The required PGA for the area, Metro Manila and Bulacan, is .4g, a higher PGA because the structures should be designed to withstand earthquakes.
 - d. NORTHRAIL issued the Notice to Proceed (NTP) to CNMEG only on February 26, 2007, more than three years after the signing of the contract. CNMEG demanded extension of time and increase in price due to inflation and foreign exchange rate adjustments. Pending grant of its demand, CNMEG did not work in some areas along ROW as it insisted that NORTHRAIL had to turn over to CNMEG the whole alignment (32 km) free of obstructions, as stipulated in the contract. Even when CNMEG had started work on the bridges and viaducts where there were no obstructions, CNMEG never really tried to complete the structures.
 - e. The problems in acquiring additional ROW and clearing the alignment of obstructions still existed.
 - f. SINOMACH (formerly CNMEG) suspended work activities in February 2008. It resumed work only in December 2008 when it started discussing with NORTHRAIL the possible changes in the scope of work and specifications and the accommodation of SINOMACH's demands thru an Amended Contract. Even then, SINOMACH did not work on the Project full blast.
5. The Amended Contract was signed on September 29, 2009. The tables below show the comparison between the Original and Amended Contracts for Phase I, Section I, Caloocan to Malolos.

Table A

Basic Information	Original Contract	Amended Contract
Contract Price – CNMEG	421.05 M US\$ 13.58 M US\$/km	593.88 M US\$ 19.16 M US\$/km
Down-payment 5% Advance Payment 25% (Total US\$134.95M)	US\$ 21.05 M US\$105.26 M	Additional Down-payment US\$8.64 M
Contract Signed	30-Dec 2003	29-Sept 2009
Effective Date (<i>Notice to Proceed</i>)	26-Feb 2007	26-Feb 2007
Completion Period	36 months <i>From Notice to Proceed</i>	64 months 28 Months time extension
Completion Date	25 February 2010	30 June 2012
Contract Type	Turnkey:Design, Build &Commission	Design and Construct

Table B

Scope and Deliverables	Original Contract	Amended Contract
Signaling & Comms.	Included but without Automatic Train Protection	Included but with Automatic Train Protection Full Installation not Guaranteed
Rolling Stock & Spares	19 Trains, 76 Coaches Diesel Multiple Units (DMU) (Mechanical)	3 Prototype Trains, 12 Coaches, With 2 DMU's (Mechanical) and 1 Diesel Electric Multiple Unit (DEMU)
Track Gauge	Narrow Gauge (1.067m)	Standard Gauge (1.435 m)
Track Length	32.138 km	31.938 km
Stations	5 Built by CNMEG 1 Built by NORTHRAIL	2 Built by CNMEG 3 Platforms by CNMEG 1 Paid by Private Investor
Depot	1 Depot in Valenzuela	None
Tracks for stabling and by-pass	None	2 stabling tracks and 2 by-pass
Viaduct Length	3.50 kms	7.28 kms
Vertical Clearance of road crossing	4.35 m. in general	4.88 m. for national road 4.35 m. for others
Length of Passenger Platform	90 m.	180 m.
Peak Ground Acceleration (seismic design / parameter)	0.15g	0.40g

6. The construction and financing contracts for Phase I, Section II, Malolos to Clark were signed. The contracts were not implemented because the conditions for their respective effectivity were not accomplished.
7. Until the end of the term of PGMA, the problems on the implementation of the NORTHRAIL Project were not resolved. When she left the Office of the President, the Project Development Cost amounted to P6.306 billion. During her term, P6.276 billion was added to the Project Development Cost. P64.735 million spent during her term was reclassified to Retained Earnings per suggestion of COA. Those were expenses incurred which could not be attributed to the NORTHRAIL Project being undertaken with SINOMACH.

D. NORTHRAIL UNDER PRESIDENT BENIGNO SIMEON AQUINO III (2010-PRESENT)

1. The Department of Transportation and Communications (DOTC), under former Secretary Jose P. De Jesus, conducted the "Due Diligence Review of the

- NORTHRAIL Project, Phase I (Caloocan to Clark).” The DOTC Task Force that was organized on August 31, 2010 to conduct the review has not issued to NORTHRAIL the evaluation report. However, NORTHRAIL got copies of the SYSTRA-ESCA-SPI Joint Venture (SES-JV) report from DOTC.
2. A new management team was appointed in December 2010 and January 2011. The team reviewed the SINOMACH contracts and found them to be onerous and disadvantageous to the Filipino people, highly questionable and should not be pursued.
 3. NORTHRAIL and SINOMACH agreed to suspend the implementation of the contract for two months starting March 28, 2011. A Technical Working Group (TWG) was proposed to be formed, composed of representatives from both companies to find solutions to the problems. No TWG was organized, however, because SINOMACH did not send any representative. The problems persisted.
 4. The DOTC Undersecretary for Legal issued an opinion on June 13, 2011 that the Amended Contract is void. The Office of the Government Corporate Counsel (OGCC) issued on July 14, 2011 its opinion that both the original and amended contracts are *void ab initio*.
 5. In September 2011, DOTC Secretary Mar A. Roxas stated that the NORTHRAIL Project would be “reconfigured.” This meant an Airport Express Rail between NAI and Clark would be pursued, possibly with funding still coming from China and the Chinese contractor constructing the railways. The issues on the SINOMACH contracts would be tackled at the Ministerial level by Secretary Roxas and his Chinese counterpart.
 6. On February 07, 2012, the Supreme Court ruled that the Original Contract with SINOMACH is not an Executive Agreement and that SINOMACH is not immune from suit. This decision was affirmed by the Supreme Court on April 24, 2012 when it denied the Motion for Reconsideration filed by SINOMACH.
 7. In June 2012, NORTHRAIL, together with Secretary Roxas and Justice Raoul C. Creencia, Office of the Government Corporate Counsel (OGCC), got the approval of President Aquino to notify SINOMACH that NORTHRAIL can no longer proceed with the implementation of the Project due to some serious legal considerations and problems in the contract. NORTHRAIL sent the letter to SINOMACH on July 06, 2012.
 8. SINOMACH issued the Notice of Termination of the contracts to NORTHRAIL on August 17, 2012. This was followed by a Notice of Claims on August 22, 2012 and, subsequently, the Notice of Arbitration on September 27, 2012.
 9. Arbitration proceeding is now on-going in the Hong Kong International Arbitration Center (HKIAC), following the rules of the United Nations Commission on International Trade Law (UNCITRAL).
 10. On February 16, 2015, the National Economic and Development Authority (NEDA) approved the North-South Commuter Railway (NSCR) Project of the Department of Transportation and Communications (DOTC) which will traverse from Malolos, Bulacan to Calamba, Laguna. The NSCR Project will also utilize the PNR right of way similar with the NORTHRAIL Project Phase 1 Section 1. With the approval of the NSCR Project, the NORTHRAIL Project Phase 1 Section 1 is deemed

terminated. In relation to this, the Corporation created a committee on March 26, 2015 which is tasked to evaluate and identify the expenses incurred by the Corporation for the Northrail Project Phase 1 Section 1 which will be useful and beneficial for the NSCR Project. The Corporation intends to charge DOTC as the owner of the NSCR project with these expenses. Adjustments in the Corporation's books of accounts will be made in accordance with the results of the Committee's evaluation and final agreement with the DOTC.

11. On May 04, 2015, the Department of Transportation and Communications pursuant to Special Order No. 2015-169 designated NORTHRAIL as the Project Management Unit for the pre-operation implementation of the North-South Railway Project Phase 1, a 56-kilometer rail line running from Malolos, Bulacan to Tutuban, Manila using the existing right-of-way of the Philippine National Railways that is expected to serve an estimated 350,000 passengers daily at opening year. On 07 December 2015, the DOTC issued a supplemental SO directing NORTHRAIL to a.) continue to provide security over its assets, including but not limited to the Right-of-Way ("ROW"), to prevent entry of informal settlers and any dissipation of government property; b.) continue to lease NFA Property in Valenzuela until the Sublease Agreement between it and the DOTC is executed; and c.) proceed with the acquisition of required additional ROW.
12. As of December 31, 2015, the Project Development Cost amounted to P8.200 billion. Under the current administration, P1.894 billion was added to the Project Development Cost, substantially representing interest, commitment fees and other charges.
13. In view of the suspension of works at the NORTHRAIL Project Alignment, the Corporation transferred its principal place of business in May 2012, from the St. Agatha Homes Pavilion, Sta. Rita, Guiguinto, Bulacan to the MWSS Compound, Katipunan Road, Old Balara, Quezon City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation of Financial Statements

The financial statements of the Corporation have been prepared in accordance with state accounting principles generally accepted in the Philippines. The financial statements are presented in Philippine peso. Amounts are rounded off to the nearest peso, except when they are otherwise indicated.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks, both peso and dollar, and other short-term investments with original maturities of three months or less.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the property and equipment ranging from five to ten years.

Repairs and maintenance costs with significant renewals and betterments are capitalized to the appropriate property account.

Project Development Costs

All costs and expenses incurred that are directly identifiable and necessary to put the asset in condition and location for use are capitalized to be amortized upon completion of construction. Financing costs incurred that are attributable to the project are included in the carrying amount of the project to which they relate.

Revenue Recognition

Revenue comprises interest income earned from time deposits and government securities using the effective interest method. It is recognized when realized and earned, net of tax. It also includes gains or losses arising from the maturity of government securities and from foreign currency adjustments. These gains or losses are recognized on the transaction dates.

Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the exchange rate at reporting date. Foreign exchange gains or losses on foreign currency time deposits are taken up in the pre-operating expenses presented under the Notes to Financial Statements, while foreign exchange gains or losses on loans payable and other payables are presented under the Statement of Changes in Equity.

Investments in Bonds/Stocks

Investments are recognized at cost upon acquisition including incidental expenses incurred. Interests earned or gains derived from the investment of the unutilized proceeds of corporate borrowings are deducted from the costs of such borrowings.

Employee Benefit Obligations

Employee benefit obligations are recognized at amounts equivalent to the monetary value of the unused leave credits of employees.

Pre-operating Expenses

Pre-operating expenses are not capitalized nor made part of project development costs as these pertain to administration and other general overhead costs not directly attributable to site preparation of the NORTHRAIL Project. Said expenses are closed to retained earnings account.

National Government Subsidies

Subsidies from the National Government are recognized as deferred credits and transferred to other income upon the actual utilization of the subsidies granted in accordance with PAS 20.

Income Earned from Proceeds of Borrowings

Interest income and gains from maturity of government securities and interest income on short-term placements arising from the investment of the unutilized proceeds of corporate borrowings were recorded as expense in view of the termination of the Project for which the funds were secured for in compliance with PAS 23.

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2015	2014
Cash on hand	68,539	61,975
Foreign currency savings account	2,373,076	2,437,058
Local currency current account	3,426,620	865,746
Foreign currency special savings account	2,443,167,809	2,284,901,240
Local currency special savings account	623,630,417	567,250,000
	3,072,666,461	2,855,516,019

Foreign currency special savings account pertains to the short-term placement maintained with the Philippine Postal Savings Bank with interest rates of 1.5125 and 1.325 per cent per annum respectively, while the *local currency special savings account* pertains to the short-term placements maintained with the Philippine Postal Savings Bank with interest rates of 2.5 and 2.0 per cent per annum respectively.

4. RECEIVABLES

This account consists of the following:

	2015	2014
Due from GOCCs	612,083	130,570,483
Due from LGUs	639,299	639,299
Due from NGAs	39,342	200,075
Due from officers and employees	30,340	51,350
Due from other funds – BMHI	12,543	12,543
Interest receivable	9,479,622	7,006,642
Other receivables:		
Harmony Hills	60,327,621	49,236,252
Others	3,862,386	3,953,187
	75,003,236	191,669,831
Allowance for doubtful accounts	(52,569,203)	(69,092,396)
	22,434,033	122,577,435

Interest receivable pertains mainly to the accrued interests on investments in government securities (see Note 8).

Other receivables - Harmony Hills pertains to the uncollected monthly lease rental/amortization, including penalties, from the beneficiaries of the NORTHTRAIL Relocation Program under a contract of lease with option to purchase executed as early as November 2000 (see Notes 11, 19).

Other receivables - others consists mainly of advances to SES-JV for rental at St. Agatha office and costs of gas, toll fees and maintenance of vehicles allocated for the NORTHRAIL Project Management Office (PMO).

5. PREPAYMENTS

This account consists of the following:

	2015	2014
Advances to contractors	6,044,777,653	6,042,847,063
Input tax	510,598,750	509,778,080
Prepaid insurance	121,710	155,893
Office Supplies Inventory	87,128	150,165
Other Prepaid Expense	12,292,176	6,952,158
	6,567,877,417	6,559,883,359

Advances to contractors pertains mainly to the unrecouped portion of the 5 per cent down payment and 25 per cent advance payment (both based on original contract price) and partial payment to the 15 per cent additional down payment (based on increase in contract price) amounting to a total of P6.027 billion made to SINOMACH as provided under the Supply Contract Agreement between NORTHRAIL and SINOMACH (see Note 1). This also includes SINOMACH shares in the rental of the NFA Property and the unrecouped portion of the 15 per cent advance payments made to SYSTRA-ESCA-SPI Joint Venture (SES-JV) for the Project Management Support Team Consultancy and Engineering Services amounting to P7.949 million.

Other prepaid expenses pertains mainly to the deposits to the Tribunal for the fees in relation to the Arbitration Case between NORTHRAIL and SINOMACH.

6. OTHER CURRENT ASSETS

This account consists of the following:

	2015	2014
Rental deposits	363,193	363,193
Miscellaneous deposits	81,456	81,456
	444,649	444,649

Rental deposits pertains to the unclaimed deposits for the condominium units in Makati City that were rented for the Expat consultants in 1997.

7. INVESTMENT IN STOCKS

This account pertains to the Corporation's club shares at Mimosa Golf and Country Club.

Acquisition Cost	2,700,000
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Less: Allowance for Impairment	2,250,000
	450,000

8. INVESTMENTS IN BONDS

This account pertains to the following investments in government securities maintained with the Philippine National Bank:

Type of Investment	Value Date	Maturity Date	Coupon Rate	Face Value	Investment Balance 12.31.15	Investment Balance 12.31.14
FXTN 10-42	10/12/11	09/04/16	9.125%	P 56,000,000	P57,216,665	P58,916,133
					57,216,665	58,916,133
ROP 30	06/29/12	02/02/30	9.500%	\$ 2,245,000	157,969,870	152,928,205
					157,969,870	152,928,205
					P215,186,535	P211,844,338

9. PROPERTY AND EQUIPMENT

This account consists of the following:

	Motor Vehicles	Furniture Equipment & Leasehold Improvement	Total
At December 31, 2014			
Cost	10,383,945	38,441,760	48,825,705
Accumulated depreciation	(6,693,925)	(30,126,038)	(36,819,963)
Net book value	3,690,020	8,315,722	12,005,742
At January 1, 2015			
Cost:			
January 1, 2015	10,383,945	38,441,760	48,825,705
Additions/Adjustments	-	552,630	552,630
December 31, 2015	10,383,945	38,994,390	49,378,335
Accumulated Depreciation			
January 1, 2015	(6,693,925)	(30,126,038)	(36,819,963)
Provision	(1,357,351)	(1,935,027)	(3,292,378)
December 31, 2015	(8,051,276)	(32,061,065)	(40,112,341)
Net book value	2,332,669	6,933,325	9,265,994

10. PROJECT DEVELOPMENT COSTS

This account consists of the following:

	2015	2014
Phase 1 Section 1		
Capitalized financing charges	2,658,386,704	2,658,386,697
Civil and track works	2,244,999,612	2,244,999,612
Site survey investigation & preliminaries	1,546,118,128	1,546,118,128
Right-of-way expenses and utilities diversion	1,133,137,725	1,117,574,989
Project management (consultancy)	240,890,891	240,890,891
Taxes and duties	211,563,561	211,563,561
Rolling stock	40,976,274	40,976,274
	8,076,072,895	8,060,510,152
Phase I Section 2		
Right-of-way expenses and utilities diversion	124,465,633	118,504,395
	25,000	25,000
Other phases-survey		
	8,200,563,528	8,179,039,547

Capitalized financing charges pertains to the following:

	2015	2014
Interest, commitment fee and other charges on the US\$400 million loan with China EXIMBank	1,672,277,838	1,672,277,837
Interest charged by the Bureau of the Treasury for its advances for the servicing of the US\$400 million and the US\$90 million loans	307,820,325	307,820,325
2% management fee of China EXIMBank	44,734,705	44,734,705
Interest and penalties on the loan obtained from the MetroBank, Banco de Oro and Sumitomo Mitsui Bank to bridge finance the 5% down payment remitted to SINOMACH as required under the Supply Contract Agreement (see Notes 1 and 5) and on the Buyer's Credit Loan Agreement (see Note 19)	31,079,287	31,079,287
Interest, commitment fee and other charges on the US\$90 million loan	445,686,257	445,686,251
Accrual of guarantee fee to DOF on the US\$90 million loan	127,063,379	127,063,379
Arrangement fee, out of pocket expenses and agency fee incurred for the US\$90 million loan with Barclays Bank PLC	23,526,680	23,526,680
Processing fee on NORTHRAIL's guarantee application with PhilEXIM	6,198,233	6,198,233
	2,658,386,704	2,658,386,697

The interest charged under the Barclays Loan is net of the income generated from the investment of the unutilized proceeds of the loan amounting to P291,145,122. Capitalization of borrowing costs was suspended in August 2011 when SINOMACH and

NORTHRAIL agreed to indefinitely suspend the works. Borrowing costs are now charged to pre-operating expenses in accordance with PAS 23 (see Note 22).

Civil and track works pertains to the cost of the works already accomplished by the Contractor under this component which includes, among others, the construction of viaducts and embankments along the NORTHRAIL alignment.

Site survey investigation and preliminaries pertains to the costs of fencing, post demolition debris clearing, and securing the cleared area of the PNR-ROW, including the cost of ground survey and boundary verification of PNR-ROW from Caloocan City to the City of Malolos, Bulacan. This account also includes costs of survey, site investigation, and preliminaries made by SINOMACH (formerly CNMEG).

Right-of-way expenses and utilities diversion pertains to the payments for the services rendered by the Office of the Government Corporate Counsel and BCDA Management and Holdings, Inc. relative to the right-of-way acquisition activities and payments made to the project-affected lot owners. This account also includes the liquidation made to SINOMACH on the advances for the right-of-way acquisition and utilities diversion, and squatter relocation costs incurred by NORTHRAIL for the initial voluntary relocation, including the costs of rehabilitating the houses used in the relocation sites conducted along the PNR-ROW in Caloocan.

Project management (consultancy) consists mainly of the payments of consultancy fees for the services rendered by SES-JV, Project Management Support Team for NORTHRAIL Project, Phase 1, Section 1.

Taxes and duties pertains to the internal revenue taxes, such as Value Added Tax and withholding taxes on payments to Contractors and customs duties charged to various importations made by the Corporation relative to the NORTHRAIL Project. These taxes and duties were subsidized by the National Government.

Rolling stock pertains to the cost of shipping the 12 train coaches donated by Kyushu Railway Company of Japan from Kokura Factory in Japan to ICTSI, Philippines. On October 31, 2003, the DOTC and Kyushu Railway Company signed the agreement for the assignment of the train coaches to NORTHRAIL. However, at present, the train coaches are being used by the PNR. Since PNR had fully benefited from the train coaches, NORTHRAIL intends to turn-over the said units to the former. The same shall be considered in the document to be executed to cover the contributions of PNR to the NORTHRAIL Project. Reversal to Retained Earnings account is pending upon completion of transfer documents.

All costs which are not relevant to the revised NORTHRAIL Project were charged to Retained Earnings account. In relation to the deemed termination of the NORTHRAIL Project Phase 1 Section 1 (See Note 1), NORTHRAIL will make necessary adjustment in this account in accordance with the results of its evaluation of cost and expenses and the final agreement with the DOTC on cost and expenses incurred by NORTHRAIL which are beneficial to NSRP.

11. OTHER ASSETS

This account consists of the following:

	2015	2014
Deferred charges	3,199,463,535	3,199,463,535
Land held for donation	72,650,443	72,650,443
Harmony Hills housing units	36,278,859	36,278,859
Receivable - PGB	10,540,034	10,540,034
Unserviceable property	21,712	21,712
	3,318,954,583	3,318,954,583

Deferred charges pertains to the unutilized tax subsidy granted by the National Government for the NORTHRAIL Project to cover value added tax, expanded withholding tax and documentary stamp tax, among others.

Land held for donation pertains to the three parcels of land located at Matictic, Norzagaray, Bulacan that were intended to be utilized as additional relocation sites for the families which will be affected by the Manila-Clark Rapid Railways System (MCRRS) Project, now known as the NORTHRAIL Project.

Harmony Hills housing units refers to the 151 house and lot packages of Home Development Mutual Fund (HDMF) located in San Jose del Monte, Bulacan which were used as relocation site for informal dwellers who were affected by the Corporation's Project. On August 31, 2001, a Deed of Exchange was executed with BCDA and HDMF providing for the swap/exchange of the 60 BCDA condominium units with these house and lot packages. To date, there are nine (9) fully paid housing units, the transfer of titles of which is still in process.

Receivable-PGB represents the balance of the fund released by NORTHRAIL to the Provincial Government of Bulacan (PGB) pursuant to the provisions of the Memorandum of Agreement entered into by and among NORTHRAIL, the PGB and Alto Projekt Asia, Inc, (APAI) dated March 7, 1999. The MOA provides, among others, that NORTHRAIL shall extend financial support to the PGB up to a maximum amount of P52.5 million for the relocation of affected families within Bulacan; provide additional sum of P5 million to fund a Project Management Office (PMO); and fund the construction of access road that will connect the relocation site to the main highway. A total of P118.185 million has been released for the above-mentioned purposes, P10.540 million of which remains unliquidated.

In the NORTHRAIL Board meeting held on January 12, 2015, the NORTHRAIL Legal Division was instructed to confer with PGB if the latter would be amenable to arbitration, with the Department of Justice (DOJ) to act as the arbitral body. The OGCC, however, advised that the DOJ's jurisdiction to arbitrate is limited only to disputes between the National Agencies and GOCCs but not between GOCCs and LGUs. Thus, the only recourse left is to initiate recovery action in court against PGB. The case has been referred to OGCC for appropriate legal action.

12. PAYABLES

This account consists of the following:

	2015	2014
Current		
Accounts payable	5,600,674	5,608,842
Due to officers and employees	2,427,281	2,799,260
	8,027,955	8,408,102

Accounts payable pertains mainly to the accrual of expenses for the services rendered by the Corporation's security agency, legal retainers' fee for the arbitration case with SINOMACH and reversal of unreleased checks for the month.

Due to officers and employees pertains to the accrual of employees leave credits as of end of reporting date.

13. INTER-AGENCY PAYABLES

This account is composed of the following:

	2015	2014
Due to BIR	535,370	589,203
Due to SSS	125,105	124,960
Due to Pag-IBIG	66,503	69,300
Due to Philhealth	34,000	35,450
	760,978	818,913

14. OTHER LIABILITY ACCOUNTS

This account consists of the following:

	2015	2014
Other payables	439,728,167	416,367,655
Due to LGUs	104,179	104,179
	439,832,346	416,471,834

Other payables account pertains mainly to the advances made by SINOMACH to the Corporation pursuant to the Supply Contract Agreement between SINOMACH and NORTHRAIL, which provides that expenses for the ROW and the diversion of the public utilities estimated at US\$27.54 million shall be borne by SINOMACH; but NORTHRAIL shall be responsible for the actual works, relocation and diversion. On October 1, 2004, SINOMACH released to NORTHRAIL P1.3 billion (US\$23.24 million) for this purpose. The amount was taken from the 25 per cent advance payment made by NORTHRAIL to SINOMACH (see Note 5). Unliquidated balance as of December 31, 2012 of US\$ 9,157,909 remains unliquidated as of October 31, 2015.

Due to LGUs account mainly pertains to the amounts withheld from payments made to lot owners to cover for the payment of the corresponding real property taxes due on the property.

15. DUE TO NATIONAL TREASURY

This account consists of the advances made by the National Government for the servicing of NORTHRAIL's borrowings:

	2015	2014
Interest and commitment fees		

US\$400M ChinaEXIM Bank Loan	1,883,816,525	1,883,816,524
US\$90M Barclays Bank PLC Loan	956,135,563	876,382,974
DOF Interest	551,001,906	551,001,906
Principal Repayment		
US\$400M ChinaEXIM Bank Loan	7,771,915,974	7,771,915,974
US\$90M Barclays Bank PLC Loan	2,141,376,922	1,506,544,615
	13,304,246,890	12,589,661,993

16. DUE TO PARENT

This account consists of the following:

	2015	2014
BCDA advances	250,000,000	250,000,000
Utility expenses	93,033	93,033
	250,093,033	250,093,033

The P250 million advances of BCDA pertain to the Fort Bonifacio Development Corporation's (FBDC) contributions to NORTHTRAIL that has been considered in the Global Settlement Agreement between BCDA and FBDC. As such, the share has been reclassified from Deposits for Future Subscriptions to BCDA advances account pursuant to the instructions of BCDA to NORTHTRAIL (see Note 20).

17. INTEREST AND FINANCING CHARGES PAYABLE

This account consists of the following:

	2015	2014
Interest payable	786,559,188	670,382,011
Financing charges payable	248,078,427	224,803,449
	1,034,637,615	895,185,460

Interest payable pertains to the accrual of interest charged by the National Treasury on its advances for the payment of interest and commitment fees due from the US\$400 million loan from the China EXIM Bank and the US\$90 million loan from Barclays Bank PLC.

Financing charges payable pertains to the accrual of 1 per cent guarantee fee to the DOF for the outstanding loan drawdown from the Barclays Loan.

18. LOANS PAYABLE - FOREIGN CURRENCY

This account consists of the following loans:

	2015		2014	
	Original Currency (US\$)	Peso Equivalent	Original Currency (US\$)	Peso Equivalent
Barclays Bank PLC	34,615,385	1,632,669,232	48,461,538	2,162,208,462
	34,615,385	1,632,669,232	48,461,538	2,162,208,462

The loan payable to Barclays Bank PLC includes the eight drawdowns from the US\$90 million Credit Facility made from March 28, 2008 to September 29, 2011 amounting to a total of US\$90 million less repayment of US\$41,538,462.

The loan balances were restated using the foreign exchange rates prevailing at reporting date of P47.166:US\$1.00 as of December 31, 2015 and P44.617:US\$1.00 as of December 31, 2014.

19. DEFERRED CREDITS

This account consists of the following:

	2015	2014
Subsidy from the National Government	3,381,632,805	3,413,877,201
Housing loan amortization	66,579,269	55,410,604
	3,448,195,074	3,469,287,805

Subsidy from the National Government consists of the Special Allotment Release Order (SARO) issued by the Department of Budget and Management (DBM) to cover the taxes and import duties due on the implementation of the Contract Agreement with SINOMACH in the total amount of P3,788,308,797 and an unutilized balance of P3,199,463,535. The Contract with SINOMACH is already terminated in August 2012 and arbitration between the parties is currently on going. As such, the unutilized balance of the tax subsidy will be subsequently adjusted in accordance with the results of the arbitration between the parties.

The National Government also released funds to NORTHRAIL to cover costs for the NORTHRAIL Project and arbitration expenses amounting to P100,000,000 and P221,275,000, respectively. As of December 31, 2015, these funds have unutilized balances of P44,596,078 and P137,573,192, respectively. These subsidies are recognized as income upon utilization.

Housing loan amortization pertains to the payments made by the NORTHRAIL Relocation Program beneficiaries who were granted a loan for the house and lot units in Harmony Hills Subdivision, San Jose Del Monte, Bulacan (see also Note 11).

20. DEPOSITS FOR FUTURE SUBSCRIPTIONS

This account consists of deposits made by the BCDA and its private sector joint venture partners pursuant to the Joint Venture Agreement (JVA) dated June 10, 1995 and amendment to the JVA dated February 8, 1996 as follows:

	31 December 2015	30 November 2015
BCDA	1,411,790,722	1,411,790,722
D.M. Consunji, Inc. (DMCI)	300,000,000	300,000,000
Spanish Railways Group (SRG)	100,000,000	100,000,000
	1,811,790,722	1,811,790,722

On July 17, 1996, the NORTHRAIL Board approved to amend the NORTHRAIL Articles of Incorporation to increase the authorized capital stock from P100million to P1.25billion. The Certificate of Increase of Capital Stock was subsequently filed with the SEC on October 18, 1996. However, on June 18, 1997, NORTHRAIL decided to hold in abeyance the

increase in authorized capital stock and withdrew its application with the SEC, except for the filing fees because of its intention to re-file its application with revision.

In September 2000, the DMCI and FBDC signified their withdrawal from the JVA and demanded the refund of their deposits from BCDA/NORTHRAIL. However, BCDA/NORTHRAIL argued that the above stated deposits are actually their contributions to the Joint Venture. As such, they should share in all the expenses incurred by the Corporation during the time that they were active partners of the joint venture. The share of FBDC of P250 million has been considered in the Global Settlement Agreement between BCDA and FBDC. As such, the same has been reclassified to BCDA advances account (see Note 16). The request of the DMCI for refund is currently under arbitration and management intends to reclassify DMCI's deposits to another account depending on the outcome of the case.

21. CAPITAL STOCK

The Corporation has an authorized capital stock of P100 million divided into 1,000,000 shares at a par value of P100 per share. The authorized capital stock is fully subscribed and paid for by the BCDA.

22. PRE-OPERATING EXPENSES

This account consists of the following:

	2015	2014
PRE-OPERATING EXPENSES		
Salaries and Wages	21,705,911	24,457,369
Other benefits, bonuses/allowances	9,794,469	10,030,890
Doubtful Account Expense	9,476,807	3,405
Depreciation expense	2,962,451	5,763,175
Security Services	1,840,594	1,783,860
Rental	1,777,246	1,637,320
Repairs and Maintenance	1,186,143	938,938
Gasoline and Oil	1,019,930	1,519,410
Personnel Benefit Contribution	982,501	1,027,662
Utility Expense	742,519	907,481
Supplies and Materials	583,525	599,313
Communication Expense	554,277	577,383
Taxes and Licenses	515,400	443,618
Representation	509,711	362,913
Insurance	465,802	586,035
Training & Seminars/Team Building	427,997	245,709
Transportation and Travel	366,001	363,716
Council/Board Members allowances and other benefits	202,000	243,000
Auditing Fees	138,037	-
Travelling Expense(Foreign and Local)	122,016	122,297
Miscellaneous Expense	109,255	143,643
Legal Fees	40,350	17,550
Advertising	15,300	26,700
Bank Charges	17,122	56,201
Subscription/Membership Dues	12,970	44,587

Other Maintenance & operating Expense	-	5,179
Total	55,568,334	51,907,054
MISCELLANEOUS EXPENSES		
Interest Expense	195,929,465	271,161,572
Guarantee Fees	23,274,978	17,779,332
Arbitration Expense	19,761,869	7,746,028
Impairment Loss	-	2,250,000
Other Financial Charges	400,000	
	239,366,312	298,936,932
TOTAL EXPENSES	294,934,646	350,843,986
MISCELLANEOUS INCOME		
Gain (Loss) on Foreign Exchange Rate Changes	140,156,232	11,402,833
Interest Income from Time Deposits	46,857,961	72,745,365
Subsidy Income from National Government	26,996,165	12,229,028
Miscellaneous Income	63,000	121,000
TOTAL MISCELLANEOUS INCOME	214,073,358	96,498,226
NET PRE-OPERATING (EXPENSE) INCOME	(80,861,288)	(254,345,760)

23. CONTINGENCIES

NORTHRAIL is contingently liable for the following claims or lawsuits filed by third parties, which are either pending in the courts or submitted for resolution/decision.

Case	Nature
SINOMACH vs. NORTHRAIL	Arbitration
DMCI vs. BCDA and NORTHRAIL	Return of investment
Herminio Harry L. Roque, Jr., et al. vs. Ermita, et al.	Action for annulment of contract
Julie Certeza and Felisa C. Lapenavs.PNR, NORTHRAIL, et al.	Just compensation and damages (demolition of commercial structures)

NORTHRAIL has also filed a total of 262 expropriation cases (for 347 lots) for the acquisition of the additional right-of-way requirements of the NORTHRAIL Project. Out of the 262 cases, 185 (210 lots) are still pending in Court.

ORIGINAL PROJECT COST & FINANCING PLAN 2003

ANNEX B

NEDA APPROVED PROJECT SECTION I					
NORTH LUZON RAILWAYS CORPORATION					
NORTHRAIL Project Phase I, Section 1					
Original Project Cost & Financing Plan					
Component	NEDA Approved Project Cost 2003	FUNDING SOURCES			
		ChinaEXIM (95%)	Commercial Borrowing	Syndicated Loan (5%)	Total
Site and Survey Investigation					
Survey and Site Investigation	7,760,000	7,372,000.00		388,000.00	7,760,000.00
Preliminaries	30,910,000	29,364,500.00		1,545,500.00	30,910,000.00
Civil and Trackworks					
Permanent Way	206,790,000	196,453,000.00		10,337,000.00	206,790,000.00
Stations	27,000,000	25,650,000.00		1,350,000.00	27,000,000.00
Depot and Other Facilities for Operation	15,070,000	14,316,500.00		753,500.00	15,070,000.00
Signaling and Communications					
Communications	4,100,000	3,895,000.00		205,000.00	4,100,000.00
Way-side Signaling	14,200,000	13,490,000.00		710,000.00	14,200,000.00
Cab Signaling/ATP					
Ticketing System	3,640,000	3,458,000.00		182,000.00	3,640,000.00
Power Supply	4,610,000	4,379,500.00		230,500.00	4,610,000.00
Rolling Stocks					
DMU and Spare Parts	79,430,000	75,458,500.00		3,971,500.00	79,430,000.00
ROW Expenses and Public Utilities Diversion	27,540,000	26,163,000.00		1,377,000.00	27,540,000.00
Sub-total	421,050,000	400,000,000.00	-	21,050,000.00	421,050,000.00
Other Costs	81,990,000.00	-	81,990,000.00	-	81,990,000.00
Project Management	8,540,000.00		8,540,000.00		8,540,000.00
Others (Contingency)	22,730,000.00		22,730,000.00		22,730,000.00
Taxes	50,720,000.00		50,720,000.00		50,720,000.00
GRAND TOTAL	503,040,000.00	400,000,000.00	81,990,000.00	21,050,000.00	503,040,000.00

**NORTHRAIL PHASE I PROJECT COST AND FINANCING PLAN
SECTION I & II, 2006**

ANNEX C

NORTH LUZON RAILWAYS CORPORATION						
NORTHRAIL Project Phase I						
Project Cost & Financing Plan						
Section 1						
Component	NEDA Approved Project Cost 2006	FUNDING SOURCES				Total
		ChinaEXIM (95%)		Commercial Borrowing	Syndicated Loan (5%)	
Site and Survey Investigation						
Survey and Site Investigation	7,760,000.00	7,372,000.00		-	388,000.00	7,760,000.00
Preliminaries	30,910,000.00	29,364,500.00		-	1,545,500.00	30,910,000.00
Civil and Trackworks						
Permanent Way	206,790,000.00	196,453,000.00		-	10,337,000.00	206,790,000.00
Stations	27,000,000.00	25,650,000.00		-	1,350,000.00	27,000,000.00
Depot and Other Facilities for Operation	15,070,000.00	14,316,500.00		-	753,500.00	15,070,000.00
Signaling and Communications						
Communications	4,100,000.00	3,895,000.00		-	205,000.00	4,100,000.00
Way-side Signaling	14,200,000.00	13,490,000.00		-	710,000.00	14,200,000.00
Cab Signaling/ATP	-	-		-	-	-
Ticketing System	3,640,000.00	3,458,000.00		-	182,000.00	3,640,000.00
Power Supply	4,610,000.00	4,379,500.00		-	230,500.00	4,610,000.00
Rolling Stocks						
DMU and Spare Parts	79,430,000.00	75,458,500.00		-	3,971,500.00	79,430,000.00
ROW Expenses & Public Utilities Diversion	27,540,000.00	26,163,000.00		-	1,377,000.00	27,540,000.00
Contract Price	421,050,000.00	400,000,000.00	-	-	21,050,000.00	421,050,000.00
Other Costs	31,270,000.00	-	-	31,270,000.00	-	31,270,000.00
Project Management	8,540,000.00	-	-	8,540,000.00	-	8,540,000.00
Others (Contingency)	22,730,000.00	-	-	22,730,000.00	-	22,730,000.00
TOTAL	452,320,000.00	400,000,000.00	-	31,270,000.00	21,050,000.00	452,320,000.00
Section 2						
Component	NEDA Approved Project Cost 2006	FUNDING SOURCES				Total
		ChinaEXIM	Supplemental ODA Loan with ChinaEXIM	Commercial Borrowing (5%)		
Site and Survey Investigation	30,190,000.00	25,719,445.91	2,961,054.09	1,509,500.00		30,190,000.00
Civil and Trackworks						
Permanent Way	250,160,000.00	213,116,150.69	24,535,849.31	12,508,000.00		250,160,000.00
Stations	25,570,000.00	21,783,578.40	2,507,921.60	1,278,500.00		25,570,000.00
Depot and Other Facilities for Operation	15,260,000.00	13,000,289.65	1,496,710.35	763,000.00		15,260,000.00
Signaling and Communications						
Communications, Way-side Signaling & Power Supply	23,940,000.00	20,394,949.82	2,348,050.18	1,197,000.00		23,940,000.00
Ticketing System	2,500,000.00	2,129,798.44	245,201.56	125,000.00		2,500,000.00
Rolling Stocks						
DMU and Spare Parts	206,200,000.00	175,665,774.99	20,224,225.01	10,310,000.00		206,200,000.00
ROW Expenses & Public Utilities Diversion	33,090,000.00	28,190,012.10	3,245,487.90	1,654,500.00		33,090,000.00
Contract Price	586,910,000.00	500,000,000.00	57,564,500.00	29,345,500.00	-	586,910,000.00
Other Costs	86,760,371.46	-	-	86,760,371.46	-	86,760,371.46
Project Management	11,740,000.00	-	-	11,740,000.00	-	11,740,000.00
Others (Contingency)	75,020,371.46	-	-	75,020,371.46	-	75,020,371.46
TOTAL	673,670,371.46	500,000,000.00	57,564,500.00	116,105,871.46	-	673,670,371.46
TOTAL PROJECT COST	1,125,990,371.46	900,000,000.00	57,564,500.00	147,375,871.46	21,050,000.00	1,125,990,371.46

**REVISED PROJECT COST AND FINANCING PLAN
SECTION I & II, 2009**

ANNEX D

NORTH LUZON RAILWAYS CORPORATION							
NORTHRAIL Project Phase I							
Revised Project Cost & Financing Plan							
Section 1							
Component	NEDA Approved Project Cost 2009	FUNDING SOURCES					Total
		ChinaEXIM	Barclays Bank PLC	National Government	BCDA	DBP Syndicated Loan	
Site and Survey Investigation							
Survey and Site Investigation	10,007,080.48	7,372,000.00	337,062.07	1,910,018.41	-	388,001.05	10,007,081.53
Preliminaries	39,753,482.94	29,364,500.00	1,326,522.44	7,516,960.50	-	1,545,498.95	39,753,481.89
Civil and Trackworks							
Permanent Way	373,080,878.87	247,146,282.39	19,870,902.83	92,892,765.27	-	13,170,928.37	373,080,878.87
Stations	21,874,399.90	16,611,485.73	-	4,444,591.48	-	818,322.69	21,874,399.90
Depot and Other Facilities for Operation	21,907,652.61	12,970,185.35	1,104,842.87	7,158,319.37	-	674,305.02	21,907,652.61
Signaling and Communications							
Communications	5,411,870.01	3,876,575.03	197,864.32	1,133,514.48	-	203,916.18	5,411,870.01
Way-side Signaling	20,473,374.00	14,872,876.36	859,660.43	3,949,491.54	-	791,345.67	20,473,374.00
Cab Signaling/ATP	2,400,000.00	2,040,000.00	360,000.00	-	-	-	2,400,000.00
Ticketing System	4,831,065.00	3,458,000.38	178,659.73	1,012,404.87	-	182,000.02	4,831,065.00
Power Supply	6,082,331.00	4,357,094.77	222,167.60	1,273,886.58	-	229,182.05	6,082,331.00
Rolling Stocks							
DMU and Spare Parts	33,440,000.00	31,768,000.00	-	-	-	1,672,000.00	33,440,000.00
ROW Expenses & Public Utilities Diversion	27,540,000.00	26,163,000.00	-	-	-	1,377,000.00	27,540,000.00
Contingency	27,078,113.74	-	1,466,854.98	25,611,258.76	-	-	27,078,113.74
Contract Price	593,880,248.55	400,000,000.00	25,924,537.29	146,903,211.27	-	21,052,500.00	593,880,248.55
Other Costs	8,540,000.00	-	8,457,702.81	-	82,297.19	-	8,540,000.00
Project Management	8,540,000.00	-	8,457,702.81	-	82,297.19	-	8,540,000.00
Others (Contingency)	-	-	-	-	-	-	-
TOTAL	602,420,248.55	400,000,000.00	34,382,240.10	146,903,211.27	82,297.19	21,052,500.00	602,420,248.55
Section 2							
Component	NEDA Approved Project Cost 2009	FUNDING SOURCES					Total
		ChinaEXIM	Barclays Bank PLC	National Government	BCDA	DBP Syndicated Loan	
Site and Survey Investigation	33,877,646.43	-	1,693,882.32	32,183,764.11	-	-	33,877,646.43
Civil and Trackworks							
Permanent Way	485,268,377.98	412,478,121.29	12,070,583.27	60,719,673.43	-	-	485,268,377.98
Stations	15,122,603.01	12,854,212.56	756,130.15	1,512,260.30	-	-	15,122,603.01
Depot and Other Facilities for Operation	17,399,816.23	14,789,843.79	869,990.81	1,739,981.62	-	-	17,399,816.23
Signaling and Communications							
Communications	4,928,498.64	4,189,223.84	246,424.93	492,849.86	-	-	4,928,498.64
Way-side Signaling	20,830,393.37	17,705,834.36	1,041,519.67	2,083,039.34	-	-	20,830,393.37
Ticketing System	2,659,266.30	2,260,376.35	132,963.31	265,926.63	-	-	2,659,266.30
Power Supply	5,539,076.13	4,708,214.71	276,953.81	553,907.61	-	-	5,539,076.13
Rolling Stocks							
DMU and Spare Parts	-	-	-	-	-	-	-
ROW Expenses & Public Utilities Diversion	33,090,000.00	-	-	33,090,000.00	-	-	33,090,000.00
Contingency	68,713,786.47	31,014,173.09	-	37,699,613.38	-	-	68,713,786.47
Contract Price	687,429,464.56	500,000,000.00	17,088,448.27	170,341,016.29	-	-	687,429,464.56
Other Costs	11,740,000.00	-	11,740,000.00	-	-	-	11,740,000.00
Project Management	11,740,000.00	-	11,740,000.00	-	-	-	11,740,000.00
Others (Contingency)	-	-	-	-	-	-	-
TOTAL	699,169,464.56	500,000,000.00	28,828,448.27	170,341,016.29	-	-	699,169,464.56
TOTAL PROJECT COST	1,301,589,713.11	900,000,000.00	63,210,688.37	317,244,227.56	82,297.19	21,052,500.00	1,301,589,713.11

DISBURSEMENTS TO SINOMACH

ANNEX E

North Luzon Railways Corporation				
Recoupment Balance to SINOMACH				
(In US Dollar)				
As of 31 December 2015				
Particular	Recoupment			
	Original		Amended	Total
	5% DP	25% AP	5% Add'l DP	
25% Advance Payment		105,262,500.00		105,262,500.00
5% Down Payment	21,052,500.00			21,052,500.00
5% out of the 15% Add'l Down Payment			8,641,512.43	8,641,512.43
Total	21,052,500.00	105,262,500.00	8,641,512.43	134,956,512.43
Paid Progress Billings:				
1st Apr. 2005 to Aug. 2005	(519,095.19)	(2,595,475.95)	-	(3,114,571.14)
2nd September 1-30 2006	(568,744.00)	(2,843,720.00)	-	(3,412,464.00)
3rd Oct 2006 to Aug 2007	(633,792.70)	(3,168,963.50)	-	(3,802,756.20)
4th September 1-30 2007	(37,073.97)	(185,369.85)	-	(222,443.82)
5th October 1-31, 2007	(168,187.05)	(840,935.23)	-	(1,009,122.27)
6th Nov 1, 2007 to Feb 29, 2008	(13,564.41)	(67,822.04)	-	(81,386.45)
7th Jan 1 to Mar 31, 2008	(187,726.57)	(938,632.86)	-	(1,126,359.44)
8th Apr 1, '08 to Mar 31, '09	(309,145.69)	(1,545,728.46)	-	(1,854,874.15)
9th Apr 1, 2009 to June 30, 2009	(304,309.17)	(961,763.53)	(124,911.12)	(1,390,983.82)
10th Jul. 1, 2009 to Oct. 31, 2009	(769,241.30)	(2,431,172.96)	(315,753.86)	(3,516,168.12)
11th Nov. 1, 2009 to Dec. 31, 2009	(428,162.50)	(1,353,199.72)	(175,749.75)	(1,957,111.97)
13th Mar. 1, 2010 to Mar. 31, 2010	(362,509.56)	(1,145,704.81)	(148,800.90)	(1,657,015.27)
12th Jan. 1, 2010 to Feb. 28, 2010	(418,333.87)	(1,322,136.49)	(171,715.35)	(1,912,185.71)
14th Mar. 1, 2010 to Mar. 31, 2010	(203,152.57)	(642,059.93)	(83,388.93)	(928,601.43)
15th Apr. 1, 2010 to Apr. 30, 2010	(254,638.22)	(804,779.42)	(104,522.47)	(1,163,940.12)
16th May 1, 2010 to May 31, 2010	(382,517.23)	(1,208,938.67)	(157,013.53)	(1,748,469.43)
Total	(5,560,194.00)	(22,056,403.42)	(1,281,855.91)	(28,898,453.34)
Total Payments	(5,560,194.00)	(22,056,403.42)	(1,281,855.91)	(28,898,453.34)
Unrecouped Balance	15,492,306.00	83,206,096.58	7,359,656.52	106,058,059.09