

METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2017
(In Philippine Pesos)

1. Corporate Information

The Metropolitan Waterworks and Sewerage System (MWSS), a government-owned and controlled corporation, was created under Republic Act No. 6234 which was approved on June 19, 1971 replacing the National Waterworks and Sewerage Authority. MWSS is an attached agency to the Department of Public Works and Highways. Its main objective is to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes to its consumers at just and equitable rates. It also aims to provide sewerage and sanitation services to the public. MWSS owns and has jurisdiction over all waterworks and sewerage system of all the cities and municipalities of Metro Manila, and some municipalities of Cavite and Bulacan.

Because of the felt need for the government to adopt urgent and effective measures and to address the nationwide water crisis which adversely affected the health and well-being of the public, legislators passed into law Republic Act No. 8041, otherwise known as the National Water Crisis Act of 1995, implemented under Executive Order No. 286 dated December 6, 1995, which reorganized the MWSS. The passage of Executive Order No. 311 on March 20, 1996 encouraged the private sector's participation in the operation of the facilities of MWSS and paved the way for its privatization.

Pursuant to a process of a competitive public bidding and selection, MWSS' operations were privatized. Thus, on February 21, 1997, MWSS entered into a Concession Agreement (CA) with two private companies (Concessionaires), namely, the Manila Water Company Incorporated (MWCI), and the Maynilad Water Services Incorporated (MWSI), granting them the rights to manage, operate, repair, decommission, and refurbish the Facilities in the Service Area, including the right to bill and collect for water and sewerage services supplied in the Service Area. MWCI operates on the east zone while MWSI services the west zone the two concessionaires formally took over the operations of MWSS on August 1, 1997. In addition to the performance of the service obligations, the concessionaires are required, under the CA, to pay MWSS concession fees in consideration for such right.

As a result of the privatization in 1997, MWSS is now divided into two Offices, the MWSS-Corporate Office (CO) and the MWSS-Regulatory Office (RO).

On March 8, 2001, due to financial difficulties, Maynilad suspended payment of concession fees. From March 2001 to July 2001, MWSS used its own funds to meet the maturing obligations of Maynilad. Thereafter, from July 2001 to 2006, MWSS had to obtain a number of loans from various banks and financial institutions to meet its maturing obligations and expenses which the (unpaid) concession fees from Maynilad were supposed to cover.

Despite continuous negotiations, several disputes between Maynilad and MWSS led the former to issue a "Notice of Early Termination of the Concession" on December 9, 2002. On January 7, 2003, MWSS arbitration proceedings commenced and on November 7, 2003, the Appeals Panel for Major Disputes ruled that (1) there was no MWSS or

Concessionaire Event of Termination under Article 10 of the CA; (2) the parties should continue to perform their obligations under the CA until the expiration thereof; and (3) MWSS may draw on the USD120 million Performance Bond. The Arbitration Order became final on November 22, 2003.

During the pendency of the corporate rehabilitation proceedings, and prior to the drawing on the USD120 million Performance Bond, MWSS had to seek funding from other sources to meet its maturing obligations and operating expenses. As a result, on March 16, 2004, MWSS with the Republic as Guarantor, and BNP Paribas, entered into a Subscription Agreement wherein BNP Paribas agreed to subscribe to the MWSS-BNP Notes.

On April 29, 2005, Maynilad submitted to the Rehabilitation Court its 2005 Rehabilitation Plan incorporating the terms and conditions of the Debt and Capital Restructuring Agreement (DCRA) executed between Maynilad, MWSS, Benpress Holdings Corporation, the Suez Group, and other lenders. On June 1, 2005, the Rehabilitation Court approved the 2005 Rehabilitation Plan, including the DCRA.

Under Clause 2.6 of the DCRA, MWSS was given the right to subscribe to 83.97 percent of the shares of Maynilad. On September 8, 2005, the MWSS Board of Trustees resolved to assign the MWSS Subscription Rights pursuant to Clause 24 of the DCRA. After going through the process of competitive public bidding, DMCI-MPIC Water Company, Inc. (DWCI) was awarded the MWSS Subscription Rights and the right to acquire receivables of MWSS, subject to the conditions imposed under the DCRA. On December 27, 2006, MWSS and DWCI entered into an Assignment and Assumption Agreement (AAA) to formalize the award.

In accordance with the AAA, DWCI, decided to effect the early exit of Maynilad from rehabilitation proceeding by contributing cash to the latter and enabling the latter to prepay, among others, its obligations to MWSS under the DCRA. To implement this, DWCI entered into a Prepayment and Settlement Agreement (PSA) with Maynilad, MWSS, the Suez Group, and other lenders on August 9, 2007.

Thereafter, Maynilad, MWSS, the Suez Group, and other creditors of Maynilad filed a Joint Omnibus Motion dated August 14, 2007. Acting on the Joint Omnibus Motion, the Rehabilitation Court issued an order dated December 19, 2007 (1) immediately approving the PSA, (2) declaring that Maynilad had successfully implemented the 2005 Rehabilitation Plan subject to the fulfillment of certain conditions, and (3) disallowing the disputed or unresolved claims of MWSS and the Suez Group. On February 6, 2008, the Rehabilitation Court issued another order confirming the December 19, 2007 Order, declaring that the conditions in its previous order have been met, and releasing Maynilad from the corporate rehabilitation proceedings.

During the 11th year of the implementation of the Concession Agreement (CA), the Parties, MWSS, MWCI and Maynilad (under a new Sponsor, DMCI) identified and discussed the option of renewing/extending the CA pursuant to the following government policies:

- a. To increase investments in water and wastewater improvement projects, to pursue the mandate of the government to accelerate wastewater projects, to comply with the Clean Water Act and the recent Supreme Court decision for the cleanup and preservation of Manila Bay, and sufficient concession fees to support the

implementation of new water source projects as enumerated in the Final Business Plan; and

- b. To mitigate the impact on tariff increases through the renewal/extension of the CA.

On October 19, 2009, the Department of Finance (DOF) transmitted to the MWSS, the signed letter of Consent and Undertaking in behalf of the Republic the approval of extension of the CA of MWCI to an additional of 15 years from May 7, 2022 to May 6, 2037.

On March 17, 2010, the DOF thru the MWSS, again transmitted the signed Letter of Undertaking in behalf of the Republic another approval of 15 years' extension of the CA of Maynilad from May 6, 2022 to May 6, 2037.

The Term Extension committed the Concessionaires to increase by 100 percent the concession fees (Corporate Operating Budget or COB) of the MWSS Corporate Office and the Regulatory Office.

CY 2013 Rate Rebasing

In CY 2013, Rate Rebasing (RR) was performed which served as basis for reviewing the performance as well as to determine the new business plan that the MWCI and MWSI will undertake. The exercise will also ensure that notwithstanding the changes in the economic and operating assumptions, both concessionaires will be able to recover all its expenditures (Opex, Capex and Income Taxes), plus guaranteed rate of return. As such, the exercise will serve as one of the major drivers of tariff adjustments under the CA.

Section 9.2 of the CA provides that the Standard Rates for water and sewerage services shall be adjusted each year effective January 1 of each Charging Year. In accordance with (i) the Rate Adjustment Limit set forth in Section 9.2.1, (ii) the adjustment principles set forth in Section 9.2.2, and (iii) the procedures set forth in Section 9.2.3.

Rata Adjustment Limit (RAL) is defined as the percentage, either positive or negative, equal to the sum of "C" or the percentage change in the Consumer Price Index, "E" or Extraordinary Price Adjustment, and "R" or the Rate Rebasing Convergence Adjustment.

Manila Water Company, Inc. (MWCI)

On March 30, 2012, the Concessionaire filed a petition for the determination of its "R:" factor for the 3rd RR, proposing an upward adjustment of 22.79 percent of its average basic water charge or P5.83 per cubic meter (cu.m.) beginning January 1, 2013.

After careful study, the MWSS Board of Trustees resolved and adopted the recommendation of the MWSS-RO:

- a. To deny Manila Water's petition for an upward adjustment of its average basic water charge; and
- b. To approve and effect a negative adjustment of 29.47 percent of its 2012 average basic water charge of P24.57 per cu.m. to be implemented in five equal tranches of negative 5.894 percent per Charging year.

MWCI objected to MWSS RR determination and commence arbitration under the 1976 United National Commission on International Trade Law Arbitration Rules, in the case entitled Manila Water Company, Inc. vs MWSS and MWSS-RO which was subsequently docketed with the International Chamber of Commerce as Case No. UNC 136/CYK.

On February 27, 2015, the MWSS-RO received a copy of the Partial Award in International Chamber of Commerce (ICC) Case No. UNC136/CYK. The dispositive portion reads:

- a. Corporate Income Tax (CIT) is not allowed Expenditures under the CA;
- b. The Appropriate Discount Rate should not be computed fully pre-tax; and
- c. Each Party is to bear its own legal and other costs. The cost of the arbitration including the fees and expenses of the Appeals Panel are to be borne equally by MWSS and MWCI.

On April 21, 2015, the MWSS-RO received a copy of the Final Award in ICC Case No. UNC136/CYK. The dispositive portion reads:

- a. Affirm that the parties have reached agreement on the RR Adjustment after taking into account the Partial Award dated February 26, 2015;
- b. Order that the RR Adjustment for the period 2013 to 2017 be set as a negative adjustment of 11.05 percent of MWCI'S 2012 average basic charge of P25.07 per cu.m. or negative P2.77 per cu.m. to be implemented in five equal tranches of negative 2.21 percent per charging year, pursuant to Article 9.4.3 (ii) of the CA; and
- c. Order that each party is to bear its own legal and other costs.

On April 30, 2015, the MWSS-RO transmitted its Resolution No. 2015-0905-CA to the MWSS Board of Trustees containing the MWCI's determination of 2015 Rate Adjustment Limit as follows:

- a. To set the 2015 RAL of Manila Water at negative 2.42 percent to be applied on the prevailing basic charge; and
- b. To recommend the publication of the 2015 Table of Standard Rates for Manila Water pursuant to the requirement under Section 12 of the MWSS Charter that such "rates and fees shall be effective and enforceable fifteen (15) days after publication in a newspaper of general circulation.

Board Resolution No. 2015-058-RO dated May 8, 2015 resolved, approved and confirm the above recommendation. The Rate Adjustment of Manila Water took effect June 1, 2015.

Maynilad Water Services, Inc. (MWSI)

On March 30, 2012, the Concessionaire filed a petition for the determination of its "R" factor for the 4th Rebasing Period (2013-2017), proposing an upward adjustment of 24.69 percent of its average basic water charge or P7.41 per cu.m. beginning January 1, 2013.

On September 14, 2012, Maynilad revised their proposed rate adjustment to 34.06 percent of its average basic charge – or an equivalent increase of P10.31 per cu.m.

Pending the final determination of the “R”, Maynilad in a letter dated November 26, 2012, sought an interim rate increase of at least 20 percent of P2.06 per cu.m. of the anticipated “R” based on its September 2012 Business Plan. The MWSS Board of Trustees, upon the recommendation of the MWSS-RO in Resolution No. 2012-010-CA dated December 3, 2012, declined Maynilad proposed interim rate increase, but allowed the “C” factor of 3.2 percent.

After careful study, the MWSS Board of Trustees resolved and adopted the recommendation of the MWSS-RO:

- a. To deny Maynilad’s petition for an upward adjustment of its 2012 average basic water charge;
- b. To approve and effect a negative adjustment of 4.82 percent of its 2012 average basic water charge of P30.28 per cu.m. to be implemented in five equal tranches of negative 0.964 percent per Charging year; and
- c. Discontinuance of the CERA.

Maynilad objected to MWSS RR determination and commence arbitration under the 1976 United National Commission on International Trade Law Arbitration Rules, in the case entitled Maynilad Water Services, Inc. vs MWSS and MWSS-RO which was subsequently docketed with the ICC as Case No. UNC 141/CYK.

Maynilad argued that the MWSS-RO erred in the RR Determination and enumerated the following grounds for its objection to and disagreement with the same:

- a. Unauthorized disallowance of corporate income tax;
- b. Incorrect estimate of the ADR for Future Cash Flows (FCF);
- c. Unauthorized adjustments to the Opening Cash Position (OCP) set during the last RR;
- d. Improper addition of Guaranty Deposits to Maynilad’s historical and future receipts; unreasonable and improper disallowances in other expenditures in the OCP; and
- e. Unreasonable and improper adjustment to other expenditures in the FCF.

On December 29, 2014, the Appeals Panel in the Maynilad dispute promulgated its Final Award as follows:

- a. By majority, finds that the Maynilad is entitled to include its Corporate Income Tax (CIT) in its Future Cash Flows for each year of operation;
- b. By majority, upholds Claimant’s alternative Rebasing Adjustment for the 4th RR Period of 13.41 percent, which means an average basic water charge of P30.28 per cu.m. resulting in an adjusted rate of P34.34 per cu.m for every charging year of the 4th RR Period;

- c. Unanimously decides that each Party shall bear its own legal costs and that the costs of the arbitration shall be borne by the Parties equally;
- d. Unanimously orders Respondents to reimburse to Claimant the sums of USD15,012.50, Php540,502.81, and HKD179.73, representing Respondents' share of the costs of the arbitration that were advanced by the Claimant; and
- e. Dismiss all other claims.

Finding the conclusion reached by the Appeals Panel in the Maynilad Dispute as directly in contrast to the conclusions reached in the MWCI Dispute, the MWSS Board of Trustees after thorough deliberation of the MWSS-RO and Maynilad, granted the request of Maynilad on certain terms in the implementation of the Rate Adjustment as follows:

1. Consistent with the MWSS-RO Resolution No. 2012-010-CA dated December 3, 2012 and MWSS Board Resolution No. 2012-165 dated December 7, 2012, Maynilad shall receive the "C" factor of the RAL pending the final resolution of the "R";
2. Consistent with MWSS-RO Resolution No. 13-008-CA dated September 6, 2013 and MWSS Board Resolution No. 2013-100-RO dated September 12, 2013, Maynilad shall no longer collect CERA;
3. Consistent with MWSS-RO Resolution No. 2015-004-CA dated March 25, 2015 and MWSS Board Resolution No. 2015-039-RO dated March 31, 2015, Maynilad will not charge the CIT component of its alternative "R: pending a more definite ruling by a court of justice on the CIT issue; and
4. Consistent with MWSS-RO Resolution No. 2014-002-CA dated December 17, 2014 and MWSS Board Resolution No. 2013-129-RO dated December 12, 2014, which restored the FCDA adjustments, the proposal will bring regularity to the rate adjustment mechanism under the CA.

On May 14, 2015, MWSS Board Resolution No. 2015-060-RO resolved, approved and confirmed the resolutions of the MWSS-RO as follows:

- a. To set the 2015 RAL for Maynilad at 7.52 percent be applied on the prevailing basic charge;
- b. To implement the discontinuance of the charging the CERA; and
- c. To recommend the publication of the 2015 Table of Standard Rates for Maynilad pursuant to the requirement under Section 12 of the MWSS Charter that such "rates and fees shall be effective and enforceable fifteen (15) days after publication in a newspaper of general circulation".

The Rate Adjustment of Maynilad will take effect June 1, 2015.

Meanwhile, the issue on the CIT now elevated to the Supreme Court (SC) is an urgent and real issue for the SC to decide. Early resolve for the issue at hand was manifested.

SOURCES OF FUNDS

The following are the sources of funds of MWSS:

- Concession fees collected
- Rentals on leased properties
- Interest income on investments
- Loan availments from foreign and domestic financial institutions
- Collection of raw water and accounts receivable
- Other incidental revenues

STRATEGIC INITIATIVES AND WATER SECURITY LEGACY BUBBLE

Water Security Legacy (WSL) Roadmap – MWSS is driven by the Water Security Legacy Roadmap and is composed of seven legacies to help ensure a more holistic, long-term and sustainable approach to water service for Metro Manila and its outskirts. These legacies are:

- a. Legacy 1– Water Resources and Infrastructure Management, Development and Protection
- b. Legacy 2 – Water Distribution Efficiency
- c. Legacy 3 – Sewerage and Sanitation Compliance
- d. Legacy 4 – Water Rates Reviews and Rationalization
- e. Legacy 5 – Organization Excellence
- f. Legacy 6 – Partnership Development
- g. Legacy 7 – Communication and Knowledge Management

Strategic Initiatives – MWSS–CO hereby commits to undertake the following key programs and/or projects identified as having a significant impact on its Performance Scorecard:

- a. *Strategic Initiative 1 – New Centennial Water Supply Source Project (NCWSP) - Kaliwa Dam Project (P12.2 billion)*
 - Fund Source: Private Proponent under PPP scheme ODA-China
 - Involves the financing, design and construction of a raw water supply source with a capacity of 600 MLD, through the commissioning of the Kaliwa Dam, including intake facilities and other pertinent facilities.
 - Part of the Project is a water conveyance tunnel intended to supply 2,400 MLD of raw water for Metro Manila, thereby reducing heavy dependence on the Angat Dam reservoir.
 - Status: There is an on-going coordination with DOF relative to the procurement guidelines for the Limited Competitive Bidding among the three (3) Chinese

contractors provided by the China Ministry of Commerce, pursuant to the bilateral arrangement between the Government of the Philippines and China; On-going preparation of bidding documents; on-going coordination with DPWH relative to their participation to construct the access roads for the Project; On-going coordination with the LGUs and concerned agencies relative to their endorsements and issuance of required clearances. Indicative Timeline: Date of construction – 2nd Quarter of 2018 (Detailed Engineering Design); 1st Quarter of 2019 (construction dam); 1st Quarter of 2019 (construction – conveyance tunnel) while Target completion Date is 4th Quarter of 2018 for Detailed Engineering Design; 4th Quarter of 2021 for Construction dam and 4th Quarter of 2023 for construction of conveyance tunnel.

b. Strategic Initiative 2 – Bulacan Bulk Water Supply Project (BBWSP) (P16.32 billion)

- Funding Source: Private Proponent under PPP scheme
- Aims to provide clean and affordable treated water, will be implemented in three stages, covering 24 water service providers (WSPs) serving 21 municipalities and three cities in Bulacan.
- Involve the development of surface water source facilities and new groundwater sources; provision of water treatment facilities and lift and booster pump stations; and the installation of new conveyance/transmission lines, among others.
- Status: Bidded out in October 2015 with SMC K-Water Consortium as the winning proponent. As of November 30, 2017, the on-going construction works (water treatment plant and conveyance facilities) has an actual over-all physical accomplishment of 33.03 percent. Implementation Schedule: Date of Start for Stage 1 & 2 is April 2017; Target Completion date for Stage 1 is October 2018 while for Stage 2 is April 2019.

c. Strategic Initiative 3 – Angat Water Transmission Improvement Project (AWTIP) (US\$133.98 million)

- Funding Source: Loan and GOP counterpart funded by Concession Fees
- Aims to improve the reliability and security of the Angat raw water transmission system through the rehabilitation of existing conveyance and appurtenances from Ipo Dam to the La Mesa Treatment Plant.
- Involves the construction of an additional tunnel, which will allow the alternate closing of older tunnels and aqueducts in the conveyance system. This will enable the conduct of necessary inspection and rehabilitation of portions of the systems without interrupting the transmission of water.
- Status: Bidded out in March 2016 and the winning bidder is Cooperativa Muratori & Cementisti – C.M.C. Di Ravenna Societa' Cooperativa. As of November 30, 2017, the on-going construction works has an over-all physical accomplishment of 22.41 percent; procurement of consultants for the construction management is on-going. Implementation Schedule: Date of start is June 1, 2016 and target completion date is September 7, 2020.

d. *Strategic Initiative 4 – Angat Dam and Dykes Strengthening Project (ADDSP) (P5.719 billion)*

- Fund Source: National Government
- Involves the strengthening of the dam/dyke & auxiliary spillway, installation of flood forecasting and warning system on dam operation and flood protection works to ensure structural integrity of the dam and dyke and to increase dam storage capacity.
- Aims to mitigate risks as a result of the dam being on the West Valley Fault. It will include the installation of flow forecasting and warning systems beneficial to downstream towns and cities.
- Status: Instead of MWSS, the strengthening works of the dam and dyke will be implemented and funded by Korea Water Resources Corporation, now registered as Angat Hydropower Corporation (AHC), the new Owner/Operator of the Angat Hydro-electric Power Plant (AHEPP), pursuant to their contract obligation to undertake mandatory rehabilitation of Angat Dam. However, contract packages 2 & 4 of ADDSP in the total cost of P553.30 million remains to be the responsibility of the government, thus, MWSS, as allowed by the DBM and NEDA, transferred the funds directly to the agency mandated to implement contract packages 2 & 4, which are the NPC and the PGB, respectively. Corresponding MOAs were executed for the subject transfer of funds and its implementation. As of November 30, 2017, the construction works for Strengthening works is on-going with 71.76 percent actual physical accomplishment as of December 12, 2017 being undertaken by Hanjin, the contractor engaged by AHC; On Dam instrumentation, all seven (7) contract packages were already awarded and are now on-going. This is being implemented by NPC as per MOA; On Flood protection works; Construction is on-going wherein 9 out of 10 contract packages were already completed. This is being implemented by PGB as per MOA.
- Indicative Timeline: Started construction in November 2, 2016 and completion date is March 12, 2018 for Strengthening works while for Dam instrumentation; July 29, 2016 is the start date and completion date is January 30, 2018.

e. *Strategic Initiative 5 - Rehabilitation, Operation and Maintenance of MWSS-owned Auxiliary turbines 4 and 5 of the Angat Hydro-Electric Power Plant (AHEPP)*

- Funding Source: Private Proponent under PPP Scheme
- The Project involves the opportunity to optimize the benefit from the MWSS-owned auxiliary turbines 4 & 5 by developing the hydropower generation component, a “by-product” of water releases.
- Status: After the discussion/consultation with NEDA, the Project will now be subjected to second bidding through Public-Private Partnership (PPP) scheme under the BOT Law (RA 7718), as originally approved by the NEDA Board. Said second bidding was already approved by MWSS Board; there is an on-going review of bidding and other related documents.

f. Strategic Initiative 6 – Sumag Diversion Project

- Funding Source: Concessionaire' Fund through the Common Purpose Facility (CPF)
- Aims to provide additional raw water (188 MLD) from Sumag River in Gen. Nakar, Quezon which will be diverted to Umiray Tunnel to augment water supply in Angat Dam.
- The proposed project involves the construction of appurtence structures of Tyrolean Type Weir, Intake, Desilting Basis with Sluice Way, Transition Channel, Cut and Cover, Tunnel (600 linear meters with 2.70 meters' diameter), Open Channel and Intrasite Access connecting to the UATP.
- Status: The Supplemental MOA by and amongst MWSS, MWCI, MWSI and LGU General Nakar on watersheds protection and management was signed by the parties on September 27, 2017, and witnessed by MWSS Corporate and Regulatory Office. This Supplemental MOA is related to the Sumag and Umiray Rehab Projects and is a condition of LGU General Nakar prior to the lifting of the suspension; lifting of the Cease and Desist Order (CDO) was issued by LGU General Nakar during the meeting held at MWSS Office on November 21, 2017; the contractor is preparing some documentation works prior to resumption of contract works.

g. Rehabilitation of Umiray Facilities

- Funding Source: Concessionaire Fund' through the CPF
- Rehabilitation and strengthening of existing tunnel structures/facilities to withstand future typhoons in order to ensure the continuous flow of raw water from the Umiray River to the Angat Reservoir.
- Status: In view of the lifting of the Cease and Desist Order (CDO), the contractor for this Project is also preparing some documentation works prior to resumption of contract works.

h. Strategic Initiative 7 – MWSS Reorganization

- MWSS Corporate Office has an approved Reorganization based on GCG Memorandum Circular No. 2013-17.
- The process started late 2017 and placement of positions to the new Organizational Structure set up is being implemented. It is expected that by the 2nd Quarter of 2018, positions are filled up and those who availed of the Early Retirement Incentive Package (ERIP) are paid.

i. Strategic Initiative 8 – Customer Satisfaction Survey

- The ultimate customers of both MWSS and Concessionaires are the general public to whom it serves potable water and sewerage and sanitation services in its service area. This is a system for obtaining feedback from our direct

customers. The UP-CIDS did the study in 2016 and final report was presented to the new Board last March 2017.

Board Resolution No. 2018-070-CO dated May 24, 2018 authorized the issuance of the Financial Statements of MWSS pursuant to Section 8 (g) of Republic Act No. 6234, the MWSS Charter.

2. Basis of Financial Statement Preparation

The accompanying financial statements have been prepared in accordance with applicable Philippine Accounting Standards as aligned with the International Financial Reporting Standards using the historical cost basis and are presented in Philippine pesos, which is the MWSS's functional and presentation currency. The financial statements of the MWSS Corporate Office and the Regulatory Office are consolidated in this report.

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year.

These accounting standards are as follows:

- PAS 1, *Presentation of Financial Statements*, (a) provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; (b) provides the base criteria for classifying liabilities as current or non-current; (c) prohibits the presentation of income from operating activities and extraordinary items in the statement of income; and (d) specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the company's policies.
- PAS 2, *Inventories*, reduces the alternatives for measurement of inventories by disallowing the use of the last in, first out formula. Moreover, the revised accounting standards does not permit foreign exchange differences arising directly on the recent acquisition of inventories invoiced in foreign currency to be included in the cost of purchase of inventories.
- PAS 7, *Statement of Cash Flows*, provides information about the cash flows of an entity which is useful in providing users of financial statements with basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows.
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, (a) removes the concept of the fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors; (b) updates the previous hierarchy of guidance to which management refers and whose applicability it considers when selecting accounting policies in the absence of standards and interpretations that specifically apply; (c) defines materials omission or misstatements; and (d) describes how to apply the concept of materiality when applying accounting policies and correcting errors.

- PAS 10, *Events after the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the balance sheet date.
- PAS 16, *Property, Plant and Equipment*, (a) provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment (b) requires the capitalization of the costs of asset dismantling, removal or restoration as a result of either acquiring or having used the asset for purposes other than to produce inventories during the period; and (c) requires measurement of an item of property, plant and equipment acquired in exchange for a non-monetary asset or a combination of monetary and non-monetary assets at fair value, unless the exchange transaction lacks commercial substance. Under the previous version of the standard, an entity measured such an acquired asset at fair value unless the exchanged assets were similar.
- PAS 17, *Leases*, prescribes for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to leases.
- PAS 18, *Revenue*, prescribes the accounting treatment of revenue arising from certain types of transaction and events. The primary issue in accounting for revenue is determining when to recognize revenue.
- PAS 19, *Employee Benefits*, prescribes the accounting and disclosure for employee benefits. It requires an entity to recognize: (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) an expenses when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.
- PAS 21, *The Effects of Changes in Foreign Exchange Rates* eliminates the deferral/capitalization of foreign exchange differentials. The adoption of the standard resulted in the recognition of gain or loss on foreign exchange transactions.
- PAS 23 (Revised), *Borrowing Costs*, prescribes that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying assets shall form part of the cost of that asset. Other borrowing costs are recognized as an expense. The main change is the removal of the option of immediately recognizing as an expense borrowing costs that are directly attributable to the acquisition, construction or productivity of a qualifying asset. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. An entity is therefore required to capitalize such borrowing costs as part of the cost of the asset. The standard does not require the capitalization of borrowing costs relating to assets measured at fair value, and inventories, even if they take a substantial period of time to get ready for use or sale. The standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009.
- PAS 36, *Impairment of Asset*, establishes frequency of impairment testing for certain intangibles and provides additional guidance on the measurement of an asset's value in use.
- PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, ensures that appropriate recognition criteria and measurements bases are applied to provisions,

contingent liabilities and contingent assets and that sufficient information is disclosed in the note to enable users to understand their nature timing and amount.

- PAS 38, *Intangible Assets* outlines the accounting requirements for intangible assets, which are non-monetary assets which are without physical substance and identifiable (either being separable or arising from contractual or other legal rights). Intangible assets meeting the relevant recognition criteria are initially measured at cost, subsequently measured at cost or using the revaluation model, and amortized on a systematic basis over their useful lives (unless the asset has an indefinite useful life, in which case it is not amortized). If recognition criteria of these intangible item does not meet both the definition of and the criteria for recognition as an intangible asset, PAS 38 requires the expenditure on this items to be recognized as an expenses when it is incurred.
- PAS 40, *Investment Property* applies to the accounting for property (land and/or buildings) held to earn rentals or for capital appreciation (or both). Investment properties are initially measured at cost and, with some exceptions. May be subsequently measured using a cost model or fair value model, with changes in the fair value under the fair value model being recognized in profit or loss.
- FRS 30, *Heritage Assets*, applies to all heritage assets that are held and maintained by an entity principally for their contribution to knowledge and culture. Heritage assets can be historical, artistic, scientific, geophysical or environmental qualities. The FRS sets our new disclosure requirements for the reporting of heritage assets, which apply whether or not they are reported in the balance sheet.

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash in bank earns interest at the respective authorized government depository bank rates. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of changes in values. Cash equivalents are for varying period of up to three months depending on the immediate cash requirements of the MWSS, and earn interest at the respective investment rates. Due to the short term nature of the transaction, the fair value of cash and cash equivalents and short term investment approximates the amount at the time of initial recognition.

Receivables

Receivables are recognized and carried at original billed amount. Provision for doubtful accounts on water/sewer accounts receivable prior to privatization is maintained at a level considered adequate to provide for potential losses on receivables. The level of this provision or allowance is based on management's evaluation of collection experience and other factors that may affect collectability.

Property, plant and equipment

Property, plant and equipment (PPE) were either Retained Assets which are those assets that are retained by MWSS at the start of the Concession, Allocated Assets which are those assets assigned to the two Concessionaires, the MWSI and MWCI, and the Common Purpose Facility (CPF) assets.

PPE are stated at cost and fair market value.

Depreciation of PPE commences once the properties become operational and available for use, and are calculated on a straight-line basis over the estimated useful lives of the property, plant and equipment.

Minor repairs and maintenance costs are expensed when incurred, while major repairs and/or those repairs that will prolong the useful lives of the assets are capitalized.

When property and equipment are retired or disposed of, the cost and the related accumulated depreciation, amortization and accumulated provision for impairment losses, as the case may be, are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

The useful lives and the depreciation and amortization methods are reviewed periodically to ensure that they are consistent with the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An oil painting by H.R. Ocampo "Abstract in Red and Black" and the water color painting "Rooster" by Kiukok, both declared National Artists of the Philippines are listed in the PPE. These have yet to be registered in the Philippine Registry of Cultural Property of the National Museum per IRR of RA 10066 otherwise known as The Cultural Heritage Act of 2009.

Construction in-progress

Construction in-progress is stated at cost. While the construction is in progress, project costs are accrued based on the contractors' accomplishment reports and billings. These represent costs incurred for technical services and capital works program contracted by the MWSS to facilitate the implementation of the project. While the construction of the project is in progress, no provision for depreciation is recognized.

Construction in-progress is transferred to the related Property, Plant and Equipment account when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use have been completed, and the property, plant and equipment are ready for service.

Long-term foreign loans

Long-term foreign loans are recorded in peso based on the exchange rate at the time of withdrawal and are revalued at the end of each reporting date.

Impairment of financial assets

An assessment is made at each reporting date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the year it arises.

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, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. In 2004, an impairment loss was recognized by MWSS for the Umiray-Angat Transbasin due to damages caused by typhoons. Since said impairment was effected in the books only in 2005, it was charged directly to Retained Earnings of that year.

Leases

A lease where the lessor retains substantially all the risk and benefits of ownership of the asset is classified as an operating lease.

Revenue recognition

All Concession fees billed/collected/received from the Concessionaires are treated as operating revenue.

Concession fees – Debt Service and Progress Billings are concession fees received from the Concessionaires that are intended for MWSS loan amortization and payments to contractors/suppliers, respectively. These are pass-on payment without any margin in favor of MWSS. Concession Fee – COB is the annual Current Operating Budget being paid by the concessionaires to MWSS for administrative expenditures subject to annual Consumer Price Index adjustment.

Foreign currency-denominated transactions

Foreign currency-denominated transactions are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at reporting date. Foreign exchange gains and losses arising from foreign currency fluctuations are recognized in profit or loss for the period.

Subsequent events

All post year-end events up to the date the financial statements are authorized for issue that provide additional information about the MWSS's position at reporting date (adjusting events) are reflected in the financial statements. Any post year-end event that is material and not an adjusting event is disclosed in the Notes to the Financial Statements.

Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of fixed assets (including costs incurred in connection with rehabilitation works) are capitalized as part of the cost of the asset. The capitalization commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all activities necessary in preparing the related assets for their intended use are complete.

Judgments and use of estimates

The preparation of the accompanying financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Use of estimates

Key assumptions concerning the future and other sources of estimation and uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating allowance for doubtful accounts

The MWSS maintains allowances for doubtful accounts at a level considered adequate to provide for potential losses on receivables. The level of this allowance is based on management's evaluation of collection experience and other factors that may affect collectability. The amount and timing of recorded expenses for any period would, therefore, differ depending on the judgments and estimates made for the year.

Estimated useful lives of property, plant and equipment

The MWSS estimates the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The MWSS reviews annually the estimated useful lives of property, plant and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in the MWSS's estimates brought about by changes in the factors mentioned.

Contingencies

Contingent Liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when

an inflow of economic benefits is probable. Contingent assets are not recognized unless virtually certain.

5. Cash and Cash Equivalents

	2017	2016 (As Restated)
Cash on Hand	633,575	426,210
Cash in Bank – Local Currency, Current Account	475,396,701	64,158,806
Cash in Bank – Local Currency, Savings Account	6,199,562	5,435,150
Cash in Bank – Local Currency, Time Deposits	3,315,307,889	3,266,756,620
Cash in Bank – Foreign Currency, Savings Accounts	54,642	54,410
Cash in Bank – Foreign Currency, Time Deposits	3,036,285	17,985,237
	3,800,628,654	3,354,816,433

Cash on Hand consist of the amount of collection with the Cash Collecting Officers, amount of cash advances granted to designated Regular/Special Disbursing Officers for payment of authorized official expenditures subject to liquidation and cash granted to Petty Cash Custodians for payment of authorized petty and miscellaneous expenses which cannot be conveniently paid thru check.

Cash in Bank - Local Currency, Current Account consist of cash in local currency deposited in current account with the Land Bank of the Philippines (LBP) which earn interest at respective bank deposit rates. The increase was due to collection of MWCI Current Operating Budget for CY 2018 amounting to P260.83 million and increase in Regulatory Office's funds from unutilized COB.

Cash in Bank - Local Currency, Savings Account consist of cash in local currency deposited in savings account with the Development Bank of the Philippines (DBP) and LBP which earn interest at respective bank deposit rates.

Cash in Bank - Local Currency, Time Deposits consist of placements in local currency time deposits with DBP and LBP are made for varying period.

Cash in Bank - Foreign Currency, Savings Account represents balances of cash in foreign currency, deposited in savings account with the Bureau of Treasury and LBP.

Cash in Bank - Foreign Currency, Time Deposit consist of placements in foreign currency time deposit with LBP. The decrease was brought about by the Regulatory Office' time deposits set aside for sinking fund.

6. Accounts Receivables, net

This account consists of:

	2017	2016 (As Restated)
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<i>Trade/business</i>		
Receivables from customers-water/ sewer, including raw water accounts	1,126,210,924	1,125,313,278
Receivables from concessionaires	421,225,215	424,699,591
	1,547,436,139	1,550,012,869
Allowance for doubtful accounts	(1,117,001,777)	(1,117,001,777)
	430,434,362	433,011,092
<i>Non-trade receivables</i>		
Intra-agency receivables	0	961,524
Inter-agency receivables	18,890,052	14,051,876
Due from officers and employees	31,285,641	34,549,829
Loans receivables	48,116,202	48,983,363
Interest receivables	5,082,918	5,548,708
	103,374,813	104,095,300
Unreconciled Balances	21,596,858	21,596,858
	555,406,033	558,703,250

Receivables from customers-water/sewer, including raw water accounts represent the balance of accounts receivables prior to the privatization of MWSS in the amount of P1.117 billion, the collection of which is highly improbable. Thus, Management set-up the provision for bad debts account for the same amount. Meanwhile, Management is presently considering the process of writing-off the account in accordance with the required procedures, such as the congressional approval.

Receivables from concessionaires represent concession fees for Current Operating Budget, Debt Service and Progress Billing that are outstanding as of balance sheet date.

Inter-agency receivables represent collectibles from other government agencies such as the Department of Public Works and Highways (DPWH), Office of the Government Corporate Counsel (OGCC), Supreme Court, Manila International Airport Authority (MIAA), Local Water Utilities Administration (LWUA) and the City of Manila for office rental, electric and water bills. Some of these accounts are classified as dormant.

7. Other Receivables

This account consists of the following:

	2017	2016
Receivables from MWSI	5,432,234,484	5,445,333,994
Receivables from MWCI	163,997,996	163,865,610
Others	13,788,361	13,151,557
Unreconciled Balances	1,108,355	1,108,355
	5,611,129,196	5,623,459,516

Details of the *Receivables from MWSI and MWCI* are as follows:

	2017	2016 (As Restated)
<u>MWSI</u>		
Cost of borrowings	3,952,833,428	3,952,833,428
Penalty on delayed remittance of Concession fees	1,118,315,274	1,118,315,274
Inventory held in trust	158,479,798	158,479,798

Penalty for non-payment of borrowing costs	95,246,566	95,246,566
Guarantee Deposits	82,712,512	94,996,518
Mabuhay Vinyl	4,993,546	4,993,546
LMG Chemphil	4,627,025	4,627,025
Other receivables	15,026,335	15,841,839
	5,432,234,484	5,445,333,994
<hr/>		
<u>MWCI</u>		
Guarantee Deposits	65,583,130	65,583,130
Inventory held in trust	82,438,412	82,438,411
LMG Chemphil	7,730,290	7,730,290
La Vista	591,347	591,347
Other receivables	7,654,817	7,522,432
	163,997,996	163,865,610

Cost of borrowings include the principal, interest and finance charges such as bank conversions, documentary stamps, cable charges and penalties. MWSS is still pursuing the disputed claims on cost of borrowings from Maynilad Water Co., Inc. relative to the BNP Paribas loan.

Penalty on delayed remittance of Concession fee is disputed by MWSS. On December 19, 2007, the Rehabilitation Court issued an order, Special Proceeding No. Q-03-071 disallowing the penalty and the Order was confirmed on February 6, 2008. MWSS has requested the Commission on Audit in a letter dated February 13, 2012 requesting approval for the dropping out of the subject account from the books based on the order of the rehabilitation court.

Inventory held in trust represents costs of inventories turned-over to the concessionaires upon commencement of the Concession Agreement. Under Section 16.12 of the Concession Agreement, upon the expiration of the Concession, the Concessionaires shall transfer to MWSS the inventory having a value (adjusted for CPI) at least equal to the Inventory made available to the Concessionaire on the Commencement Date.

Guarantee deposits are customer deposit prior to the privatization of MWSS. The amounts were withheld by the two concessionaires from the collection of accounts receivable from water and sewer services of MWSS on the onset of the privatization where the two concessionaires were authorized to collect. Management and the two concessionaires went into reconciliation to arrive at the amount of guarantee deposit to be refunded to MWSS, where MWCI refunded the amount of P6.6 million in 2011 while MWSS the amount of P12.284 million in August 2017.

8. Prepayments

This account consists of the following:

	2017	2016
Advances to suppliers/contractors	777,917,087	778,929,154
Prepaid Expenses	32,160,825	20,140,192
Unreconciled balances	96,513,125	96,513,124

Advances to suppliers/contractors include the balance of the 15 percent mobilization costs paid to the contractors/suppliers/consultants of civil works/goods/consultancy services, subject to periodic recoupment during the billing period and project implementation.

The increase in Prepaid Expenses was brought about by two percent expanded withholding tax charged by MWSI from their payment of COB for CYs 2016 and 2017.

9. Property, Plant and Equipment, net

The details of property, plant and equipment (PPE) are as follows:

	Building, Plant Equipment and Transmission Lines	Office Furniture and Other Equipment	Transportation Equipment	Land & land Improvements	Total
Cost					
January 1, 2017	67,443,049,000	869,916,482	580,031,788	19,983,346,859	88,876,344,129
Additions/Capitalization	71,071	1,204,658	0	0	1,275,729
Reclass/Transfers	0	(11,563,081)	(1,296,796)	0	(12,859,877)
	67,443,120,071	859,558,059	578,734,992	19,983,346,859	88,864,759,981
Add: Unreconciled Balances	23,691,892	302,409,685	15,506	(10,319,400)	315,797,683
Reclass/Adjustment	0	(43,495,453)	0	0	(43,495,453)
	23,691,892	258,914,232	15,506	(10,319,400)	272,302,230
December 31, 2017	67,466,811,963	1,118,472,291	578,750,498	19,973,027,459	89,137,062,211
Accum. Depreciation					
January 1, 2017	42,433,442,198	748,683,354	473,960,225	0	43,656,085,777
Depreciation Additions	981,067,424	2,941,896	2,608,172	0	986,617,492
Reclass/Transfer		(11,319,986)	(1,167,116)	0	(12,487,102)
	43,414,509,622	740,305,264	475,401,283	0	44,630,216,167
Add: Unreconciled Balance	21,322,703	273,068,870	(756,616)	0	293,634,957
Reclass/Adjustment		(39,146,320)		0	(39,146,320)
	21,322,703	233,922,550	(756,616)	0	254,488,637
December 31, 2017	43,435,832,325	974,227,814	474,644,665	0	44,884,704,804
Carrying Amount					
December 31, 2017	24,030,979,638	144,244,477	104,105,833	19,973,027,459	44,252,357,407
Cost					
January 1, 2016	67,506,753,553	831,153,933	534,114,761	27,930,631,753	96,802,654,000
Additions	9,725,655	7,920,818		0	17,646,473
Reclass/Transfers	(73,430,208)	30,841,731	48,649,738	73,430,208	79,491,469
Transfers/Capitalization	0	0	0	(8,020,715,102)	(8,020,715,102)
Disposal	0	0	(2,732,711)	0	(2,732,711)
	67,443,049,000	869,916,482	580,031,788	19,983,346,859	88,876,344,129
Add: Unreconciled balances	23,691,892	352,655,970	48,665,244	(10,319,400)	414,693,706
Reclass/Adjustments	0	(50,246,285)	(48,649,738)	0	(98,896,023)
	23,691,892	302,409,685	15,506	(10,319,400)	315,797,683
December 31, 2016	67,466,740,892	1,172,326,167	580,047,294	19,973,027,459	89,192,141,812
Accum. Depreciation					
January 1, 2016	41,400,531,215	716,675,026	416,025,225	0	42,533,231,466
Depreciation					

Additions	1,098,640,516	4,160,878	16,609,676	0	1,119,411,070
Adjustments	0	0	0	0	0
Reclass/Transfers	(65,729,533)	27,847,450	43,784,764	0	5,902,681
Disposal			(2,459,440)	0	(2,459,440)
	42,433,442,198	748,683,354	473,960,225	0	43,656,085,777
Add: Unreconciled balances	21,322,703	318,290,527	43,028,148	0	382,641,378
Reclass/Adjustments	0	(45,221,657)	(43,784,764)	0	(89,006,421)
	21,322,703	273,068,870	(756,616)	0	293,634,957
December 31, 2016	42,454,764,901	1,021,752,224	473,203,609	0	43,949,720,734
Carrying Amount					
December 31, 2016	25,011,975,991	150,573,943	106,843,685	19,973,027,459	45,242,421,078

10. Construction-in-Progress

The movements in this account are as follow:

	2017	2016
Balance, beginning	220,014,750	160,218,665
Additions/New Project	82,263,211	63,477,629
Transfers/capitalization/Reclassification		(3,681,544)
Unreconciled balances	457,018,739	457,018,739
Balance, end	759,296,700	677,033,489

The increase in *Construction in Progress* was due to the implementation of Angat Water Transmission Improvement Project (AWTIP) in Norzagaray, Bulacan that involves the design and construction of new tunnel (Tunnel No. 4) along MWSS' existing tunnel No. 1 from Ipo to Bigte in Norzagaray, Bulacan.

11. Investments

This account consists of the following:

	2017	2016
Held to maturity/Special reserve fund	412,234,466	399,353,478
Stocks and bonds		
MERALCO stocks	2,151,518	2,151,518
PLDT investment plan	372,650	372,650
	414,758,634	401,877,646

Held to maturity/Special reserve funds are investments in Fixed Rate Treasury Bonds with varying yield to maturity/interest rates and coupon rates, which will mature from CYs 2016 to 2017 with settlement amount ranging from P100,000 to P29,430,649.50.

The *special reserve fund* with the Bureau of Treasury, which is intended as guarantee for the financial obligations of MWSS during the concession period, was established in

pursuance to Article 2.1 of the Memorandum of Agreement (MOA) between the Department of Finance and MWSS.

12. Other Assets, net

This account consists of the following:

	2017	2016 (As Restated)
Unserviceable assets	715,423,514	715,331,998
Research and development	6,212,055	6,212,055
MWSS Share in Angat Dam construction	0	6,161,066
Garnished accounts	10,613,512	10,613,512
Guarantee deposits	10,828,425	10,728,425
Dormant accounts	688,359,479	688,359,479
Restricted Fund	76,587,590	0
Unreconciled balances	(19,575,783)	(19,575,783)
	1,488,448,792	1,417,830,752

Unserviceable assets are the costs of land, construction materials and supplies that can no longer be used in projects due to obsolescence or assets which are no longer operational.

Restricted Fund is the amount set aside by Regulatory Office for sinking fund.

13. Payable accounts

This account consists of:

	2017	2016 (As Restated)
Accounts payable	31,846,080	39,808,928
Interest payable	173,058,968	183,185,438
Dividends Payable	539,224,749	212,089,381
Due to officers and employees	13,191,855	14,333,812
Unreconciled balances	533,802,867	533,802,867
	1,291,124,519	983,220,426

Accounts payable includes accrued maintenance and other operating expenses and local counterpart of loans payable.

Due to officers and employees refer to accrued personal services to be paid the following year.

Increase in Dividends Payable represents estimated dividends due for the year.

14. Inter-agency Payables

This account consists of payable to the:

	2017	2016 (As Restated)
Bureau of the Treasury	146,856,674	146,720,491
Bureau of Internal Revenue	4,523,203	1,904,951
GSIS	1,257,331	1,129,469
PhilHealth	76,842	70,352
Pag-IBIG	78,380	92,285
Other GOCCs	4,095	4,095
	152,796,525	149,921,643

Payable to the Bureau of the Treasury pertains to the guarantee fee on existing loans while Other GOCCs refers to payable to National Home Mortgage and Finance Corporation.

Increase in the account of Bureau of Internal Revenue was due to increase in Output tax for the year.

15. Long-term liabilities

This account consists of domestic and foreign borrowing, as follows:

Source	Maturity Date	Currency	Annual Interest Rate	2017	2016
Domestic					
DBP/LBP	12/31/18	P	4.50%	80,357,143	401,785,714
SPIAL	05-15-26	\$	9.65%	172,951,145	185,565,825
ADB 1746-PHI	02-01-22	P	floating	125,978,003	136,433,133
NHA		P	floating	98,795,399	98,795,399
IBRD 1272/1282	07-15-20	\$	8.50%	72,150,705	71,941,292
				550,232,395	894,521,363
Foreign					
ADB 1379-PHI	07-15-20	\$	floating	1,273,857,957	1,617,377,198
JBIC (OEFC)	02-20-20	Y	2.70%	1,531,254,964	1,462,778,618
China Eximbank					
AWUAIP II	01-21-30	\$	libor rate	4,801,391,372	5,170,452,082
French Protocol	12-31-18	FF	3%-6.8%	2,820,886	5,623,081
IBRD 4227 PHI	09-15-17	\$	Floating	0	9,323,165
ADB 3377-PHI	03-15-41	\$	libor rate	562,374,407	505,438,747
				8,171,699,586	8,770,992,891
				8,721,931,981	9,665,514,254

Current Portion

Asian Development bank (ADB)		
1379	383,922,234	
1746	<u>11,956,245</u>	395,878,479
Int'l. Bank for Reconstruction & Development (IBRD) 4227		0
French Protocol		2,821,018
Special Project Implementation		
Assistance Loan (SPIAL)		13,154,841
China Eximbank Loan		384,111,310
Current Portion		795,965,648
Non-Current Portion		7,925,966,333
		358,037,309
		9,323,165
		3,196,304
		13,116,660
		382,996,451
		766,669,889
		8,898,844,365

On February 10, 2011, the MWSS Board of Trustees unanimously passed Board Resolution No. 2011-017 approving the P2.250 billion floating rate Bond Issuance under the DBP-LBP Club Deal Arrangement. The bond issuance was guaranteed by the National Government. The proceeds were used to partly finance the MWSS' maturing 7-year USD 150 million 9.25 percent Fixed rate Bond with the BNP Paribas which matured last March 14, 2011. The bond was drawn in full on March 30, 2011 and payable in seven (7) years with pre-termination option. Interest rate was based on the higher of the BSP Reverse Repurchase (RRP) Facility or BSP Overnight Borrowing Rate. This will mature in the 1st Quarter of 2018.

The *Special Project Implementation Assistance Loan (SPIAL)* is a portion of the National Government's multi-currency loans from the ADB under Loan Nos. 779 & 780. This was relented to MWSS to partly finance the following projects: Manila Water Supply Rehabilitation Project I (MWSRP I), Manila Water Supply Project II (MWSP II), and Metro Manila Sewerage Project (MMSP).

ADB Loan No. 1746 PHI is a sub-loan agreement entered into by and between the Department of Finance and the MWSS on October 13, 2003 for the implementation of the Pasig River Environmental Management and Rehabilitation Sector, a sanitation component of the loan.

NHA Loan was transferred by NHA to MWSS before the privatization that financed the transfer of water and sewer systems of Tondo Foreshore, Dagat-Dagatan and Kapitbahayan. The validity of the account is still subject to confirmation and subsequent preparation of MOA between MWSS, NHA and the two concessionaires.

International Bank for Reconstruction and Development (IBRD) Loan No. 1272/1282-Manila Urban Development Project are likewise a national government loan relented to MWSS on October 1, 1976. Per subsidiary loan agreement dated October 1, 1976, MWSS shall repay the principal of the subsidiary loan that started on November 15, 1981.

ADB Loan No. 1379 PHI was obtained on November 27, 1995. The primary objectives of the project were to divert an average annual flow of about 15.7 cu.m. per second from the Umiray river basin to the Angat reservoir and to augment the treated water supply capacity of MWSS by about nine cu.m. per second by 1999. The secondary objective of the project was to reduce Non Revenue Water (NRW) by providing support for leak

detection and repair activities. It is a twenty (20) year loan with a grace period of five (5) years which will mature on July 15, 2020.

JBIC Loan PH 110 – contracted by Japan and the national government of the Republic of the Philippines in 1990 intended for Angat Water Supply Optimization Project. The proceeds of the loan were treated by MWSS as government equity.

China Eximbank - Angat Water Utilization and Aqueduct Improvement Project Phase II (AWUAIP-II) is being financed through a loan from the Export-Import Bank of China on May 7, 2010 in the amount of US\$116,602,000. The Angat Water Utilization and Aqueduct Improvement Project Phase 2 is an offshoot of the Angat Water Utilization and Aqueduct Improvement Project (AWUAIP). To be implemented by the MWSS, the AWUAIP is targeted to maintain and optimize the water conveyance from Angat Dam to the Water Treatment Plants via the Ipo Dam-Bicti-La Mesa Portal system. The project involves the rehabilitation of AQ-5, which supplies half of the raw water for Metro Manila, as well as the construction of AQ-6 in order to recover around 394 million liters of raw water lost to leakages. AWUAIP Phase 2 on the other hand involves the construction of the remaining 9.9 km section of AQ-6, and the rehabilitation of AQ-5. The AQ-6 extension aims to completely recover the lost water due to leakages in AQ-5. Repayment period is fifteen (15) years on a semi-annual basis starting January 21, 2015 and will mature on January 21, 2030.

The *French Protocol* is a French Treasury Credit Facility from the French Republic intended to finance the implementation of the Rizal Province Water Supply Improvement Project (RPWSIP) payable within a period of ten (10) years that started December 2002.

IBRD 4227 PHI was part of the Water Districts Development Project funded by a loan from the World Bank-IBRD. MWSS entered into a subsidiary loan agreement with the Republic of the Philippines through the Department of Finance for a \$2.3 million from said IBRD loan. Repayment period is 15 years on a semi-annual basis starting March 15, 2003 and ending on September 15, 2017 per Schedule 3 of the Loan Agreement between the Republic of the Philippines and the International Bank for Reconstruction and Development dated May 15, 1999.

ADB Loan 3377-PHI is a negotiated loan agreement between MWSS and Asian Development Bank for the Angat Water Transmission Improvement Project in the amount of US\$123.30 million on May 27, 2016. This loan is guaranteed by the National Government and payable semi-annually in 25 years inclusive of 6.5 years' grace period. MWSS shall pay 0.25 percent Guarantee Fee per annum on the outstanding obligation pursuant to DC 1-2016 to the National Government. The expected closing date is June 30, 2022.

16. Other Liability Accounts

This account consists of the following:

	2017	2016
Guaranty Deposits Payable	99,252	99,252
Performance/Bidders/Bail Bonds Payable	1,766,356	1,781,213
Trust Liabilities	71,250,432	101,310,718

Other Liability Accounts	125,494,928	97,642,045
Unreconciled balances	328,112,668	328,112,668
	526,723,636	528,945,896

This account includes 10 percent retention from contractors' claims, unreturned borrowed materials, cost of flushing, attorneys' fees, guaranty deposits and depository liabilities. It also includes liabilities with existing law suits and money claims.

The decrease in trust liabilities is attributed to the disbursement of funds to finance the Angat River Downstream Improvement Project the Provincial Government of Bulacan and refund of payment for contractual services of AWUAIP Phase 2 Project to be used for Common Purpose Facility. Increase in Other Liability accounts was due to 10 percent retention from AWTIP Project and refund of government share from MWSS Employees Savings and Welfare Fund.

17. Deferred Credits

This account consists of:

	2017	2016
Deferred credits to Income - COB	521,666,612	505,114,350
Deferred credits to Income - Penalty/ Interest on delayed payment of Concession Fee and borrowing costs	1,271,940,691	1,267,268,877
Others	45,929,509	45,963,609
Unreconciled balances	22,632,720	22,632,720
	1,862,169,532	1,840,979,556

Deferred credits to Income – COB account represents annual income concession fee – corporate operating budget received in advance from concessionaires pursuant to the concession agreement. Said account is amortized fully within the year to the appropriate income account.

Deferred credits to Income – Penalty/Interest on delayed payment of Concession Fee is the penalty previously charged to MWSI computed based on 364 T-bills rate. The amount was disallowed by the Rehabilitation Court in Court Order approving the Prepayment and Settlement Agreement (PSA) dated 19 December 2007 and Court Order confirming the termination of the corporate rehabilitation proceedings on account of successful implementations of the 2005 Revised Rehab Plan dated February 06, 2008.

The *Other Deferred Credits* included the following:

Disposal/Public Auction	Sale from disposal of Assets which needs to be reconciled with the various subsidiary accounts for identification of assets, its depreciation and gain or loss on sale of assets.	31,124,028
Cost of Lot Housing	Collection from employees for Cost of Lot payment (MWSS Housing).	13,019,097
Miscellaneous - Others	Pasig River Environmental Mgt. & Rehab Sector Dev. Program (PREMSDP)	1,752,679
Miscellaneous – Cash Bond and Others	Cash deposits intended to cover up expenses in cases of breakage, damage to property and cleanliness of renting MWSS facilities which are refundable.	8,000
Amount withheld for liquidated damages	Amount withheld from contractors under dispute	25,705
Total		45,929,509

18. Capital Stock

MWSS has an authorized capital stock of P8 billion corresponding to 80 million shares at P100 par value, of which P6,095,486,784 were issued and outstanding equivalent to 60,954,868 shares.

19. Donated Capital

This account represents the costs of waterworks facilities turned-over by private subdivisions by way of a Deed of Donation. It also includes the grant from the Japan International Cooperation Agency (JICA) for the rehabilitation of Balara Water Treatment Plant.

20. Appraisal Capital Stock

The *Appraisal* Capital Stock is used to record changes in the carrying amount of items of PPE as a result of revaluation. The Revaluation Surplus account has an ending balance of P28.428 billion as shown below:

	2017	2016
Land	12,205,095,285	12,205,095,285
Structures and Improvements	292,485,820	292,485,820
Collecting and Impounding Reservoirs	1,111,404,830	1,111,404,830
Supply Mains	3,097,555,968	3,097,555,968
Distribution Reservoirs and Booster Station	2,432,331,004	2,432,331,004
Building and Improvements	485,838,406	485,838,406
Wells and Facilities	76,762,346	76,762,346
Water Treatment Equipment	103,483,461	103,483,461
Sewer Treatment Equipment	4,192,576	4,192,576
Water Treatment Plant	126,236,850	126,236,850

Transmission and Distribution Mains	7,730,461,901	7,730,461,901
Water Meters	98,315,762	98,315,762
Transmission and Discharge Mains	482,090,989	482,090,989
Public Faucets/Sanitary Facilities	15,954,953	15,954,953
Sewer Treatment Plant and Pumping Stations	82,942,888	82,942,888
Hydrants	9,799,181	9,799,181
Manholes and Accessories	13,968,231	13,968,231
House Water Connection	8,177,985	8,177,985
House Sewer Connection	38,709,103	38,709,103
Electrical Installation and Lighting System	12,096,251	12,096,251
	28,427,903,790	28,427,903,790

21. Revenue

This account consists of:

	2017	2016
Concession Fee		
Concession Income	1,010,981,807	993,105,901
Debt Service	1,184,496,125	1,554,341,919
Progress Billing	23,991,333	53,035,195
Business Income		
Raw Water	83,283,360	74,428,065
Rental of Leased Properties	107,711,144	95,679,346
Interest on Investments and Deposits	61,172,698	67,432,385
Miscellaneous Income	1,546,067	215,391
Other Fines and Penalties	0	3,230
	2,473,182,534	2,838,241,432

Concession Fees – Debt Service and Progress billings are concession fees received from the Concessionaires that are intended for MWSS loan amortization and payments to contractors/suppliers, respectively. These are pass-on payment without any margin in favor of MWSS.

Concession Income is the annual Current Operating Budget being paid by the concessionaires to MWSS for administrative expenditures subject to annual Consumer Price Index adjustment.

Business Income is income resulting from operation, including interest earned from deposits. The increase of Rental of Leased Properties was brought about by the collection of San Juan Stockyard rental while increase of Miscellaneous Income by disposal of unserviceable assets.

Raw Water is business income from sale of raw water on service areas not covered by the service areas of the MWSI.

22. Personnel Services

This account is comprised of the following:

	2017	2016 (As Restated)
Salaries and Wages - Regular	74,987,702	64,159,197
Life and Retirement Insurance Contributions	8,893,729	7,700,027
Other Personnel Benefits	7,847,120	6,229,714
Longevity Pay	6,384,220	3,101,659
Year End Bonus	6,225,240	0
Subsistence	6,138,002	2,846,454
Other Bonuses and Allowances	6,013,733	5,446,193
Terminal Leave Benefits	5,392,522	1,742,785
Honoraria	4,352,580	2,052,000
Personnel Economic Relief Allowance (PERA)	3,669,843	3,813,923
Representation Allowance (RA)	2,736,601	2,729,475
Transportation Allowance (TA)	2,656,670	2,582,792
Productivity Incentive Bonus	1,075,176	8,468,834
Clothing/Uniform Allowance	926,500	820,000
Cash Gift	769,000	6,266,311
PHILHEALTH Contributions	655,500	654,125
Salaries and Wages - Contractual	596,820	0
Overtime and Night Pay	416,566	21,129
PAG-IBIG Contributions	184,700	191,200
ECC Contributions	183,600	191,200
Loyalty Award Benefits	95,000	391,500
Hazard Pay	0	214,011
	140,200,824	119,622,529

23. Maintenance and Other Operating Expenses

This account consists of the following:

	2017	2016 (As Restated)
Taxes, Duties and Licenses	25,452,364	28,339,649
Security Services	26,239,749	27,010,398
Auditing Services	10,421,105	6,149,103
Other Maintenance and Operating Expenses	6,697,163	3,990,797
Training Expenses	6,210,224	2,766,700
Electricity Expenses	5,320,480	3,934,245
Other Professional Services	4,969,038	4,500,543
Janitorial Services	4,470,463	4,281,372
Consultancy Services	4,347,773	1,231,429
Insurance Expenses	2,796,669	2,763,099
Representation Expenses	2,008,560	2,423,221
Other Supplies Expenses	1,756,105	954,576
Gasoline, Oil and Lubricants Expenses	1,605,717	1,518,285
Office Supplies Expenses	1,542,863	1,726,770

Subscription Expenses	1,189,654	1,445,555
Extraordinary Expenses	1,092,730	844,858
Telephone Expenses - Landline	893,963	936,304
Advertising Expenses	823,895	738,203
Telephone Expenses - Mobile	790,478	751,159
Rent Expenses	680,127	735,570
Repairs and Maintenance - Motor Vehicles	646,433	465,725
Internet Expenses	554,862	597,158
Printing & Bidding Expenses	519,940	485,632
Repairs and Maintenance - Office Buildings	430,761	303,148
Drugs and Medicines Expenses	411,477	405,225
Travelling Expenses - Local	316,396	581,624
Travelling Expenses - Foreign	246,178	4,500
Fidelity Bond Premiums	72,216	54,802
Repairs and Maintenance - IT Equipment and Software	65,418	36,650
Miscellaneous Expenses	64,527	600,164
Cable, Satellite, Telegraph, and Radio Expenses	56,190	19,171
Postage and Deliveries	54,725	52,343
Membership Dues and Contributions to Organizations	34,100	44,136
Water Expenses	28,114	25,424
Repairs and Maintenance - Communication Equipment	27,300	26,825
Repairs and Maintenance - Furniture and Fixtures	15,138	116,804
Donations	8,000	0
Medical, Dental and Laboratory Supplies Expenses	7,231	0
Repairs and Maintenance - Office Equipment	6,149	172,921
Repairs and Maintenance - Other Structures	2,000	53,125
Repairs and Maintenance – Sports Equipment	0	16,985
	112,876,275	101,104,198

24. Non-cash Expenses

Amortization

	2017	2016
Amortization of Angat water rights	6,161,066	8,122,603

Depreciation

	2017	2016
Depreciation - Other Structures	967,872,657	1,085,256,689
Depreciation - Office Buildings	13,194,766	13,383,827

Depreciation - Motor Vehicles	2,243,122	2,889,332
Depreciation - Other Machineries and Equipment	1,407,842	1,748,677
Depreciation - IT Equipment	1,280,965	929,200
Depreciation - Other Transportation Equipment	365,050	13,720,344
Depreciation - Medical, Dental and Laboratory Equipment	233,709	233,820
Depreciation - Office Equipment	215,060	170,402
Depreciation - Furniture and Fixtures	211,004	277,880
Depreciation - Technical and Scientific Equipment	93,476	692,997
Depreciation - Communication Equipment	61,815	83,809
Depreciation - Sports Equipment	19,654	23,751
Depreciation - Library	285	342
	987,199,405	1,119,411,070

25. Income Tax Expense

Section 18 of the MWSS Charter (R.A. 6234) provides that "All articles imported by the Metropolitan Waterworks and Sewerage System xxx, shall be exempt from the imposition of import duties and other taxes.

BIR Ruling No. DA-088-2001 dated May 16, 2001 ruled that the concession fees paid by the Concessionaires to MWSS, if at all they are in the nature of income, shall be excluded from the gross income subject to tax.

Categorically, MWSS is taxable with respect to its other income other than concession fees received from the concessionaires.

The account Taxes, Duties and Licenses is used to recognize the amount of taxes, duties and licenses and other fees due to regulatory agencies except income tax. This also includes taxes on interest income on savings deposits, time deposits and government securities of the bond sinking fund/other funds. (COA Circular 2001-008 and the New Government Accounting Manual)

26. Financial Expenses

This account consists of:

	2017	2016
Interest expenses	255,220,354	397,284,771
Other financial charges	66,247,862	96,140,933
Bank charges	180,148	9,359,186
	321,648,364	502,784,890

27. Losses

This account consists of:

	2017	2016
(Gain)/Loss on Foreign Exchange	99,877,087	510,677,154
(Gain)/Loss on Disposed Assets	399,061	(22,365)
	100,276,148	510,654,789

Gain or Loss on Foreign Exchange is paper gain/loss as a result of appreciation or devaluation of pesos on loan payments.

Gain/Loss on Disposed Assets is the difference between book value and income from sale from disposal.

28. Contingent Liabilities

MWSS is contingently liable for lawsuits or claims filed by third parties which either are pending in the courts or under negotiations. These cases involve, among others, lease of properties, collection of sum of money, water use conflict issues, payments of claims, protest on real property taxes and tax consequences resulting from revaluation/appraisal of its Property, Plant and Equipment.

a. BIR Tax Assessment

MWSS also received Assessment/Demand Letter requiring the agency to settle tax deficiency for CY 2010 amounting to P30,772,011.57. As per Board Resolution No. 2017-047-CO, MWSS engaged the services of the Office of the Government Corporate Counsel (OGCC), as the MWSS Statutory Counsel, for the legal representation in the preparation and filing of necessary legal proceeding against the Bureau of Internal Revenue (BIR) at the Court of Tax Appeals (CTA) to contest the BIR's final Decision on disputed Assessment for taxable year 2013. A Petition for Review was filed at the Court of Tax Appeals last May 24, 2017 per CTA Case No. 9599. However, the CTA in March 2018, in view of the Supreme Court decision in the case of BIR vs PSALM dismissed the petition for lack of jurisdiction and instead will refer it to the Department of Justice.

b. The MWSS has pending court litigations concerning project contracts and land disputes totaling P29.71 million prior to its privatization in 1997. The MWSS has also disputed the real estate taxes charged by the local government of Quezon City in the amount of P264 million. In 2010, the Quezon City government auctioned some of the properties located in the area. To prevent the inclusion of MWSS property in the auction held in December 2010, the MWSS deposited P30M. The legal issues on the matter are elevated before the Supreme Court and subsequently a temporary restraining order (TRO) was issued on January 21, 2011 enjoining Quezon City government from proceeding with the levy of the subject properties until further orders from the court.

c. Other significant legal cases are as follows:

- MWSS vs. Maynilad Water Services Civil Case R-QZN-15-06702-CV

- Neri Colmenares and Carlos Zarate of Bayan Muna partylist vs Cesar Purisima, MWSS, et.al GR. 219352
- Lina Francia F. Badeo vs. MWSS for reinstatement with back wages and others
- Lease of MWSS property along Katipunan Ave. by SM Prime Holdings
- Water for all Refund Movement vs. MWSS GR. 207444/208207/210147
- Gabriel Advincula vs. MWSS; GR. 179217, Re: Severance Pay
- Alexander Lopez, et.al vs. MWSS, GR 198693, Re: Contract Collectors Claim
- CSC vs MWSS; indirect Contempt on Alexander Lopez, et.al, Separation Pay and Terminal Leave of Contract Collectors
- Various cases regarding Unlawful Detainer on Land Properties of MWSS

29. Report on the Supplementary Information Required Under Revenue Regulation No. 15-2010

In compliance with the above regulation, MWSS' taxes and withholding taxes paid and accrued during the year are categorized as follows:

1. Income Tax

For the Year 2017 MWSS incurred P6,821,254 Corporate Income Tax payable.

2. VAT Output Tax

MWSS is a VAT-registered company with VAT Output Tax Declaration of P13,236,616 for the year based on the amount reflected in the Income/Receivables Account of P110,305,132.

3. VAT Input Tax

The amount of VAT Input taxes claims are broken down as follows:

Particulars	Amount
Beginning of the year	283,605
Current year's purchases	18,667,120
Total	18,950,725
Claim for tax credits and other adjustments	565,708
Input VAT for 2018 (January)	274,647

4. Other Taxes and Licenses

Particulars	Amount
Other Taxes and Licenses	23,471,667
BIR Registration Fee	500
BIR Assessment Fee	1,980,197
Total	25,452,364

5. The amount of withholding taxes categorized into:

Particulars	Amount
i. Tax on Compensation and Benefits	17,832,933
ii. Creditable Withholding Tax/es	13,878,599
iii. Final Withholding Tax/es	619,106

30. Unreconciled Asset and Liability Account Balances

The summary of the unreconciled balances in the Asset and Liability accounts is as follows:

	2017	2016
Asset Accounts		
Accounts Receivable	21,596,858	21,625,745
Other Receivables	1,108,354	1,108,354
Prepayments	96,513,125	96,513,125
Property, Plant and Equipment	17,813,593	22,162,726
Construction in Progress	457,018,739	457,018,739
Other Assets	(19,575,783)	(19,575,783)
Total Unreconciled Assets	574,474,886	578,852,906
Liability Accounts		
Payable Accounts	533,802,867	533,802,867
Other Liability Account	328,112,668	328,112,668
Deferred Credits	22,632,720	22,632,720
Total Unreconciled Liabilities	884,548,255	884,548,255
Net Unreconciled Balances	310,073,369	305,695,349

31. Restatement of Retained Earnings/Accumulated Surplus

The Retained Earnings as of January 01, 2017 has been restated as follows:

Balance, January 1, 2017 (Unrestated)	9,431,208,082
Adjustments:	
Prior Years/Allocated Cost/Errors (MWSS-RO)	448,149
Retained Earnings, January 1, 2017 (As Restated)	9,431,656,231

32. Statement of Comparison of Budget and Actual Amounts

The budget was on an accrual basis, covering the period from January 1, 2017 to December 31, 2017. The MWSS-Corporate and Regulatory Offices have a separate budget approval from the Department of Budget and Management.

The decrease in actual expenditures vs. the budgetary amounts on the Personnel Services was due to the non-filling up of vacant positions and the late implementation of the Capital Outlay was due to non-implementation of scheduled procurement per Annual

Procurement Plan (APP) including the slide down of the loan drawdowns of AWTIP Contractor (CMC Di Ravenna) due to some changes in the design of the inlet structure which was resolved only in October 2017. Likewise, the tunnel boring machine, although delivered in the latter part of CY 2017, was only operational in the early part of CY 2018, contrary to the initial projection that the same will be operational in CY 2017.