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Financial Statements and
Independent Auditors' Report

VA Tech Wabag (Philippines) Inc.

March 31, 2019 and 2018

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Report of Independent Auditors

The Board of Directors
VA Tech Wabag (Philippines) Inc.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
7th Floor, Peninsula Court Building
8735 Paseo de Roxas Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of VA Tech Wabag (Philippines) Inc. (the Company), which comprise the statements of financial position as at March 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the fiscal years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2019 and 2018, and its financial performance and its cash flows for the fiscal years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the fiscal year ended March 31, 2019 required by the Bureau of Internal Revenue, as disclosed in Note 18 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: James Joseph Benjamin J. Araullo
Partner

CPA Reg. No. 0111202
TIN 212-755-957
PTR No. 7333685, January 3, 2019, Makati City
SEC Group A Accreditation
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-039-2018 (until Nov. 26, 2021)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

June 21, 2019

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Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
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Supplemental Statement of Independent Auditors

The Board of Directors
VA Tech Wabag (Philippines) Inc.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
7th Floor, Peninsula Court Building
8735 Paseo de Roxas Avenue, Makati City

We have audited the financial statements of VA Tech Wabag (Philippines) Inc. (the Company) for the fiscal year ended March 31, 2019, on which we have rendered the attached report dated June 21, 2019.

In compliance with the Securities Regulation Code Rule 68, as amended, we are stating that the Company has only one stockholder owning 100 or more shares of the Company's capital stock as of March 31, 2019, as disclosed in Note 14 to the financial statements.

PUNONGBAYAN & ARAULLO

By: James Joseph Benjamin J. Araullo
Partner

CPA Reg. No. 0111202
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June 21, 2019

VA TECH WABAG (PHILIPPINES) INC.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
A S S E T S			
CURRENT ASSETS			
Cash	4	P 10,007,796	P 33,950,808
Contract and other receivables	5	1,389,508,103	1,056,637,540
Other current assets	6	78,963,000	79,877,057
Total Current Assets		1,478,478,899	1,170,465,405
NON-CURRENT ASSETS			
Contract receivables	5	11,156,723	11,156,723
Property and equipment - net	7	9,205,945	12,465,422
Refundable deposits	15	3,587,233	3,618,245
Deferred tax assets - net	12	-	2,465,585
Total Non-current Assets		23,949,901	29,705,975
TOTAL ASSETS		P 1,502,428,800	P 1,200,171,380
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	8	P 1,075,673,698	P 881,844,968
Notes payable	9	120,586,535	49,908,844
Due to related parties - net	13	100,435,384	82,869,465
Total Current Liabilities		1,296,695,617	1,014,623,277
NON-CURRENT LIABILITY			
Deferred tax liability - net	12	2,643,976	-
Total Liabilities		1,299,339,593	1,014,623,277
EQUITY	14		
Capital stock		8,570,200	8,570,200
Retained earnings		194,519,007	176,977,903
Total Equity		203,089,207	185,548,103
TOTAL LIABILITIES AND EQUITY		P 1,502,428,800	P 1,200,171,380

See Notes to Financial Statements.

VA TECH WABAG (PHILIPPINES) INC.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
CONTRACT REVENUES	5	P 1,090,708,881	P 933,991,974
CONTRACT COSTS	10	952,294,880	803,788,654
GROSS PROFIT		138,414,001	130,203,320
OTHER OPERATING EXPENSES (INCOME)			
Other operating expenses	10	114,848,081	92,323,281
Other operating income	11	(1,865,533)	(211,063)
		112,982,548	92,112,218
NET OPERATING INCOME		25,431,453	38,091,102
PROFIT BEFORE TAX		25,431,453	38,091,102
TAX EXPENSE	12	7,890,349	11,467,372
NET PROFIT		17,541,104	26,623,730
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		P 17,541,104	P 26,623,730

See Notes to Financial Statements.

VA TECH WABAG (PHILIPPINES) INC.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Note	2019	2018
CAPITAL STOCK	14	**P 8,570,200**	P 8,570,200
RETAINED EARNINGS	14		
Appropriated			
Balance at beginning of year		**140,000,000**	140,000,000
Appropriation during the year		**50,000,000**	-
Reversal of appropriation during the year		**(10,000,000)**	-
Balance at the end of year		**180,000,000**	140,000,000
Unappropriated			
Balance at beginning of year		**36,977,903**	10,354,173
Net profit for the year		**17,541,104**	26,623,730
Appropriation during the year		**(50,000,000)**	-
Reversal of appropriation during the year		**10,000,000**	-
Balance at end of year		**14,519,007**	36,977,903
		194,519,007	176,977,903
TOTAL EQUITY		**P 203,089,207**	P 185,548,103

See Notes to Financial Statements.

VA TECH WABAG (PHILIPPINES) INC.

(A Wholly Owned Subsidiary of VA Tech Wabag Limited)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2019 AND 2018

(Amounts in Philippine Pesos)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 25,431,453	P 38,091,102
Adjustments for:			
Unrealized foreign currency loss (gain) – net		(12,270,917)	8,218,616
Interest expense	9	8,125,722	984,710
Depreciation and amortization	7	6,903,142	5,669,939
Interest income	11	(33,839)	(139,634)
Operating profit before working capital changes		28,155,561	52,824,733
Increase in contract and other receivables		(326,346,796)	(157,782,766)
Increase in other current assets		(1,859,963)	(47,999,264)
Decrease (increase) in refundable deposits		31,012	(1,409,780)
Increase (decrease) in trade and other payables		198,593,922	(88,266,948)
Increase in due to related parties		18,538,116	64,341,734
Cash used in operations		(82,888,148)	(178,292,291)
Cash paid for income taxes		(6,768)	(27,927)
Net Cash Used in Operating Activities		(82,894,916)	(178,320,218)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	7	(3,643,665)	(4,078,528)
Interest received	11	33,839	139,634
Net Cash Used in Investing Activities		(3,609,826)	(3,938,894)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable	9	83,177,691	49,908,844
Repayment of notes payable	9	(12,500,000)	-
Interest paid	10	(8,125,722)	-
Net Cash From Financing Activities		62,551,969	49,908,844
Effect of Foreign Exchange Rate Changes on Cash		9,761	(3,399,879)
NET DECREASE IN CASH		(23,943,012)	(135,750,147)
CASH AT BEGINNING OF YEAR		33,950,808	169,700,955
CASH AT END OF YEAR		P 10,007,796	P 33,950,808

See Notes to Financial Statements.

VA TECH WABAG (PHILIPPINES) INC.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

VA Tech Wabag (Philippines) Inc. (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 21, 2011, and started its commercial operations on the same date. The Company is incorporated to provide general, process and civil works and other services relating to water and wastewater treatment plant, pumping stations and piping networks.

The Company is a wholly owned subsidiary of VA Tech Wabag Limited (the parent company), a company incorporated and domiciled in India. The parent company is primarily engaged in the planning, completion and operation of drinking water and wastewater plants for both the municipal and industrial sectors. The parent company's shares of stock are listed in the National Stock Exchange of India Ltd.

The Company's registered office address, which is also its principal place of business, is located at 7th Floor, Peninsula Court Building, 8735 Paseo de Roxas Avenue, Makati City. The registered office address of the parent company is at No. 17, 200 Feet Thoraipakkam – Pallavaram Main Road, Sunnambu Kolathur, Chennai, IN-600 117, India.

The financial statements of the Company as of and for the fiscal year ended March 31, 2019 (including the comparative financial statements as of and for the fiscal year ended March 31, 2018) were authorized for issue by the Company's Chief Executive Officer on June 21, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements.* The Company presents all items of income, expenses and other comprehensive income, if any, in a single statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in Fiscal Year 2019 that are Relevant to the Company

In fiscal year 2019, the Company adopted for the first time the following new standards and interpretation, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration

Further, the Company also adopted for the first time the Republic Act (RA) No. 11232, *The Revised Corporation Code of the Philippines* (RCC), which took effect on March 8, 2019.

Discussed below and in the succeeding pages are the relevant information about these standards, interpretation and the RCC.

(i) PFRS 9 (2014), *Financial Instruments*. This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income (FVOCI) if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

The Company applied PFRS 9 using transitional relief allowed by the standard. This allows the Company not to restate its comparative prior period's financial statements. The adoption of this new accounting standard required the application of the ECL methodology based on the stages of impairment assessment for the Company's contract and other receivables. Such application, however, did not result in any significant adjustment to the Company's financial statements as of April 1, 2018 and for the current year.

The Company's new accounting policies relative to the adoption of PFRS 9 is fully disclosed in Note 2.3 and 2.6, while the related disclosure on credit risk is included in Note 16.2.

(ii) PFRS 15, *Revenue from Contracts with Customers.* This standard replaced PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services.* This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company applied PFRS 15 using the modified retrospective approach which allows the Company not to restate its comparative prior period's adjustments.

The Company's significant revenue streams as of March 31, 2019 include rendering of services, which is in scope of PFRS 15. The recognition and measurement of this revenue stream under PFRS 15 did not significantly vary from PAS 18. Relative to this, the Company's adoption of PFRS 15 did not result in any adjustment to the Company's financial statements as of April 1, 2018 and for the current year. However, it resulted in changes in the Company's accounting policies as disclosed in Note 2.9. In addition, disclosure related to management judgments and estimates is disclosed in Note 3.

(iii) IFRIC 22, *Foreign Currency Transactions and Advance Consideration.* The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this interpretation has no material impact on the financial statements of the Company.

(iv) RA No. 11232, *The Revised Corporation Code of the Philippines.* The RCC repeals the Batas Pambansa Bilang 68, *The Corporation Code of the Philippines.* Among the provisions of the RCC, the following would impact the Company's financial statements:

- the RCC removed the 50-year maximum corporate term. Hence, stock corporation may have unlimited life unless otherwise provided in the articles of incorporation; and

- the RCC removed the subscription requirement of 25% of authorized capital stock and paid-up capital requirement of 25% of subscribed capital stock.

The management deems further that other amendments and new provisions contained in the RCC are not relevant to the Company.

(b) Effective in Fiscal Year 2019 that is not Relevant to the Company

The following amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Company's financial statements:

PAS 40 (Amendments)	:	Investment Property – Transfers of Investment Property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4
Annual Improvements PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions

(c) Effective Subsequent to Fiscal Year 2019 but not Adopted Early

There are new PFRS, interpretation, amendments and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements.

(i) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

(ii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, Leases, and its related interpretation IFRIC 4, Determining whether an Arrangement Contains a Lease.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to as financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Retained Earnings account at the date of initial application. The Company will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on the Company's financial statements.

(iii) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this interpretation on the financial statements of the Company.

(iv) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Company but had no material impact on the Company's financial statements as these amendments merely clarify existing requirements:

- PFRS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

2.3 Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at amortized cost, financial assets at FVOCI, and financial assets at FVTPL. The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Currently, the only classification relevant to the Company's financial assets is assets at amortized cost.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Company's financial assets at amortized cost are presented in the 2019 statement of financial position as Cash, Contract and Other Receivables and Refundable Deposits (the current portion of which is presented as part of Other Current Assets account).

For purposes of cash flows reporting and presentation, cash comprises accounts with original maturities of three months or less. These generally include cash on hand and demand deposits readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of profit or loss as part of Other Operating Income.

(b) Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

The Company's loans and receivables are presented in the 2018 statement of financial position as Cash, Contract and Other Receivables and Refundable Deposits (the current portion of which is presented as part of Other Current Assets account). Cash is defined as cash on hand and demand deposits with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

All income and expenses, including impairment losses, relating to financial assets are recognized in profit or loss.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. Interest calculated using the effective interest method for all categories of financial assets is recognized in the statement of profit or loss.

(c) *Impairment of Financial Assets Under PFRS 9*

From April 1, 2018, the Company assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Company's identification of a credit loss event. Instead, the Company considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all contract and other receivables and contract assets. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Company uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. The Company also assesses impairment of contract receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due [See Note 16.2(b)].

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of likelihood of default over a given time horizon.

- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral.

- *Exposure at default* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(e) *Impairment of Financial Assets Under PAS 39*

Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in the profit or loss.

(f) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.4 Other Assets

Other current assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

2.5 Property and Equipment

Property and equipment are carried at acquisition or construction cost less subsequent depreciation, amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expenses as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The depreciation and period for property and equipment are as follows:

Transportation equipment	5 years
Office furniture and equipment	3 years

Amortization of leasehold improvements is recognized over the estimated useful lives of improvements or the term of the lease, whichever is shorter.

If there is an indication that there has been a significant change in the useful life or residual value of an asset, the depreciation or amortization of that asset is revised prospectively to reflect the new expectations.

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

The residual values, estimated useful lives and method of depreciation and amortization of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

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

2.6 Financial Liabilities

Financial liabilities, which include Trade and Other Payables (except tax-related payables and advances from customers) and Due to Related Parties, are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liability are recognized as an expense in profit or loss and presented as part of Other Operating Expenses account in the statement of comprehensive income.

Financial liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using the effective interest method for those with maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of reporting period (or in the normal operating cycle of the business, if longer), or the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.7 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Company currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.8 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, these are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.9 Revenue and Expense Recognition

Revenue arises mainly from rendering of construction services.

To determine whether to recognize revenue, the Company follows a five-step process:

(1) identifying the contract with a customer;
(2) identifying the performance obligation;
(3) determining the transaction price;
(4) allocating the transaction price to the performance obligations; and,
(5) recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

(i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
(ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
(iii) the payment terms for the goods or services to be transferred or performed can be identified;
(iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
(v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(i) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
(ii) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(iii) the Company's performance does not create an asset with an alternative use to the Company and the entity has an enforceable right to payment for performance completed to date.

The Company often enters into transactions involving construction services and other contracts containing performance obligations with counterparties.

Revenue from construction services is recognized over time as the service is provided. The Company uses the percentage of completion method to determine the appropriate amount to recognize as contract revenue in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

The Company presents a contract asset when it transfers control of goods or performs services before the customer pays consideration or before payment is due. A contract asset is the Company's right to consideration in exchange for goods or services that the Company has transferred to a customer.

The Company presents a contract liability when a customer pays the consideration, or the Company has the right to an amount of consideration that is unconditional (i.e., a receivable), before the Company transfers goods or performs services to the customer. A contract liability is the Company's obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

Contract liability also includes cash received from customers which are applied to subsequent progress billings for construction contracts and are presented as Advances from customer under Trade and Other Payables account in the statement of financial position (see Note 8).

The Company incurs incremental costs in obtaining customer contracts (i.e., biddings costs on construction contracts). These costs are expensed when incurred as these are incurred regardless whether the contract is obtained and is presented as Advertising under Other Operating Expenses account in the statement of comprehensive income.

The Company also incurs costs in fulfilling contracts with customers. These costs are divided into: (i) costs that give rise to an asset; and, (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Company first considers any other applicable standards. If other standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15. If other standards are not applicable to contract fulfillment costs, the Company applies the following criteria, which, if met, result in capitalization:

(i) the costs directly relate to a contract or to a specifically identifiable anticipated contract;
(ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and,
(iii) the costs are expected to be recovered.

In 2018 and prior periods, the Company recognized revenues based on the provisions of PAS 11 and PAS 18 which is to the extent that such revenues and the related costs incurred or to be incurred can be measured reliably and it is probable that future economic benefits will flow to the Company. Generally, revenues are recognized when the customer has accepted the services that have been provided and the risks and rewards of ownership of the goods has been transferred to the customer. Where the outcome of the contract cannot be measured reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

2.10 Foreign Currency Transactions and Translation

The accounting records of the Company are maintained in Philippine pesos, its functional currency. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.11 Leases – Company as a Lessee

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

The Company determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.12 Employee Benefits

The Company's employee benefits are recognized and measured as follows:

(a) *Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(b) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

2.13 Impairment of Non-financial Assets

The Company's property and equipment and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts, which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2.14 Borrowing Costs

Borrowing costs are recognized as expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.15 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.16 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; and, (b) individuals owning directly or indirectly, an interest in the Company that gives them significant influence over the Company and close members of the family of any such individual.

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

2.17 Equity

Capital stock represents the nominal value of shares that have been issued.

Retained earnings represent all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income, reduced by the amounts of dividends declared, if any.

2.18 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) *Determination of ECL on Contract and Other Receivables (2019)*

The Company uses a modified loss rate approach to calculate ECL for contract and other receivables. The modified loss rate approach is based on the Company's historically observed default rates and considers significant assumptions about the future economic conditions. The Company's management intends to regularly calibrate (i.e., on an annual basis) the approach to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Company's contract and other receivables are disclosed in Note 16.2(b).

Based on management's evaluation of information and circumstances affecting the Company's Contract and Other Receivables as of March 31, 2019, the Company has not recognized any impairment loss.

(b) *Determination of Allowance for Impairment of Contract and Other Receivables (2018)*

Adequate amount of allowance for impairment is made and provided for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Company's relationship with the counterparties, the counterparties' current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

The carrying value of contract and other receivables is shown in Note 5. There were no impairment losses that need to be recognized for the fiscal year ended March 31, 2018.

(c) *Distinction Between Operating and Finance Leases*

The Company has entered into various lease agreements as a lessee. Critical judgment was exercised by management to distinguish the lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management's assessment, the Company's lease agreements are operating leases.

(d) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.8 and disclosures on relevant provisions and contingencies are presented in Note 15.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Revenue Recognition Using the Percentage-of-Completion Method

The Company uses the percentage of completion method in accounting for its construction contract revenues and costs. Relative to the adoption of PFRS 15 in 2019, the use of the percentage of completion method requires the Company to estimate the stage of completion based on its efforts or inputs (i.e., actual costs incurred) to the satisfaction of a performance obligation relative to the total expected construction costs to be incurred on a per project basis. Review of the benchmarks set by management necessary for the determination of percentage-of-completion is done regularly. Actual data is being compared to the related benchmarks and critical judgment is exercised to assess the reliability of the percentage of completion procedures which are currently in place and make the necessary revisions in the light of current progress. If the proportion of the percentage of completed projects or the total estimated costs per project differs from management's estimates, the amount of profit or loss would have changed.

In 2018, the Company determines percentage of completion based on the stage of completion based on surveys done by the Company's engineers and total costs to be incurred on a per project basis.

(b) Recognition of Provision for Contract Losses

Losses on contracts are accrued when the amount of loss can be reasonably estimated. At the end of each reporting period, the estimated contract costs are reviewed to determine its reasonableness and accuracy. The actual cost is analyzed to validate the original estimate. Any difference between the estimate and the actual cost is a change in estimate and is therefore treated prospectively.

Based on management assessment, no provision for contract losses should be recognized in 2019 and 2018.

(c) Estimation of Useful Lives of Property and Equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

Based on management's assessment as at March 31, 2019 and 2018, there is no change in the estimated useful lives of property and equipment. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) Determination of Realizable Amount of Deferred Tax Asset

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the net deferred tax asset recognized as at March 31, 2019 and 2018 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 12.

(e) Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Company's policy on estimating the impairment of property and equipment and other non-financial assets is discussed in Note 2.13. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There were no impairment losses recognized on the Company's non-financial assets for the fiscal years ended March 31, 2019 and 2018 based on management's evaluation.

4. CASH

This account is composed of the following:

	2019	2018
Cash in banks	P 9,692,002	P 33,777,689
Cash on hand	315,794	173,119
	P 10,007,796	P 33,950,808

Cash in banks generally earn interest based on daily bank deposit rates (see Note 11).

5. CONTRACT AND OTHER RECEIVABLES

This account is composed of the following:

	2019	2018
Current:		
Construction contract receivables:		
Unbilled	P1,291,406,205	P 977,751,786
Billed	87,941,209	72,205,241
	1,379,347,414	1,049,957,027
Advances to suppliers	3,965,905	2,244,522
Others	6,194,784	4,435,991
	1,389,508,103	1,056,637,540
Non-current –		
Construction contract receivables –		
Retention	11,156,723	11,156,723
	P1,400,664,826	P 1,067,794,263

Construction contract receivables pertain to receivables from customers for contract revenue recognized over the period of the contract based on the percentage-of-completion. Portion of this remain unbilled due to pending required documentations as set out in the agreements. These documents include signed contract and approved unit cost estimate for variation order, testing certificates and manuals. The related contract revenues were presented in the statements of comprehensive income as Contract Revenues amounting to P1.1 billion and P934.0 million for the fiscal years ended March 31, 2019 and 2018, respectively. Contract costs incurred and recognized related to contracts in progress for the fiscal years ended March 31, 2019 and 2018 amounted to P952.3 million and P803.8 million, respectively (see Note 10.2).

As of March 31, 2019 and 2018, retention receivables both amounted to P11.2 million. Retention receivables pertain to payments for receivables withheld by the customer until the completion of the project.

Other receivables include salary loans provided by the Company to its employees.

All of the Company's contract and other receivables have been reviewed for indications of impairment. Based on management's evaluation, no impairment losses on contract and other receivables need to be recognized as of March 31, 2018.

As of March 31, 2019, Company's contract and other receivables were assessed for any ECL using the provisional matrix determined by the management. Based on the matrix, none of the receivables are deemed to be impaired as of March 31, 2019.

6. OTHER CURRENT ASSETS

The composition of this account is shown below.

	Notes	2019	2018
Creditable withholding tax		P 19,161,680	P 9,734,463
Advances for liquidation		18,233,203	11,116,307
Prepaid taxes		13,343,372	13,772,692
Deferred VAT receivable		9,925,834	5,899,069
Prepaid insurance		8,478,440	5,903,812
Input VAT	18(b)	6,399,350	31,829,899
Prepaid rent		2,031,612	1,230,515
Refundable deposits	15.1	1,389,509	390,300
		P 78,963,000	P 79,877,057

Advances for liquidation pertain to advances to employees for the daily expenditures of the Company. Advances for liquidation also include custom duties paid in advance amounting to P6.7 million and P6.1 million in 2019 and 2018, respectively.

Prepaid insurance pertains to insurance policies covering the Company's performance bonds related to its ongoing projects. In 2019, certain insurance policies expired which were renewed by the Company in the same period. The related prepaid insurance were fully amortized in 2019.

7. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2019 and 2018 are shown below.

	Transportation Equipment	Office Furniture and Equipment	Leasehold Improvements	Total
Cost	P 10,791,327	P 12,881,847	P 11,493,402	P 35,166,576
Accumulated depreciation and amortization	(5,979,233)	(9,710,250)	(10,271,148)	(25,960,631)
Balance at March 31, 2019, net of accumulated depreciation and amortization	P 4,812,094	P 3,171,597	P 1,222,254	P 9,205,945
Cost	P 10,270,792	P 9,846,718	P 11,405,402	P 31,522,912
Accumulated depreciation and amortization	(4,357,948)	(8,035,000)	(6,664,542)	(19,057,490)
Balance at March 31, 2018, net of accumulated depreciation and amortization	P 5,912,844	P 1,811,718	P 4,740,860	P 12,465,422
Cost	P 8,118,112	P 9,406,754	P 9,919,517	P 27,444,383
Accumulated depreciation and amortization	(2,621,169)	(6,045,603)	(4,720,778)	(13,387,550)
Balance at April 1, 2017, net of accumulated depreciation and amortization	P 5,496,943	P 3,361,151	P 5,198,739	P 14,056,833

A reconciliation of the carrying amounts of property and equipment at the beginning and end of fiscal years 2019 and 2018 is shown below.

	Transportation Equipment	Office Furniture and Equipment	Leasehold Improvements	Total
Balance at April 1, 2018 net of accumulated depreciation and amortization	P 5,912,844	P 1,811,718	P 4,740,860	P 12,465,422
Additions	520,536	3,035,129	88,000	3,643,665
Depreciation and amortization charges for the year	(1,621,286)	(1,675,250)	(3,606,606)	(6,903,142)
Balance at March 31, 2019, net of accumulated depreciation and amortization	P 4,812,094	P 3,171,597	P 1,222,254	P 9,205,945
Balance at April 1, 2017 net of accumulated depreciation and amortization	P 5,496,943	P 3,361,151	P 5,198,739	P 14,056,833
Additions	2,152,679	439,964	1,485,885	4,078,528
Depreciation and amortization charges for the year	(1,736,778)	(1,989,397)	(1,943,764)	(5,669,939)
Balance at March 31, 2018, net of accumulated depreciation and amortization	P 5,912,844	P 1,811,718	P 4,740,860	P 12,465,422

Depreciation and amortization is presented under Other Operating Expenses account in the statements of comprehensive income (see Note 10).

Cost of fully depreciated assets still in use as of 2019 and 2018 amount to P13.0 million and P7.6 million, respectively.

8. TRADE AND OTHER PAYABLES

This account consists of:

	2019	2018
Trade payables	**P 542,932,977**	P 561,623,587
Accrued expenses	**524,922,082**	314,238,185
Withholding tax payable	**4,348,489**	3,511,663
Advances from customers	**945,603**	2,353,638
Others	**2,524,547**	117,895
	P1,075,673,698	P 881,844,968

Advances from customers pertain to advance payments for ongoing projects, which are subsequently applied to the billings made by the Company.

9. NOTES PAYABLE

This account includes the following as of March 31, 2019 and 2018.

	2019	2018
Balance at the beginning of the year	P 49,908,844	P -
Net availments during the year	83,177,691	49,908,844
Settlements made	(12,500,000)	-
	P 120,586,535	P 49,908,844

For the current and prior years, the Company obtained unsecured, short-term interest-bearing loans from local banks. These loans were subject to annual interest rates ranging from 8.00% to 9.70% and 7.00% for the periods ended March 31, 2019 and 2018, respectively, and the proceeds from which were used for working capital requirements.

Interest expense incurred on these loans for the fiscal years ended March 31, 2019 and 2018 amounted to P8.13 million and P0.98 million, respectively, and is presented as Interest expense under Other Operating Expenses account in the statements of comprehensive income (see Note 10). There was no unpaid interest as of March 31, 2019.

10. OPERATING EXPENSES BY NATURE

10.1 Operating Expense by Nature

The details of operating expenses by nature are shown below.

	Notes	2019	2018
Material cost	13.1	P 579,402,012	P 270,727,189
Outside services	13.1, 13.2	297,915,526	454,405,703
Salaries and wages	13.3	72,095,327	60,918,484
Transportation, travel and representation		19,656,244	11,420,722
Insurance		16,879,080	15,800,519
Rentals	15.1	16,793,602	11,638,612
Freight charges		9,250,767	7,955,829
Interest expense	9	8,125,722	984,710
Depreciation and amortization	7	6,903,142	5,669,939
Utilities		5,304,717	4,809,409
Taxes and licenses	18(f)	5,200,778	4,674,075
Bank charges		3,420,870	7,505,081
Processing fees		3,371,259	14,618,527
Professional fees		2,967,677	2,891,565
Repairs and maintenance		2,512,946	2,996,321
Commissions		1,626,912	2,899,644
Advertising		1,105,879	719,714
Foreign currency losses - net		-	9,804,754
Miscellaneous		14,610,501	5,671,138
		P 1,067,142,961	P 896,111,935

The operating expenses are classified in the statements of comprehensive income as follows:

	Note	2019	2018
Contract costs	10.2	P 952,294,880	P 803,788,654
Other operating expenses		114,848,081	92,323,281
		P1,067,142,961	P 896,111,935

10.2 Contract Costs

The details of contract costs are shown below.

	Notes	2019	2018
Material cost	13.1	P 579,402,012	P 270,727,189
Outside services	13.1	272,720,752	437,682,618
Salaries and wages		39,673,941	30,192,911
Insurance		16,480,748	15,380,124
Transportation, travel and representation		9,695,398	5,497,067
Freight charges		9,250,767	7,955,829
Rentals		9,163,768	6,726,024
Processing fees		3,371,259	14,618,527
Bank charges		2,214,797	7,286,273
Utilities		1,665,848	1,151,167
Commissions		1,626,912	2,899,644
Repairs and maintenance		825,894	907,995
Miscellaneous		6,202,784	2,763,286
	10.1	P 952,294,880	P 803,788,654

Processing fees, freight charges and bank charges are expenses directly related to the Company's importations.

Commissions pertains to payments made by the Company to consultants that act as intermediary between the Company and its customers computed as percentage of collections.

Transportation, travel and representation expense include expenses incurred by the Company's consultants during the design phase of the project.

11. OTHER OPERATING INCOME

The details of other operating income are shown below.

	Note	2019	2018
Foreign currency gain - net		P 1,544,703	P -
Interest income	4	33,839	139,634
Others		286,991	71,429
		P 1,865,533	P 211,063

12. TAXES

The components of tax expense as reported in the statements of comprehensive income are as follows:

	2019	2018
Current tax expense:		
Minimum corporate income tax (MCIT) at 2%	P 2,774,020	P -
Final tax at 20%	6,768	27,927
Regular corporate income tax rate (RCIT) at 30%	-	14,940,995
	2,780,788	14,968,922
Application of MCIT	-	(1,561,974)
	2,780,788	13,406,948
Deferred tax expense (income) relating to origination and reversal of temporary difference	5,109,561	(1,939,576)
	P 7,890,349	P 11,467,372

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of comprehensive income is as follows:

	2019	2018
Tax on pretax profit at 30%	P 7,629,436	P 11,427,331
Adjustments for:		
Non-deductible expense	264,297	54,004
Income subjected to lower tax rates	(3,384)	(13,963)
Tax expense	P 7,890,349	P 11,467,372

The net deferred tax assets (liabilities) relate to the following as of March 31:

	Statements of			
	Financial Position		Comprehensive Income	
	2019	2018	2019	2018
Deferred tax assets:				
MCIT	P1,037,299	P -	(P 1,037,299)	P 1,561,974
Unrealized foreign exchange loss	-	2,465,585	-	(2,465,585)
Net operating loss carry over (NOLCO)	-	-	-	1,785,965
	1,037,299	2,465,585	(1,037,299)	882,354
Deferred tax liability – Unrealized foreign exchange gain	(3,681,275)	-	6,146,860	(2,821,930)
Deferred tax assets (liability) - net	(P2,643,976)	P 2,465,585		
Deferred tax expense (income)			P 5,109,561	(P 1,939,576)

The Company is subject to MCIT, which is computed at 2% of gross income net of allowable deductions, as defined under the tax regulations, or RCIT, whichever is higher. In 2019, the Company is subject to MCIT as it is higher than RCIT during the year. In 2018, the Company is subject to RCIT and its prior year's NOLCO and excess MCIT over RCIT were utilized in the same year.

For the fiscal years ended March 31, 2019 and 2018, the Company opted to claim itemized deductions for tax purposes.

13. RELATED PARTY TRANSACTIONS

The Company's related parties include its parent company, entities under common ownership and key management personnel. The summary of the Company's outstanding balances and significant transactions with its related parties as of and for the fiscal years ended March 31, 2019 and 2018 are as follows:

	Note	2019 Amount of Transaction	2019 Outstanding Balance	2018 Amount of Transaction	2018 Outstanding Balance
Parent Company:					
Technical and consultancy services	13.1	**P 22,668,316**	**(P 31,020,061)**	P 16,381,472	(P 16,781,468)
Purchases of construction materials	13.1	**17,254,431**	**(60,595,718)**	32,228,754	(61,056,740)
Reimbursements	13.1	**3,901,378**	**(5,789,754)**	5,114,907	(4,555,531)
Under Common Ownership –					
Research and development	13.2	**2,685,701**	**(3,029,851)**	1,957,889	(475,726)
Key Management Personnel –					
Key management compensation	13.3	**37,744,233**	**-**	34,722,827	-

The outstanding payables (net of overpayments) from these transactions, shown as Due to Related Parties in the statements of financial position, amounted to P100.4 million and P82.9 million as of March 31, 2019 and 2018, respectively. The outstanding liabilities to related parties are unsecured, noninterest-bearing and generally payable in cash upon demand.

13.1 Transactions with Parent Company

The parent company renders technical and consultancy services to the Company. The costs recognized from this transaction for the fiscal years ended March 31, 2019 and 2018 amounted to P22.7 million and P16.4 million, respectively. These are presented as part of Outside services under Contract Costs in the statements of comprehensive income (see Note 10.2). The Company purchases construction materials from its parent company for the fiscal years ended March 31, 2019 and 2018 amounting to P17.3 million and P32.2 million, respectively. These are presented as part of Material cost under Contract Costs in the statements of comprehensive income (see Note 10.2). In addition, the Company incurred information technology expenses for the fiscal years ended March 31, 2019 and 2018 amounting to P3.9 million and P5.1 million, respectively, which was initially paid by the parent company and yet to be reimbursed as of March 31, 2019 and 2018, respectively. These are presented as part of Outside services under Other Operating Expenses in the statements of comprehensive income (see Note 10.1).

13.2 Transactions with Related Parties Under Common Ownership

VA Tech Wabag GMBH, Austria, a related party under common ownership, incurred research and development costs on behalf of the Company amounting to P2.7 million and P2.0 million for the fiscal years ended March 31, 2019 and 2018, respectively. These are presented as part of Outside services under Other Operating Expenses in the statements of comprehensive income (see Note 10.1).

13.3 Key Management Personnel Compensation

The total remuneration (including salaries and benefits) of the Company's managers and other members of key management amounted to P37.7 million and P34.7 million for the fiscal years 2019 and 2018, respectively. These are presented as part of Salaries and wages under Other Operating Expenses in the statements of comprehensive income (see Note 10.1).

14. EQUITY

14.1 Capital Stock

The Company has 15,000,000 shares of authorized capital stock, of which 8,570,200 shares are issued and outstanding, with a par value of P1 per share, as of March 31, 2019 and 2018.

As of March 31, 2019 and 2018, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

14.2 Retained Earnings

On April 27, 2018, the Company's Board of Directors (BOD) approved the reverse of appropriation of retained earnings amounting to P10.0 million for the Pututan Plant Upgrade Project. On the same date, the BOD authorized the appropriation of P50.0 million for rehabilitation, retrofitting and process improvement of La Mesa Water Treatment Plant 2. As of March 31, 2019 and 2018, the total appropriated retained earnings of the Company amounted to P180.0 million and P140.0 million, respectively.

As of March 31, 2019, the Company's unrestricted retained earnings exceeded its paid-in capital. The Company plans to appropriate its excess unrestricted retained earnings for working capital purposes and projects to be started in the next fiscal year.

14.3 Capital Management Objectives, Policies and Procedures

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to shareholders by pricing services commensurate with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position. Capital for the reporting periods under review is summarized below.

	2019	2018
Total liabilities	**P1,299,339,593**	P1,014,623,277
Total equity	**203,089,207**	185,548,103
Debt-to-equity ratio	**6.40 : 1.00**	5.47 : 1.00

15. COMMITMENTS AND CONTINGENCIES

15.1 Operating Lease – Company as Lessee

The Company is a lessee under various operating leases covering its office space and rooms for its officers and employees. In October 2015, the Company entered into an operating lease agreement with a term of four years for its office space, with renewal options and 5% annual escalation rate. In fiscal years 2019 and 2018, the Company also entered into various leases of rooms with terms of one year to two years.

The total rentals from these operating leases for the fiscal years ended March 31, 2019 and 2018 amounted to P7.6 million and P4.9 million, respectively, and are presented as Rentals under Other Operating Expenses account in the statements of comprehensive income (see Note 10.1). In addition, the required security deposits amounting to P5.0 million and P4.0 million as of March 31, 2019 and 2018, respectively, is presented as Refundable Deposits (presented under Non-Current Assets section and as part of Other Current Assets account) in the statements of financial position (see Note 6). The future minimum rentals payable under this operating lease are as follows as of March 31:

	2019	2018
Within one year	**P 2,288,010**	P 4,566,010
More than one year	**-**	1,944,810
	P 2,288,010	P 6,510,820

15.2 Unused Line of Credit

The Company has unused lines of credit amounting to P27.7 million and US$1.0 million as of March 31, 2019 and P86.9 million and US$0.6 million as of March 31, 2018 with various commercial banks.

15.3 Others

There are other commitments and contingencies arising from the Company's operations. As of March 31, 2019, management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Company's financial statements.

16. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is coordinated with its parent company, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial risks.

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed to are described below and in the succeeding pages.

16.1 Market Risk

The Company is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk which result from both its operating and investing activities.

(a) Foreign Currency Risk

Exposures to currency exchange rates arise from trade and other payables and due to related parties which are primarily denominated in U.S. dollar, and Euro. The Company also holds U.S. dollar-denominated cash.

To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are regularly monitored. Foreign currency denominated financial assets and financial liabilities in U.S. dollars and Euro translated into Philippine pesos at the respective closing rates are as follows:

	U.S. Dollar	Euro
March 31, 2019		
Financial assets	P 52,343,352	P -
Financial liabilities	(45,713,293)	(21,555,690)
Net exposure	**P 6,630,059**	**(P 21,555,690)**
March 31, 2018		
Financial assets	P 20,055,074	P -
Financial liabilities	(45,224,069)	(37,196,822)
Net exposure	(P 25,168,995)	(P 37,196,822)

The sensitivity of the net results in regards to the Company's financial assets and financial liabilities and peso exchange rate assumes a +/-11.19% and +/-11.86% change for U.S. dollar – Philippine peso while +/- 23.07% and +/- 27.52% for Euro – Philippine peso in 2019 and 2018, respectively.

The following table illustrates the sensitivity of the profit or loss before tax and equity with respect to changes in the value of Philippine peso against foreign currencies. The percentage changes have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

	2019			2018		
	Reasonably possible change in rate	Effect in profit before tax	Effect in equity	Reasonably possible change in rate	Effect in profit before tax	Effect in equity
USD-Php	11.19%	P 741,904	P 519,333	11.86%	(P 2,985,043)	(P 2,089,530)
Euro-Php	23.07%	4,972,898	3,481,029	27.52%	10,236,565	7,165,596

The effect would be the reverse if the Philippine peso would appreciate against the other currencies.

Exposures to foreign currency exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis is considered to be representative of the Company's currency risk.

(b) Interest Rate Risk

The Company has limited exposure to changes in market interest rates through its cash and cash equivalents, which are mostly short-term and are subject to variable interest rates. These financial instruments have historically shown small or measured changes in interest rates. All other financial assets and financial liabilities have fixed rates.

16.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments arising from granting credits to customers and placing deposits with banks.

The Company continuously monitors defaults of counterparties, identified either individually or by group, and incorporate this information into its credit risk controls.

Where available at a reasonable cost, external credit ratings and/or reports on counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties.

The maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the statements of financial position (or in the detailed analysis provided in the notes to financial statements), as summarized below.

	Notes	2019	2018
Cash	4	**P 10,007,796**	P 33,950,808
Contract and other receivables	5	**1,396,698,921**	1,065,549,741
Refundable deposits	6, 15.1	**4,976,742**	4,008,545
		P 1,411,683,459	P 1,103,509,094

None of the financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described in the succeeding page.

(a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) Contract and Other Receivables and Refundable Deposits

The Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all contract and other receivables and refundable deposits.

To measure the ECL, these financial assets have been grouped based on shared credit risk characteristics. The other receivables and refundable deposits have substantially the same risk characteristics as the trade receivables. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months prior to March 31, 2019 or April 1, 2018, respectively, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the inflation rate in the Philippines to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor. However, the application of ECL methodology did not result in any significant adjustment on the Company's financial statements as of April 1, 2018 and for the current year.

All of the contract and other receivables and refundable deposits are not impaired as at the end of the reporting period and are of good credit quality.

Contract receivables that are past due but not impaired are as follows:

46 to 90 days past due	P 3,534,636
91 to 180 days past due	15,251,588
Over 180 days past due	151,746,868
	P 170,533,092

16.3 Liquidity Risk

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities, as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day period. Funding for long-term liquidity needs is additionally secured from related parties.

As at March 31, 2019 and 2018, the Company's financial liabilities have contractual maturities within 12 months as shown below.

	Notes	2019	2018
Trade and other payables	8	**P1,070,379,606**	P 875,979,667
Notes payable	9	**120,586,535**	49,908,844
Due to related parties	13	**100,435,384**	82,869,465
		P1,291,401,525	P 1,008,757,976

These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting period.

17. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

17.1 Fair Value Hierarchy

In accordance with PFRS 13 *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy levels is presented in the succeeding page.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

The Company has no financial assets and financial liabilities measured at fair value or that are not carried at fair value but are required to be disclosed as at March 31, 2019 and 2018. Nevertheless, if its financial instruments are presented in the fair value hierarchy, only cash can be considered Level 1; all the rest are considered Level 3.

17.2 Carrying Amounts and Fair Values of Financial Assets and Financial Liabilities

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

		2019		2018	
	Notes	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets					
At amortized cost:					
Cash	4	P 10,007,796	P 10,007,796	P 33,950,808	P 33,950,808
Contract and other receivables	5	1,396,698,921	1,396,698,921	1,065,549,741	1,065,549,741
Refundable deposits	6, 15.1	4,976,742	4,976,742	4,008,545	4,008,545
		P 1,411,683,459	P 1,411,683,459	P 1,103,509,094	P 1,103,509,094
Financial Liabilities					
At amortized cost:					
Trade and other payables	8	P 1,070,379,606	P 1,070,379,606	P 875,979,667	P 875,979,667
Notes payable	9	120,586,535	120,586,535	49,908,844	49,908,844
Due to related parties	13	100,435,384	100,435,384	82,869,465	82,869,465
		P 1,291,401,525	P 1,291,401,525	P 1,008,757,976	P 1,008,757,976

See Note 2.3 and 2.6 for a description of the accounting policies for each category of financial instrument, including the determination of fair values. A description of the Company's risk management objectives and policies for financial instrument is provided in Note 16.

17.3 Offsetting of Financial Assets and Financial Liabilities

The following financial assets and financial liabilities with net amounts presented in the statements of financial position are subject to offsetting and similar agreements:

	Gross Amount Recognized	Amount Set-off	Net Amount Presented
2019:			
Financial assets –			
Contract and other receivables	P 1,398,010,665	P 1,311,744	P 1,396,698,921
Financial liabilities –			
Trade and other payables	P 1,069,067,862	P 1,311,744	P 1,067,756,118
2018:			
Financial assets –			
Contract and other receivables	P 1,172,207,374	P 106,657,633	P 1,065,549,741
Financial liabilities –			
Trade and other payables	P 982,637,300	P 106,657,633	P 875,979,667

For financial assets and financial liabilities on the foregoing subject similar arrangements, each agreement between the Company and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party and upon the instruction of the parent company. There are no other potential financial assets and financial liabilities which can be set off as of March 31, 2019 and 2018.

18. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Following is the supplementary information on taxes, duties and license fees paid or accrued during the taxable year which is required by the Bureau of Internal Revenue under its existing Revenue Regulation No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

(a) Output VAT

In fiscal year 2019, the Company declared output VAT amounting to P88,948,813 arising from rendering of services. The tax base amounting to P741,240,110 is included as part of Contract Revenues in the 2019 statement of comprehensive income. The tax base for contract revenues is based on the Company's gross receipts for fiscal year 2019; hence, this may not be the same as the amount recognized in the 2019 statement of comprehensive income.

There is no outstanding output VAT payable as of March 31, 2019.

(b) Input VAT

The movements in input VAT in 2019 are summarized below.

Balance at beginning of period	P	31,829,899
Services lodged under cost of services		45,703,450
Importation of goods other than capital goods		21,290,006
Domestic purchases of goods other than capital goods		6,056,984
Capital goods		910,091
Applied against output VAT	(	99,391,080)
Balance at end of period	**P**	**6,399,350**

The balance of Input VAT as of March 31, 2019 is presented as part of Other Current Assets account in the 2019 statement of financial position (see Note 6).

(c) Taxes on Importation

In fiscal year 2019, the total landed cost of the Company's importations for use in business amounted to P102.5 million. This includes customs duties and tariff fees totaling P2,204,663.

(d) Excise Tax

The Company did not have any transactions in fiscal year 2019, which are subject to excise tax.

(e) Documentary Stamp Tax (DST)

The Company paid DST amounting to P108,395, which pertains to contract of lease entered during the fiscal year 2018 [see Note 18(f)].

(f) Taxes and Licenses

The details of taxes and licenses in fiscal year 2019 are as follows:

	Notes		
Business permits		P	5,076,792
DST	18(e)		108,395
Community tax certificate			10,500
Barangay clearance			2,200
BIR registration fee			500
Others			2,391
	10.1	**P**	**5,200,778**

(g) Withholding Taxes

The details of total withholding taxes for the fiscal year 2019 are shown below.

Expanded	P	3,935,875
Compensation and employee benefits		9,732,651
	P	**13,668,526**

The Company does not have any income payments subject to final withholding tax for the fiscal year 2019.

(h) Deficiency Tax Assessments and Tax Cases

For the fiscal year ended March 31, 2019, the Company paid penalties amounting to P730,555 for deficiency taxes on expanded withholding and income taxes related to taxable period 2016 which is presented as part of Miscellaneous under Other Operating Expenses (see Note 10). The Company does not have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

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Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

The Board of Directors
VA Tech Wabag (Philippines) Inc.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
7th Floor, Peninsula Court Building
8735 Paseo de Roxas Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of VA Tech Wabag (Philippines) Inc. (the Company) for the fiscal year ended March 31, 2019, on which we have rendered our report dated June 21, 2019. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The following applicable supplementary information is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, as amended, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards:

a. Reconciliation of Retained Earnings Available for Dividend Declaration for the fiscal year ended March 31, 2019; and,

b. Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as at March 31, 2019.

Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: James Joseph Benjamin J. Araullo
Partner

CPA Reg. No. 0111202
TIN 212-755-957
PTR No. 7333685, January 3, 2019, Makati City
SEC Group A Accreditation
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-039-2018 (until Nov. 26, 2021)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

June 21, 2019

VA TECH WABAG (PHILIPPINES) INC.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
7th Floor, Peninsula Court Building, 8735 Paseo de Roxas Avenue, Makati City

Reconciliation of Retained Earnings Available for Dividend Declaration
March 31, 2019

Unappropriated Retained Earnings at Beginning of Year			P	36,977,903
Prior Years' Outstanding Reconciling Items, net of tax				
Deferred tax income			(	2,465,585)
Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted				34,512,318
Appropriation during the Year			(	50,000,000)
Reversal of appropriation during the year				10,000,000
Net Profit Realized during the Year				
Net profit per audited financial statements	P	17,541,104		
Non-actual/unrealized income, net of tax				
Deferred tax income	(	1,037,299)		16,503,805
UNAPPROPRIATED RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AT END OF YEAR			**P**	**11,016,123**

Supplemental information –

As of March 31, 2019, the Company's unrestricted retained earnings exceeded its paid-in capital. The Company plans to appropriate its excess unrestricted retained earnings for working capital purposes and projects to be started in the next fiscal year.

VA TECH WABAG (PHILIPPINES) INC.
(A Wholly Owned Subsidiary of VA Tech Wabag Limited)
Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of March 31, 2019

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards (PFRS)				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, *Financial Instruments*, with PFRS 4, *Insurance Contracts*			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures *(effective when PFRS 9 is first applied)*	✓		
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments (2014)	✓		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation* *(effective January 1, 2019)*		✓	
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(effective date deferred indefinitely)*			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation* *(effective January 1, 2019)*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts	✓		
PFRS 15	Revenue from Contracts with Customers	✓		
PFRS 16	Leases* *(effective January 1, 2019)*		✓	
PFRS 17	Insurance Contracts* *(effective January 1, 2021)*			✓
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendment to PAS 12 - Tax Consequences of Dividends* *(effective January 1, 2019)*		✓	
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants**	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 17	Leases	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions**	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
	Amendment to PAS 23: Eligibility for Capitalization			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Revised)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Revised)	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(effective date deferred indefinitely)*			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception			✓
	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture* *(effective January 1, 2019)*			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation**	✓		
	Amendments to PAS 32: Classification of Rights Issues**	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings Per Share			✓
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 40	Investment Property			✓
	Amendment to PAS 40: Reclassification to and from Investment Property			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration	✓		
IFRIC 23	Uncertainty Over Income Tax Treatments* (*effective January 1, 2019*)			✓
Philippine Interpretations - Standing Interpretations Committee (SIC)				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services**	✓		
SIC-32	Intangible Assets - Web Site Costs			✓

* These standards will be effective for periods subsequent to fiscal year 2019 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.