

**COVER SHEET**

A 1 9 9 6 0 0 1 7 9

COMPANY NAME

N O W C O R P O R A T I O N

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

U N I T 5 - I , 5 T H F L O O R , O P L B U I L D I N G , 1 0 0 C . P A L A N C A S T R E E T , L E G A S P I V I L L A G E , M A K A T I C I T Y

Form Type	Department requiring the report	Secondary License Type, If Applicable
2 0 - I S	S E C	N / A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
info@now-corp.com	(632)750-0461 (632) 750-0211	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
70	First Thursday of June	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Angeline L. Macasaet	angeline.macasaet@now-corp.com	(632) 750-0211	N/A

CONTACT PERSON'S ADDRESS

Unit 5-I, 5th Floor, OPL Building 100 C. Palanca Street, Legaspi Village, Makati City

**NOTE 1 :** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2 :** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20 OF  
THE SECURITIES REGULATION CODE

1. Check the appropriate box:

[ ] Preliminary Information Statement

[ / ] Definitive Information Statement

2. Name of Registrant as specified in its charter NOW CORPORATION

3. METRO MANILA, PHILIPPINES

Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number A199600179

5. BIR Tax Identification Code 004-668-224

6. Unit 5-I, 5<sup>th</sup> Floor, OPL Building, 100 C. Palanca Street, Legaspi Village, Makati City, Philippines

Address of principal office

Postal Code 1229

7. Registrant's telephone number, including area code +632 750-0211

8. Date, time and place of the meeting of the security holders

**06 June 2019; 10:00 am at No. 2244 España Boulevard, Sampaloc, Manila**

9. Approximate date on which the Information Statement is first to be sent or given to security holders

15 May 2019

10. In case of Proxy Solicitations: Not Applicable

**Name of Person Filing the Statement/Solicitor:**

Address and Telephone No.:

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class

Number of Shares of Common Stock  
Outstanding or Amount of Debt Outstanding

**COMMON STOCK**

**1,517,278,350**

12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes      /      No     

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

**PHILIPPINE STOCK EXCHANGE**

**COMMON STOCK**

PART I.

*INFORMATION REQUIRED IN INFORMATION STATEMENT*

**A. GENERAL INFORMATION**

**Item 1. Date, time and place of meeting of security holders.**

The Annual Stockholders' Meeting of NOW Corporation (the "Company") will be held on 06 June 2019, at 10:00A.M. at No. 2244 España Boulevard, Sampaloc, Manila. The Record Date for the Annual Stockholders' meeting is set on 06 May 2019.

The complete mailing address of the Company is Unit 5-I, 5<sup>th</sup> Floor, OPL Building, 100 C. Palanca Street corner Dela Rosa and Gil Streets, Legaspi Village, Makati City 1229.

The approximate date when this information statement is first to be sent to the Company's stockholders is 15 May 2019.

**Item 2. Dissenters' Right of Appraisal**

In the event that any security holder shall vote against any corporate action enumerated under Section 81 of the Corporation Code on Appraisal Rights, such security holder may exercise his appraisal rights, in accordance with the procedures and requirements under Sections 82 to 86 of the Corporation Code. Any security holder shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Code; and
3. In case of merger or consolidation.

The matters to be acted upon at the Annual Stockholders' meeting as specified in the attached Notice of Annual Stockholders' Meeting are not such as will entitle a dissenting stockholder to exercise his appraisal right.

If, at any time after this Information Statement has been sent out, an action which may give rise to the right of appraisal is proposed at the meeting, any security holder who voted against the proposed action and who wishes to exercise such right must make a written demand on the Corporation within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares: Provided, That failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or affected, the corporation shall pay to such security holder, upon surrender of the certificate or certificates of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action. No payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment: and Provided, further, That upon payment by the Corporation of the agreed or awarded price, the security holder shall forthwith transfer his shares to the Corporation.

### Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

Any holder of substantial interest, direct or indirect, or person who has been a director or officer of the registrant at any time since the beginning of the last fiscal year, or each nominee for election as a director of the registrant, or each associate of any of the foregoing persons, shall be properly heard and noted.

The registrant is not aware of any substantial interest, direct or indirect, by security holdings or otherwise, of each of the following persons in any matter to be acted upon, other than election to office:

1. Each person who has been a director or officer of the registrant at any time since the beginning of the last fiscal year;
2. Each nominee for election as a director of the registrant;
3. Each associate of any of the foregoing persons.

No director of the registrant has informed the registrant in writing that he intends to oppose any action to be taken by the registrant at the meeting.

### B. CONTROL AND COMPENSATION INFORMATION

#### Item 4. Voting Securities and Principal Holders Thereof

- a. Number of Common Shares Outstanding as of 31 March 2019: 1,517,278,350 shares.
- b. As of 31 March 2019, there are 459,810,542 common shares owned by foreigners, or 30.30%.
- c. Stockholders of record of the Company as of 06 May 2019 shall be entitled to notice of, and to vote at the Annual Stockholders' Meeting, on a one-share-one vote basis. No director has cumulative voting rights. No discretionary authority for solicitation of cumulative voting may be exercised.

Attached hereto as **ANNEX "A"** is the Notice of the Annual Stockholders' Meeting.

- d. Security Ownership of Certain Record and Beneficial Owners and Management

#### i. Security Ownership of Certain Record and Beneficial Owners (More than 5% as of 31 March 2019)

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with the Record Owner	Citizenship	No. of Shares Held	Percentage
Common	PDC Nominee Corporation	-	Filipino	567,290,562	37.38
Common	Top Mega Enterprises Limited Room 503 Fu Fai Commercial Centre, Hillier St., Sheungwan, Hong Kong	<b>Romeo C. Escobar, Jr.</b> - stockholder	Chinese	341,146,855	22.48
Common	Velarde, Inc. Unit 5-I, 5 <sup>th</sup> Floor, OPL Building, 100 C. Palanca St., Legaspi Village, Makati City	<b>Amparo V. Velarde,</b> - Stockholder	Filipino	200,571,550	13.21

Common	Emerald Investments, Inc. Unit 5-I, 5 <sup>th</sup> Floor, OPL Building, 100 C. Palanca St., Legaspi Village, Makati City	<b>Amelito V. Velarde</b> - <b>stockholders</b>	Filipino	277,154,360	18.26
Common	Joyce Link Holdings Limited Room 503 Fu Fai Commercial Centre, Hillier Street, Sheungwan, Hong Kong	<b>Jonah Kasthen V. Rosero</b> - <b>stockholder</b>	British VI	86,208,552	5.68
Common	Gamboa Holdings, Inc. Unit 5-I, 5 <sup>th</sup> Floor, OPL Building, 100 C. Palanca St., Legaspi Village, Makati City	<b>Winnita V. Ysog</b> - <b>stockholder</b>	Filipino	224,573,966	14.8

Velarde, Inc holds more than five percent (5%) ownership under PCD Nominee Corporation.

The shares of the above shareholders will be voted by the following people during the special shareholders meeting of the Company:

Gamboa Holdings, Inc. -- Mel V. Velarde  
Emerald Investments, Inc. -- Jose S. Alejandro  
Top Mega Enterprises Limited -- Romeo C. Escobar, Jr.  
Joyce Link Holdings Limited -- Kristian Noel A. Pura  
Velarde, Inc. -- Jonah Kasthen V. Rosero

ii. Security Ownership of Directors and Management as of 31 March 2019:

The directors and officers of the Company have no security ownership in the capital stock of the Company other than the qualifying shares recorded in the names of the directors but beneficially owned by Velarde, Inc. or Gamboa Holdings, Inc.:

<b>Title of Class</b>	<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Citizenship</b>	<b>Percent of class</b>
Common	Thomas G. Aquino	1 (Direct)	Filipino	<.01
Common	Jose S. Alejandro	10 (Direct)	Filipino	<.01
Common	Mel V. Velarde	10 (Direct)	Filipino	<.01
Common	Vicente Martin W. Araneta III	1 ((Direct)	Filipino	<.01
Common	Gerard Bnn R. Bautista	1 (Direct)	Filipino	<.01
Common	Ramon Guillermo R. Tuazon	1 (Direct)	Filipino	<.01
Common	Marlou B. Ubano	1 (Direct)	Filipino	<.01
Common	Domingo B. Bonifacio	1 (Direct)	American	<.01
Common	Winnita V. Ysog	1 (Direct)	Filipino	<.01
Common	Angeline L. Macasaet	10 (Direct)	Filipino	<.01
	Vicente I. Peñanueva (Treasurer and Chief Finance Officer)	0	Filipino	0

None of the members of the Company's directors and management owns 2.0% or more of the outstanding capital stock of the Company.

iii. Voting Trust Holders of 5% or More

The Company knows of no person holding more than 5% of common shares under a voting trust or similar agreement.

iv. Changes in Control

There are no arrangements which may result in a change in control of the Company.

- e. No proxy solicitation is being made. No change in control of the Company has occurred since the beginning of the last fiscal year.

**Item 5. Directors and Executive Officers**

**a. Information Required of Directors and Executive Officers**

**i. Directors and Officers**

**Thomas G. Aquino**, age 70, Filipino, Chairman of the Board of Directors. He is a Senior Fellow at the Center for Research and Communication, a multidisciplinary policy group of the University of Asia and the Pacific (UA&P). He is currently the President of NOW Telecom Company, Inc. (formerly Next Mobile, Inc.). He is also a member of the Board of Directors of Philippines National Construction Corporation, Zamboanga Development and Management Corporation, and iCollege of the Philippines, Inc. Dr. Aquino served as Senior Undersecretary of the Philippine Department of Trade and Industry and supervised the country's international trade promotion, trade negotiations under the World Trade Organization (WTO) and the ASEAN Free Trade Area (AFTA), as well as bilateral trade talks with the country's major economic trading partners. He also served as overall lead country negotiator for the Philippines in the Japan-Philippines Economic Partnership Agreement and was country representative to the High Level Task Force on Asean Economic Integration. For his government service, Dr. Aquino was conferred the Presidential Service Award (or Lingkod Bayan) for extraordinary contribution of national impact on public interest, security and patrimony and was a recipient of the Gawad Mabini Award with the rank of Grand Cross (or Kamanong) for distinguished service to the country both at home and abroad. Dr. Aquino obtained a Doctorate in Business Administration in 1980 from the IESE Business School University of Navarre in Spain, an MS in Industrial Economics in 1972 from the University of Asia and the Pacific, and an AB in Economics in 1970 from the School of Economics of the University of the Philippines.

**Mel V. Velarde**, age 55, Filipino, President, Chief Executive Officer and Member of the Board of Directors, was elected Vice-Chairman of the Company's Board of Directors on June 2, 2006 and served as such until March 22, 2007 when he was elected as Chairman of the Board of Directors. On January 21, 2008, he resigned his chairmanship and was again elected as Vice Chairman of the Board until June 2, 2011. He was elected as President of the Company on June 13, 2011. Mr. Velarde is the Vice-Chairman and the Chairman of the Executive Committee of NOW Telecom Company Inc. (formerly Next Mobile, Inc.), and Chairman and President of The Velarde Group, Inc., and its affiliates. He served as Philippine Commissioner to the United Nations Educational, Scientific and Cultural Organizations (UNESCO) and Chairperson of the Committee on Science and Technology. Mr. Velarde has built a career in broadcasting, cable TV, telecommunications and information communications technology. He was former Executive Vice President and General Manager of Sky Cable, a cable TV company that became the largest in the Philippines. Mr. Velarde pursued his masteral studies in Business Economics at the University of Asia and the Pacific, and has taken Strategic Planning, Marketing and Finance at the Asian Institute of Management and at the University of Michigan. He completed the Owner/President Management Program at the Harvard Business School, Harvard University, Cambridge, Massachusetts.

**Jose S. Alejandro**, age 84, Filipino, Vice Chairman and member of the Board of Directors, served as Chairman of the Board of Directors of the Company on June 2, 2006 until March 22, 2007 when he resigned from said position and was elected as the Company's President. He served as President until January 21, 2008. Mr. Alejandro has also been a Member of the Board of Directors of NOW Telecom Company, Inc. (formerly Next Mobile, Inc.) since 1989 and he now serves as the Board's Chairman. He is a

business and management professional and leader with over 25 years of corporate experience. He was the former President and CEO of East Asia Power Resources, a local publicly-listed independent power producer during the period of local economic crisis (1997-1999), Country Manager for the Power Systems Business of General Electric Co. (1987-1995), and Vice President - Marketing at GE Philippines, Inc. and General Manager of GE Appliance Co. In these capacities, he led the growth and success of this leading U.S. global diversified corporation in the Philippines. He holds a Bachelor of Arts and Bachelor of Law degrees from the Ateneo de Manila University and had taken post graduate courses leading to Master in Business Administration in the same school and Business Policies, Manpower and Marketing Strategies at the GE Management Institute in NY, USA. He is a member of the Philippine Bar.

***Vicente Martin W. Araneta III, age 55, Filipino, Director,*** He also serves as Director and President of Facilities, Inc. and as Chairman of Real Properties, Inc., the holding company of Facilities, Inc. and owner of the Palladium Subdivision. He is also a member of the Board of Directors and Chief Financial Officer of ActivAsia, Inc., a 360-degree marketing services company specializing in Out-of-Home, events, point-of-sale and channel activation, tourism marketing, sports marketing and creative services. He is an incorporator, founding member, Treasurer and Director of the Philippine Chamber of Commerce and Industry – Pasig City, Inc.. He serves as director and chief financial officer of Algo-Rhythm Communications, Inc., Arribadigital, Inc. and ActivCare Home Health Solutions, Inc. He is currently the chief financial officer of Awesome Lab, Inc.. He is also a member (on-leave) of the Management Association of the Philippines and of the Chamber of Real Estate and Builders Associations, Inc. Mr. Araneta is a member of the Ateneo Alumni Association, Inc. and served as a member of its Board of Directors for the period 2005-2007 and 2009-2012. He is also the President of Ateneo, Inc. and a member since 2011 of the Philippine Association of Congress Exhibitors/ Organizers & Suppliers, Inc. (PACEOS). He is the incorporator of the Mandaluyong Business Foundation. Mr. Araneta also served as Director for the period 2004 to 2005 of the Philippine Science High School Foundation.

***Gerard Bnn R. Bautista, age 55 Filipino, Director,*** was elected as a member of the Board of Directors on June 2, 2016. He is also currently the Chairman of the University of Baguio Foundation. He is a partner in Bnn Bautista Associates, an Architecture & Planning firm. He is also a Charter Member of the Rotary Club of Makati, Greenbelt. He is a member of various associations, namely, the Harvard Architectural and Urban Society, the Harvard Club of the Phils., the Harvard Alumni Alliance for the Environment, the Harvard Alumni Entrepreneurs, the Philippine Jaycees Senate, Rockwell Club, Porsche Club Philippines, and the Baguio Country Club. He served as President of the Makati Jaycees. He also obtained a degree in BS Architecture at the University of the Philippines. Thereafter, he studied Information Technology at the Ateneo Grad School of Business and Financial Forecasting at the University of Asia and the Pacific. He also studied Finance for Senior Executives and Management of Family Corporations at the Asian Institute of Management. Moreover, he studied Actuarial Planning at the Kennedy School of Government at Harvard and School Planning and Design in the Graduate School of Design of Harvard as well.

***Marlou Buenafe Ubano, 46 years old, Filipino, Independent Director,*** has been in practice of law for fifteen years. He is the Founding Partner of the Ubano Sianghio & Lozada Law Offices which was established in June 2002. He is currently a Governor of Integrated Bar of the Philippines – Western Visayas Region. He served as Assistant Secretary for Legal Affairs of the Philippine Department of Transportation and Communications from 2011 to 2013. He was the Commissioner of the Commission on Bar Discipline, Integrated Bar of the Philippines from 2005 to 2007. He also served as President of the Integrated Bar of the Philippines - Capiz Chapter from 2007 to 2009 and again in 2011, and as Deputy Governor of the Integrated Bar of the Philippines – Western Visayas Region from 2011 to 2013. Atty. Ubano was awarded the Presidential Plaque of Merit from the IBP National President in 2007, and a Plaque of Recognition as the Most Outstanding IBP Capiz President in 2009. Atty. Ubano is a Member of the Asean Law Association and the Intellectual Property Association of the Phils., Inc. He obtained his Bachelor's Degree in Law and Political Science in the University of the Philippines.

**Ramon Guillermo R. Tuazon, age 60, Filipino, Director,** is also the president of the Asian Institute of Journalism and Communication (AIJC) and secretary general of Asian Media Information and Communication Centre (AMIC). Mr. Tuazon is chairman of the Philippines Commission on Higher Education (CHED) Technical Committee for Communication (TCC) and member of the CHED Technical Panel for Social Sciences and Communication. He is also a member of the CHED NCR Regional Quality Assurance Team (RQAT). He has served UNESCO in various capacities including Media Development Specialist for UNESCO Myanmar (November 2012- January 2014). Mr. Tuazon served as consultant/team leader to over 30 public information and communication programs and projects. He also participated in 15 international and about 40 national research projects in diverse areas such as mass media, communication, formal and non-formal education, literacy, children's rights, judicial reform and rule of law, etc. He has provided research and consultancy services in other countries including Maldives, Lao PDR, Myanmar, Bhutan, Indonesia, and France. He has co-authored six books, co-edited 15 books/monographs, written over 10 handbooks/ modules, published numerous articles in international and national books, journals, and monographs. Mr. Tuazon completed his Master in Communication Management from the AIJC and Bachelor of Science in Commerce from University of Santo Tomas where he also took graduate work in advertising.

**Winnita V. Ysog, age 54, Filipino, Director,** was elected as member of the Board of Directors on 02 September 2016. She served as Marketing Manager of Wizard Academy, a school which offered preparatory education. She also served as Managing Director of Altimax Broadcasting, Inc. In 2004, she served as Vice-Chairman of the Executive Committee and Vice-President of the Human Resource and Quality Administration of Next Mobile, Inc. In 2009, she ventured into the beauty and wellness business and set-up Vanilla Spice. She is the President of Jonahs and Seths Holdings, Inc. She obtained her Bachelor of Science, Major in Tourism degree from the University of the Philippines, Diliman, where she received an award of Proficiency in French. She also obtained her Masters in Management from the Asian Institute of Management, Makati City. She is now the owner and founder of Mabuhay Ako - Bag of Life 360 and currently, the President of Rotary Club of Kamuning East, Rotary International District 3780.

**Domingo B. Bonifacio, age 65, American, Independent Director,** was elected as Independent Director on 20 January 2017. He is currently the Executive Vice President & General Manager of Automated Technology (Phil) Inc. (ATEC) Connectivity Division. From 2014-2015, he was President of Cirtek Advanced Technologies and Solutions, Inc. From 2005-2014, he served as President and CEO of REMEC Broadband Wireless International, Inc. and from 2005-2014, was the President and CEO of REMEC Manufacturing Philippines, Inc. He obtained his B.S. Electronics and Communications degree from the University of Santo Tomas and passed the Electronics and Communication Engineering Licensure Examination in 1977. He continued his education in 1978-1979 by enrolling in the University of California, Berkley, CA.

**Jesus Pedro S. Adan II, age 68, Filipino, Independent Director Nominee,** He was Vice President and Chief Finance Officer, Chief Audit Executive and Risk Officer Marsman Drysdale Group, Chief Audit Executive and Risk; Compliance Officer of Camarines Minerals, Inc., Mr. Adan worked as Chief Financial Officer for the International Operations of the Binladin Group of Companies in Los Angeles, California from 1985 to 1994 and in 1995 was employed with Steel Corporation of the Philippines as Vice President for Finance and Administration at Philnico Mining. He was Director for Manufacturing Services for Pepsi Cola International in New York, USA, MIS and Budget Director for Richardson-Vicks Corporation and Director at the Development Academy of the Philippines. Mr. Adan received his B.S. in Accounting and Political Science from the Manuel L. Quezon University and the University of the Philippines, and went on to pursue his Master in Business Administration, also at UP. He took up EMBA at I/AME – Warnborough University and graduated with highest distinction and has double doctorate degrees in Strategic Management and Political Economy. He is a professorial lecturer at I/AME and the University of London, a Fellow at the Institute of Strategic and International Studies and a Harvard-trained case facilitator. He has also published numerous professional articles in various magazines and was the Editor-in-Chief of the Philippine Management Magazine

**Angeline L. Macasaet, age 46, Filipino, Corporate Secretary and Member of the Board of Directors,** is a member of the Philippine Bar. She is also currently the Corporate Secretary and Chief Information Officer of the Company. She is also the Corporate Secretary of the various companies under the Velarde Group such as Velarde, Inc., Gamboa Holdings, Inc., Food Camp Industries and Marketing, Inc., Emerald Investments, Inc., as well as enfranchised companies such as NOW Telecom Company, Inc.,



GHT Network, Inc., News and Entertainment Network, Inc., among many others. She ensures the compliance of these companies with all regulatory requirements as well as the legal requirements involving specific transactions. Her extensive engagement involves all forms of litigation and in all fora. She also has extensive practice in the Securities and Exchange Commission, Philippine Stock Exchange, and the National Telecommunications Commission. In addition to litigation, Ms. Macasaet has corporate practice all the way to the more complex engagements of management buy-outs, corporate mergers and share swap.

**Vicente I. Peñanueva**, age 55, Filipino, Treasurer and Chief Finance Officer. He was elected by the Company's Board of Directors as Acting Chief Financial Officer on March 12, 2014. Mr. Peñanueva brings to the company more than 27 years of experience in Corporate Finance, Controllership, Audit and Accounting. Before he joined the Company, he was the Finance and Accounting Manager of Aruze Global Shared Services and was In-charge of Corporate Accounting and Reporting of 7 companies. From 2012 to 2013, he was the Accounting Manager of Century Peak Metals Holding Corporation, also a publicly-listed company. He was the Accounting Manager of Great Image Services Corporation from 2011 to 2012 and was also Senior Accounting Manager of Universal Leaf Philippines, Inc. for 14 years. Mr. Peñanueva is a Certified Public Accountant. He graduated from Ateneo de Davao University in 1985.

**D. Enrique O. Co**, age 50, Filipino, Legal Counsel, is the Legal Counsel of the Company from January 2002 up to the present. He also served as the Corporate Secretary of the Company from 10 June 2004 until 30 August 2005 and from 01 November 2006 up to 21 January 2008. He is currently serving as Director and/or Corporate Secretary of several Philippine corporations. He is also the Managing Partner of Co Ferrer & Ang-Co Law Offices and an Associate Professorial Lecturer at Kalayaan College. Atty. Co obtained his BS Business Administration (*cum laude*) and Law Degrees from the University of the Philippines.

**Jozolly O. Ramos**, age 34, Filipino, Chief Audit Executive. She was appointed as Chief Audit Executive of Now Corporation on June 18, 2018. Ms. Ramos has 12 years experience in Corporate Finance, Risk Management and Compliance. She started as the Junior Accountant of HDI Securities, Inc. She steps up her career in HDI Securities when she became a Certified Associated Person by passing the Five Module Exam given by the Securities and Exchange Commission. In 2010, She became the Associated Person for Operation of Nieves Securities, Inc and in 2013 of Luys Securities Co., Inc. She imparts her knowledge in her profession as a part time faculty in Emilio Aguinaldo College since 2008. She is a Certified Public Accountant. She graduated Cum Laude from the Eastern Visayas State University in 2005 and Finished her Masters in Business Administration with specialization in Capital Markets in Lyceum of the Philippines University in 2012.

### **Nominations to the Board**

There will be a regular election of directors and officers for the year 2019 to 2020. The Nomination Committee shall pre-screen and shortlist all candidates nominated to become a member of the Board of Directors in accordance with the qualifications and disqualification under Sec. 2.2.2.1 of the Revised Manual on Corporate Governance.

The nomination procedure is in accordance with SRC Rule 38 on the requirements on nomination and election of independent directors.

### **Nomination Committee**

The Chairman and Members of the Nomination and Election Committee are as follows:

Vicente Martin W. Araneta III - Chairman  
Jose S. Alejandro - Member  
Marlou B. Ubano - Member (Independent Director)

Mr. Mel V. Velarde, President and CEO of the Company, will nominate the candidates for independent directors. None of the Company's directors and executive officers is related up to the fourth civil degree of consanguinity or affinity, except for Mr. Mel V. Velarde, President and Chief Executive Officer, whose sibling, Ms. Winnita V. Ysog was elected as a regular director during the Annual Stockholders' Meeting held on 07 June 2018. The term of office of elected directors will be one (1) year.

The following were nominated as the regular Directors of the Company for the ensuing year:

Thomas G. Aquino  
Jose S. Alejandro  
Mel V. Velarde  
Vicente Martin W. Araneta III  
Gerard Bnn R. Bautista  
Ramon Guillermo R. Tuazon  
Winnita V. Ysog  
Angeline L. Macasaet

Marlou B. Ubano and Domingo B. Bonifacio will be nominated for re-election as Independent Directors for the ensuing year. Jesus Pedro S. Adan II will likewise be nominated as new incoming independent director.

The Certifications of Qualification of Independent Director of Atty. Marlou B. Ubano, Mr. Domingo B. Bonifacio, and Mr. Jesus Pedro S. Adan II are hereto attached as **ANNEXES "B", "C", and "D"** respectively.

#### **Officers**

**Thomas G. Aquino, Chairman of the Board** (See above)  
**Jose S. Alejandro, Vice Chairman** (See above)  
**Mel V. Velarde, President and Chief Executive Officer** (See above)  
**Angeline L. Macasaet, Corporate Secretary** (See above)  
**Vicente I. Peñanueva, Treasurer and Chief Finance Officer** (See above)  
**Jozolly O. Ramos, Chief Audit Executive** (See above)

#### **ii. Involvement in Certain Legal Proceedings of Directors and Officers**

There are no pending legal proceedings involving Bankruptcy Petition, Conviction by Final Judgment or being subject to any Order, Judgment or Decree, or Violation of a Securities commodities Law to which any director, any nominee for election as director, executive officer, underwriter or control person of the Company is a party or of which any of their property is the subject thereof have occurred during the past five (5) years up to the latest date that are material to evaluation.

#### **iii. Identity of Significant Employees**

There is no person who is not an executive officer who is expected to make a significant contribution to the business of the Company.

#### **iv. Family Relationship**

None of the Directors, Advisors and Executive Officers is related up to the fourth civil degree of consanguinity or affinity, except for Mel V. Velarde and Winnita V. Ysog who are siblings.

**v. Involvement in Certain Legal Proceedings of the Registrant or its Subsidiaries/Affiliates**

On 17 November 2017, the Company filed an administrative case against Mr. Jose P. Dormido, Sheriff IV, Regional Trial Court, Branch 154, of Pasig City. In a Letter dated 08 January 2018, the Supreme Court notified the Company that the copy of the Verified Complaint forwarded to the Supreme Court on 18 December 2017 by the Office of the Chief Justice.

**b. Certain Relationships and Related Transactions** (See Note 9 of 2017 Consolidated Financial Statements)

None of the Advisors, Executive Officers and Management employees are related by affinity or consanguinity, except for Mel V. Velarde and Winnita V. Ysog who are siblings. In the normal course of business, the following transactions have been entered into with related parties affecting consolidated statements of income:

<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Revenues</b>	<b>Cost of sales and services</b>	<b>General and administrative expenses</b>	
Velarde, Inc.	<b>Management Fee</b>	<b>2018</b>	<b>₱240,000</b>	<b>₱-</b>	<b>₱-</b>	
		<b>2017</b>	₱240,000	₱-	₱-	
		<b>2016</b>	₱240,000	₱-	₱-	
NOW Telecom Company, Inc.	<b>Management Fee</b>	<b>2018</b>	<b>32,800,000</b>	-	-	
		<b>2017</b>	7,800,000	-	-	
		<b>2016</b>	-	-	-	
	<b>Services</b>	<b>2018</b>	-	-	-	
		<b>2017</b>	-	-	-	
		<b>2016</b>	7,500,000	-	-	
	<b>Cost of Data Services</b>	<b>2018</b>	-	<b>3,922,957</b>	-	
		<b>2017</b>	-	1,757,720	-	
		<b>2016</b>	-	779,715	-	
	<b>Lease</b>	<b>2018</b>	-	-	<b>120,000</b>	
		<b>2017</b>	-	-	120,000	
	News and Entertainment Network Corporation	<b>Services</b>	<b>2018</b>	<b>10,000,000</b>	-	-
<b>2017</b>			25,600,000	-	-	
<b>2016</b>			15,450,000	-	-	
<b>Cost of Data Services</b>		<b>2018</b>	-	<b>10,041,776</b>	-	
		<b>2017</b>	-	1,364,054	-	
		<b>2016</b>	-	1,696,912	-	
GHT Network, Inc.		<b>Services</b>	<b>2018</b>	<b>10,000,000</b>	-	-
			<b>2017</b>	20,600,000	-	-
			<b>2016</b>	15,450,000	-	-
		<b>Management Fee</b>	<b>2018</b>	<b>12,000,000</b>	-	-
			<b>2017</b>	-	-	-
			<b>2016</b>	-	-	-
	<b>Cost of Data Services</b>	<b>2018</b>	-	<b>1,699,561</b>	-	
		<b>2017</b>	-	-	-	
		<b>2016</b>	-	-	-	
	IMX Broadband, Inc.	<b>Interest</b>	<b>2018</b>	<b>333,409</b>	-	-
			<b>2017</b>	467,033	-	-

<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Revenues</b>	<b>Cost of sales and services</b>	<b>General and administrative expenses</b>
		<b>2016</b>	467,033	–	–
Knowledge Professionals Service Cooperative	<b>Outside Services</b>	<b>2018</b>	–	<b>24,343,211</b>	<b>2,306,929</b>
		<b>2017</b>	–	39,355,462	2,642,857
		<b>2016</b>	–	43,226,619	7,489,693
Softweb Consulting, Inc.	<b>Sales</b>	<b>2018</b>	–	–	–
		<b>2017</b>	–	–	–
		<b>2016</b>	5,412,232	–	–
Asian Institute of Journalism and Communication	<b>Management Fee</b>	<b>2018</b>	<b>240,000</b>	–	–
		<b>2017</b>	–	–	–
		<b>2016</b>	–	–	–
Joyce Link Holdings Limited	<b>Interest</b>	<b>2018</b>	<b>980,802</b>	–	–
		<b>2017</b>	–	–	–
		<b>2016</b>	–	–	–
(Forward)					
Paradiso Verde, Inc.	<b>Revenue</b>	<b>2018</b>	<b>₱11,700,000</b>	<b>₱–</b>	<b>₱–</b>
		<b>2017</b>	–	–	–
		<b>2016</b>	–	–	–
I-College of the Philippines, Inc.	<b>Lease</b>	<b>2018</b>	–	–	<b>930,313</b>
		<b>2017</b>	–	–	930,313
		<b>2016</b>	–	–	930,313
		<b>2018</b>	<b>₱78,294,211</b>	<b>₱40,007,505</b>	<b>₱3,357,242</b>
		<b>2017</b>	<b>₱54,707,033</b>	<b>₱42,477,236</b>	<b>₱3,693,170</b>
		<b>2016</b>	<b>₱44,519,265</b>	<b>₱45,703,246</b>	<b>₱8,420,006</b>

The Group entered into transactions with related parties, principally consisting of the following:

- a. In 2018, the Group Company entered into a deed of sale with Joyce Link to sell the following advances and receivables to the latter in exchange for a one-year 8% convertible promissory note at the option of the holder amounting to ₱91,521,581 which corresponds to the total carrying amount of the advances and receivables. Accordingly, no gain or loss was recognized on the transaction.

<b>Related Party</b>	<b>Category</b>	<b>Amount</b>
Thumbmob Philippines Inc.	Advances	₱14,344,369
Holy Cow Animation, Inc.	Advances, Loans and Interest	11,616,220
Softweb Consulting, Inc.	Trade receivables	34,372,311
	Loans and Interest	714,000
	Advances - net	483,228
IMX Broadband, Inc.	Advances	15,567,752
	Interest	12,263,401
Porteon SEA, Inc.	Loans	2,160,300

Interest income earned from the promissory note amounted to ₱980,802 in 2018 and recognized as part of the advances to Joyce Link.

- b. On August 30, 2005, the Parent Company entered into a Loan Agreement with IBI for research and development purposes in connection with IBI's plan to expand its IT platform and introduce IT-related products and services. The loan is subject to 9.0% interest per annum and is payable no later than August 30, 2010. Partial pre-payments on the principal may be made prior to this date. The interest is due and demandable only on maturity date. Interest was reduced by the parties to 5.5% per annum in 2007 and shall be subject to annual repricing subsequent to 2007.

On June 25, 2010, both parties agreed to extend the maturity of the loan from August 30, 2010 to August 30, 2012. On August 31, 2012, both parties agreed to further extend the maturity of the loan up to August 30, 2015, with the interest rate further reduced to 3% per annum starting January 1, 2013. On August 31, 2015, both parties agreed to extend the maturity of the loan to five (5) years ending August 30, 2020. Interest was retained at 3% per annum.

On September 27, 2018, the loan and the corresponding interest was transferred to Joyce Link which effectively terminated the loan agreement between the parties.

Interest income amounted to ₱333,409, ₱467,033 and ₱467,033 in 2018, 2017 and 2016, respectively, is reflected as part of "Others Income". As of December 31, 2018, 2017 and 2016, amounts owed by IBI, including interest, amounted nil, ₱27,497,744 and ₱27,030,711, respectively. IBI is an entity under common control.

- c. As of December 31, 2018, 2017 and 2016 the Group has outstanding liabilities to Emerald Investment, Inc. (EII) amounting to ₱2,902,918 which arose from the Group's sub-lease agreement with EII that ended in 2011.
- d. On January 1, 2013, the Parent Company renewed its service agreement with KPSC for a period of four (4) years beginning January 1, 2013 to December 31, 2016. On January 3, 2017, the Parent Company renewed its service agreement with KPSC for a period of five (5) years beginning January 3, 2017 up to January 2, 2022.

Under the service agreement, KPSC shall provide consultancy and manpower services depending on the services specifically required by the Group. Amounts owed to KPSC, in relation to the service agreement, amounted to ₱8,819,096, ₱13,038,492 and ₱15,450,244 as of December 31, 2018, 2017 and 2016, respectively.

Previously, the Group's administrative and management functions, including key management personnel, are being handled by personnel of KPSC. Outside services incurred by the Group for the provision of key management personnel services that are provided by the KPSC amounted to nil, ₱2,863,646, and ₱6,176,177 in 2018, 2017 and 2016, respectively. In February 2017, the administrative and management functions, including key management personnel, were transferred from KPSC to the Parent Company.

Compensation of identified key management personnel both from the Group and under KPSC, classified as short-term and post-employment benefits, amounted to ₱10,916,783, ₱9,124,721, ₱6,176,177 in 2018, 2017 and 2016, respectively.

- e. Due to related parties include interest bearing advances from Velarde, Inc. for working capital and investment requirements.

On January 22, 2015, Velarde, Inc. agreed to convert its advances amounting to ₱200,000,000 into equity interest in the Parent Company for 200,000,000 common shares with a par value of ₱1. It was further agreed that the remaining balances and subsequent advances from Velarde, Inc. shall no longer be subject to interest and shall be due on demand (see Note 13).

On April 29, 2016, the Parent Company's BOD approved the conversion into equity of the advances from Velarde, Inc. amounting to ₱264,000,000 at a conversion price of ₱1.22 per share computed on the volume-weighted average price of the Parent Company's shares for a 30-day trading period ended April 14, 2016. On June 2, 2016, the stockholders of the Parent Company approved the said increase in the Parent Company's authorized capital stock.

On June 20, 2016, additional advances were incurred from Velarde Inc., through the latter's payment of the loans payable to bank on behalf of the Parent Company amounting to ₱44,500,000 (see Notes 11 and 19). On October 11, 2018, the Parent Company's BOD approved the conversion into equity of the advances from Velarde, Inc. amounting to ₱209,000,000 at a conversion price of ₱6.50 per share computed on the volume-weighted average price of the Parent Company's shares for a 30-day trading period ended October 11, 2018. The conversion is approved by the shareholders on March 8, 2019 and is yet to be filed in SEC as of April 12, 2019. Outstanding accrued interest presented as part of the "Accounts payable and accrued expenses" amounted to ₱59,903,586 as of December 31, 2018, 2017 and 2016 (see Notes 8 and 19).

Due to Velarde, Inc. presented as part of "Due to related parties" amounted to ₱254,613,559, ₱141,326,966 and ₱68,322,816 as of December 31, 2018, 2017 and 2016, respectively.

- f. On January 1, 2011, the Group entered into a sublease contract with I-College Philippines, Inc. (I-College) for the period November 1, 2011 to May 31, 2012 with a monthly rental fee of ₱77,526. The term of the lease can be renewed upon mutual consent of both parties. The most recent renewal of this sublease agreement is for a period of three (3) years from November 1, 2017 to October 31, 2020. All other terms and conditions of the sublease agreement dated January 1, 2011 remain in full force.

Rent expense incurred by the Group amounted to ₱930,313 in 2018, 2017 and 2016. In connection with this, the related due to I-College amounted to ₱6,667,238, ₱5,736,925 and ₱4,806,612 as of December 31, 2018, 2017 and 2016, respectively.

- g. The Group sells IBM licenses to Softweb, an associate. Sales of IBM license to Softweb amounted to nil in 2018 and 2017 and ₱5,412,232 in 2016.

Trade receivables from Softweb totalling to ₱34,372,311 was transferred to Joyce Link during 2018. The Group has outstanding receivables from Softweb amounting to nil as of December 31, 2018 and ₱34,372,311 as of December 31, 2017 and 2016. The Group also transferred to Joyce Link its loans and net advances to Softweb amounting to ₱714,000 and ₱483,228, respectively.

- h. *Infrastructure build-up*

In January 2015, the Parent Company entered into two (2) separate one-year service agreements with GHT Network, Inc. (GHT) and News and Entertainment Network, Inc. (Newsnet) to provide bandwidth services to its customers. The Parent Company provided the infrastructure build-up and technology design and consultancy.

In 2016, the Parent Company amend its contracts with GHT and Newsnet, and includes NOW Telecom whereas the Parent Company will provide project management services, design and planning services and installation services covering up to 10 major network hubs for a contract price of ₱45,000,000 each. Right to receive payments arise upon acceptance of GHT, Newsnet and NOW Telecom of completed hubs. Payments are due upon receipt of invoice. In 2018, the contracts were amended to include an additional one (1) and two (2) network hubs for Newsnet and GHT, respectively, with the same terms and conditions as the one entered in 2016.

A total of four (4), nine (9) and 10 network hubs were completed in 2018, 2017 and 2016, respectively. Service revenue recognized related to infrastructure build-up amounted to ₱10,000,000 each for GHT and Newsnet in 2018, ₱20,000,000 for GHT and ₱25,000,000 for Newsnet in 2017 and ₱15,000,000 each for GHT and Newsnet in 2016.

- i. *Technical services*

Included in the contract entered in 2016, the Parent Company will provide technology consultancy services for a period of ten (10) years with a monthly fee of ₱50,000 each for GHT and Newsnet. The parties mutually agreed to defer this arrangement in 2018 since no technical services related to the project was provided to GHT and Newsnet during the year. Service revenue recognized amounted to ₱600,000 and ₱450,000 each for GHT and Newsnet in 2017 and 2016, respectively. No such revenue was recognized in 2018.

In 2016, the Parent Company provided technical service related to NOW Telecom for a service revenue amounting to ₱7,500,000.

j. *Value-added services (VAS)*

In 2015, the Parent Company entered into three (3) separate agreements with NOW Telecom, GHT and Newsnet (the Parties), wherein the Parties mutually agreed to collaborate and interconnect their respective networks in order for the Parent Company to provide VAS to the public such as cloud hosting services, virtual private network, multimedia content and program services, online game services, cloud-based multimedia conferencing services, web hosting and cloud-based mail and messaging services (VAS contracts).

On December 5, 2016, the Parties agreed to amend Chapter 5 of their VAS contracts to add provision on revenue sharing from the broadband revenue.

On December 23, 2016, the Parties further agreed to amend their VAS contracts to include additional fees from actual usage of bandwidth and other provision on charging to the Parent Company on a cost-plus margin arrangement.

In January 2018, the Parties further agreed to amend their VAS contracts to include additional fees for the use of the network equipment of NOW telecom, GHT and Newsnet.

Total cost of data services charged to cost of services amounted to ₱15,664,294, ₱3,121,774 and ₱1,696,912 in 2018, 2017 and 2016, respectively.

k. *Management fees*

The Parent Company entered into a contract with Asian Institute of Journalism and Communication (AIJC) to provide management services commencing from January 1, 2018 to December 31, 2020 with an agreed monthly fee of ₱20,000. Service revenue related to management consultancy services to AIJC amounted to ₱240,000 in 2018.

The Parent Company also entered into a contract with GHT for the management of the latter's renewal of franchise in 2018 in exchange for an amount totalling to ₱12,000,000 in 2018. The contract was finalized in September 2018 after the approval of renewal of franchise of GHT.

In March 2018, Parent Company also entered into a contract with NOW Tel for the services rendered in relation to the latter's renewal of franchise in 2018 amounting to ₱10,000,000. The contract was finalized in March 2018 after the approval of renewal of franchise of NOW Tel.

Another management service contract was entered into by the parties in January 2018 for NOW Tel's bidding on the selection of new major player (NMP) in the public telecommunications market as spearheaded by NTC. Revenue recognized in 2018 from the contract amounted to ₱15,000,000 after the completion of the selection of NMP in October 2018.

Parent Company also entered into a contract with NOW Telecom to provide management consultancy services commencing from January 2017 to January 2020 with an agreed monthly fee of ₱650,000. Service revenue related to management consultancy services to NOW Telecom amounted to ₱7,800,000 each in 2018 and 2017.

The Group charges Velarde, Inc. management fees for the administration and operations of the companies. Payments are due within five (5) days upon receipt of invoice. Management fees charged to Velarde, Inc. amounted to ₱240,000 in 2018, 2017 and 2016. Outstanding trade receivables from Velarde, Inc. amounting to ₱1,920,000, ₱1,680,000 and ₱1,440,000 as of December 31, 2018, 2017 and 2016, respectively.

l. The Group has various advances to and from its related parties which pertain to working capital and administrative requirements.

The Group entered into a non-interest bearing loan agreement with Porteon Electric Vehicles, Inc. (Porteon). The loan was sold to Joyce Link during the year which effectively terminated the loan agreement between the two (2) parties. Outstanding amount due from Porteon Electric Vehicles, Inc. amounted to nil as of December 31, 2018 and ₱2,160,300 as of December 31, 2017 and 2016 which is due on demand.

The Group made various advances to NOW Telecom, Paradiso Verde, GHT, Newsnet, AIJC, KPSC and EII for working capital requirements. The Group also has outstanding liabilities to NOW Telecom and Paradiso Verde.

#### Item 6. Compensation of Directors and Executive Officers

The aggregate compensation of executive officers and directors of the Company for the last 2 years and for the current year (2019) are as follows:

ACTUAL	2018			2017
	COMPENSATION	OTHERS	TOTAL	TOTAL
A. Five (5) most highly compensated Executive Officers	8,459,041.00	6,896,672.00	15,355,713.00	11,678,877.00
All directors and executive officers as a Group unnamed	300,000.00		300,000.00	295,000.00

Projected	2019		
	COMPENSATION	OTHERS	TOTAL
A. Five (5) most highly compensated Executive Officers	8,719,100.00	7,098,000.00	15,817,100.00
All directors and executive officers as a Group unnamed	300,000.00		300,000.00

The following are the 5 highest compensated directors / executive officers of the Company for the year 2018: 1. Thomas G. Aquino, 2. Mel V. Velarde, 3. Angeline L. Macasaet, 4. Vicente I. Peñanueva 5. Ramlo John P. Torres

Standard arrangements or other arrangements pursuant to which directors of the Corporation are compensated

#### Standard Arrangement

Other than payment of reasonable per diem, there are no standard arrangements pursuant to which directors of the Corporation are compensated, or are to be compensated, directly or indirectly, for any services provided as a director for the last completed fiscal year and the ensuing year.

#### Other Arrangements

There are no other arrangements pursuant to which any director of the Corporation was compensated, or is to be compensated, directly or indirectly, during the Corporation's last completed fiscal year, and the ensuing year, for any service provided as a director.

#### Employment Contracts and Termination of Employment and Change-in-Control Arrangement

There are no special employment contracts between the Corporation and the named executive officers.

There are no compensatory plan or arrangement with respect to a named executive officer.



## **Warrants and Options Outstanding**

There are no outstanding warrants or options held by the Corporation's Chief Executive Officer, the named executive officers, and all officers and directors as a group.

## **Item 7. Independent Public Accountants**

The auditing firm of Sycip Gorres Velayo & Co. ("SGV & Co.") is the incumbent external auditor of the Company for the calendar year 2018.

There had been no disagreements with SGV & Co., with regard to accounting policies and financial disclosures of the Company.

The auditing firm of SGV & Co. has been the external auditor of the Company for the last seven (8) years. There have been two different partners in charge from 2010 to 2016. For the 2018 audit, the partner in charge was Jhoanna Feliza C. Go. The Company is in compliance with SRC Rule 68, paragraph 3(b)(IV) regarding compliance with the 5-year rotation of external auditors.

To conduct the audit for the fiscal year 2019, the auditing firm Reyes Tacandong & Co. will be recommended for appointment at the 06 June 2019 annual meeting of the stockholders.

## **Audit Fees**

The aggregate fees billed for each of the last three (3) fiscal years for professional services rendered by the external auditor for the audit of the of the parent Company and I-Resource Consulting International, Inc. (subsidiary) annual financial statements is Php700,000.00 for 2018, Php 650,000 for 2017 and Php500,000.00 for 2016.

The external auditor does not render any other assurance and services related to the performance of the audit nor does it render any professional service for tax accounting, advice, planning and any other form of tax services.

## **Audit and Risk Management Committee**

The Chairman and Members of the Audit and Risk Management Committee are:

Marlou B. Ubano – Chairperson  
Ramon Guillermo R. Tuazon – Member  
Gerard Bnn R. Bautista – Member

## **Item 8. Compensation Plans**

No action is to be taken by the Company with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

## **C. ISSUANCE AND EXCHANGE OF SECURITIES**

### **Item 9. Authorization or Issuance of Securities Other than for Exchange**

There is none.

#### **Item 10. Modification or Exchange of Securities**

There are no matters or actions to be taken up in the meeting with respect to the modification of any class of the Company's securities or the issuance of authorization for issuance of one class of the Company's securities in exchange for outstanding securities of another class.

#### **Item 11. Financial and Other Information**

Other data related to the Company's financial information such as the Consolidated Audited Financial Statements as of 31 December 2018 together with the Statement of Management Responsibility; the Certification on Appointment or Employment in Government Entity, and the 1<sup>st</sup> Quarter Report for period ended 31 March 2019 (SEC Form 17-Q) are hereto attached as **ANNEXES "E", "F", and "G"**, respectively.

#### **Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

No action will be taken with respect to any transaction involving the following:

- a. the merger or consolidation of the registrant into or with any other person or of any other person into or with the registrant;
- b. the acquisition by the registrant or any of its security holders of securities of another person;
- c. the acquisition by the registrant of any other going business or of the assets thereof;
- d. the sale or other transfer of all or any substantial part of the assets of the registrant; or
- e. the liquidation or dissolution of the registrant.

#### **Item 13. Acquisition or Disposition of Property**

There are no matters or actions to be taken up with respect to acquisition or disposition of any property by the Company.

#### **Item 14. Restatement of Accounts**

None.

#### **D. OTHER MATTERS**

#### **Item 15. Action with Respect to Reports**

The following are included in the agenda of the Annual Stockholders' Meeting for approval of the Stockholders:

1. Minutes of the Special Stockholders' Meeting held on 08 March 2019;
2. Other proposed Actions:

Action will be taken to approve and ratify the acts of the Board of Directors and Management of the Company from the Regular Meeting of the Board of Directors held on 08 March 2019 up to the date of the annual meeting of stockholders on 06 June 2019. These acts were adopted in the ordinary course of business.

3. Appointment of an External Auditor; and
4. Approval of Employee Stock Option Program

**Item 16. Matters Not Required to be Submitted**

All matters or actions to be submitted in the meeting will require the vote of the security holders.

**Item 17. Amendment of Charter, By-Laws or Other Documents.**

None.

**Item 18. Other Proposed Actions**

Other than the matters indicated in the Notice and Agenda, there are no other actions proposed to be taken at the meeting.

**Item 19. Voting Procedures**

At least a majority of the outstanding capital stock of the Company shall be sufficient to carry the vote for matters submitted to a vote at the Annual Stockholders' Meeting, except for the amendment of the Articles of Incorporation that will require two-thirds votes. The manner of voting and counting votes will be as follows:

1. All outstanding stockholders as of record date of 06 May 2019 are entitled to vote, one to one, and shall have the right to vote. Atty. Angeline L. Macasaet, the Corporate Secretary, will count the votes cast.
2. For purposes of electing directors, cumulative voting shall be followed. The stockholders may have the option to cast all his/her votes in favor of one or distribute his/her votes among nominees. Only candidates nominated during the meeting shall be entitled to be voted.
3. Consistent with the provisions of the By-Laws of the Company, voting need not be by ballot and will be done by show of hands, unless required by law, or upon motion by any of the stockholders.

**UNDERTAKING TO PROVIDE ANNUAL REPORT**

THE REGISTRANT UNDERTAKES TO PROVIDE WITHOUT CHARGE TO EACH STOCKHOLDER A COPY OF THE COMPANY'S ANNUAL REPORT OR SEC FORM 17-A UPON WRITTEN REQUEST TO THE COMPANY ADDRESSED TO:

**ANGELINE L. MACASAET**

Corporate Secretary

NOW CORPORATION

Unit 5-I, 5<sup>th</sup> Floor, OPL Building, 100 C. Palanca Street corner Dela Rosa and Gil Streets,  
Legaspi Village, Makati City

**PART II.**

There are no proxy solicitations.

**PART III.**

**SIGNATURE PAGE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on this 10th day of May 2019.

**NOW CORPORATION**

Issuer

By:

**MEL V. VELARDE**  
President and CEO

**VICENTE I. PENANUEVA**  
Chief Finance Officer and Treasurer

**ANGELINE L. MACASAET**  
Corporate Secretary

Subscribed and sworn to before me this MAY 10 2019  
in Makati City, affiant exhibited to me his/her  
TIN/ SSS/ DL/ PP No. \_\_\_\_\_

Doc. No. 396 ;  
Page No. 81 ;  
Book No. LXXXI ;  
Series of 1019.

**FELIPE I. ILEDAN JR.**

Notary Public for and in Makati City  
Until Dec. 31, 2020, Appt. No. M-02  
Roll No. 27625, TIN 136897808  
Rm. 412, 4<sup>th</sup> Flr. VGP Center, Ayala, Makati City  
2019 PTR No. Mla 8009506 12/18/2018  
IBP No. 1046422; 8/5/2016  
MCLE Comp. VI-0012066, 9/11/2018

## **PART I - BUSINESS AND GENERAL INFORMATION**

### **General Information**

NOW Corporation (the "Company") was originally incorporated on June 5, 1996 as MF Schroder & Co., Inc., initially to engage in the purchase and sale of securities. MF Schroder & Co., Inc. was then a wholly-owned subsidiary of Amalgamated Investment Bancorporation (AIB), a full-fledged and duly licensed investment house.

In January 2002, MF Schroder & Co., Inc. was renamed Cashrounds, Inc. (Cashrounds), with the primary purpose to engage in the business of securities brokerage relating to the sale, transfer or exchange of every description of shares of stock and bonds, and to execute such transactions with the use of information technology.

On March 22, 2005, a Memorandum of Agreement was executed by AIB and Gamboa Holdings, Inc. (Gamboa), whereby AIB agreed to sell and Gamboa agreed to purchase 18,171,286 or 2/3 of the shares of stock of Cashrounds at an aggregate purchase price of Php74,395,000.00.

The sale of Cashrounds shares to Gamboa was made on June 3 and August 30, 2005 which resulted in Gamboa owning 66.67% of Cashrounds.

On April 28, 2006, Cashrounds entered into a Memorandum of Agreement (MOA) with NOW Telecom Company, Inc., formerly known as Next Mobile, Inc. (NOW Telecom) and five controlling shareholders of NOW Telecom namely, Top Mega Enterprises Limited, Joyce Link Holdings Limited, Gamboa Holdings, Inc., Emerald Investments Inc., Food Camp Industries and Marketing, Inc. (the five companies collectively known as NOW Telecom Shareholders) whereby existing shares of NOW Telecom owned by the NOW Telecom Shareholders were swapped with new shares issued by Cashrounds pursuant to an increase in authorized capital stock.

As a result of the above-mentioned exchange of shares of stock, the NOW Telecom Shareholders acquired 97% equity interest of Cashrounds, while Cashrounds acquired 19% of NOW Telecom.

On September 19, 2006, the Securities and Exchange Commission (SEC) approved the increase in the authorized capital stock of Cashrounds to Php1.320 billion with corresponding increase of its paid-up capital to Php1,317,278,350 as well as the change of the corporate name from Cashrounds, Inc. to Information Capital Technology Ventures, Inc.

On July 24, 2008, the SEC approved the amendment of Article II of the Articles of Incorporation of the Company's Primary Purpose to read as follows:

*To engage in the business of providing telecommunications, media and information technology products and services, such as but not limited to the research, development, production, management, marketing, and operation of the following: telecommunications value added services through companies duly licensed to engage in wired and wireless, fixed and mobile communications; software and hardware technology, business process outsourcing, call center and other information technology applications; digital media and other media except mass media; and to do all activities directly or indirectly connected therewith or incident thereto.*

On December 10, 2008, the Philippine Stock Exchange (PSE) approved the application of the Company to list additional shares to cover its share-for-share swap transactions with the shareholders of NOW Telecom. In addition, PSE likewise approved the Company's transfer from the SME Board to the Second Board of the Exchange.

On February 20, 2009, the PSE issued a circular informing the investing public of the Company's listing of additional 1,289,278,350 common shares effective February 24, 2009. This is to cover the share-for-share swap transactions with the shareholders of NOW Telecom, namely, Top Mega Enterprises

Limited, Gamboa Holdings, Inc., Emerald Investments, Inc., Joyce Link Holdings Limited and Food Camp Industries and Marketing, Inc., at a swap price of ₱1.00 per share.

The transfer of the Company from the SME to the Second Board finally took effect on June 29, 2009.

On March 12, 2010, the Board of Directors of the Company (BOD) approved the Company's transfer from the Second board to the First Board of the Exchange. In addition, the BOD approved the Company's increase in authorized capital stock from P1.32 billion to P5 billion as well as the listing of the additional shares from the increase. Finally, the BOD approved the amendment of the Company's By-Laws that will allow waiver of pre-emptive rights.

On August 3, 2010, the SEC approved the Amendment of the Seventh Article of the Articles of Incorporation of the Company to read as follows:

*No stockholder shall have any pre-emptive right of subscription to any class of shares of stock of this Corporation, whether to the present authorized capital stock or any future increases thereof.*

On September 1, 2010, the Company entered into an agreement with Softrigger Interactive, Inc. and Mr. Carlos C. Sevilla whereby the Company shall subscribe to new shares of stock of Softrigger Interactive, Inc. totaling 34,134 which will be equivalent to 50% equity interest in Softrigger Interactive, Inc. post investment.

On October 1, 2010, the Company entered into an agreement with Holy Cow Animation, Inc., Ms. Marilyn D.L. Montano and Mr. Danilo F. Montano whereby the Company shall subscribe to new shares of stock of Holy Cow Animation, Inc. totaling 53,937 shares which will be equivalent to 50% equity interest in Holy Cow Animation, Inc. post investment.

Holy Cow Animation, Inc. is engaged in the business of providing computerized animation services for film and/or television, including conceptualization, production and execution of shows, programs and advertising campaigns using animation.

On December 20, 2010, the Company entered into an agreement with Softweb Consulting, Inc., Ms. Rhennie T. Vilorio, Mr. James Michael V. Santiago and Ms. Angel Madonna V. Santiago whereby the Company shall purchase/subscribe to shares of stock of Softweb Consulting, Inc. totaling 5,050 which will be equivalent to 50% equity interest in Softweb Consulting, Inc. post investment.

Softweb Consulting, Inc. is engaged in the business of IT consulting services and reseller of software and hardware and other related products.

On December 21, 2010, the Company entered into a subscription agreement with Thumbmob Philippines, Inc. (Thumbmob) to subscribe to new shares of stock of Thumbmob totaling 145,834 shares which will be equivalent to 50% equity interest in Thumbmob, post investment. The Investment and Subscription Agreement with Thumbmob is subject to the confirmation by the Board of Directors of the Company.

On March 8, 2011, the Company filed with PSE its application for transfer from the Second Board to the First Board of the Exchange.

The amendment of the Company's Secondary Purposes to include the following was ratified by the stockholders of the Company during the June 2, 2011 Annual Stockholders' Meeting.

- a. To provide professional services and manpower in the field of telecommunications, media and information technology.
- b. To buy, sell, lease, assemble, import, export, process and deal in any and all classes of materials, merchandise, supplies and commodities of every kind and nature;
- c. To act as commission agent, manufacturer's representative, or principal for the purchase, sale distribution, manufacture, assembly, import or export of any and all classes of materials, merchandise, supplies and commodities of every kind and nature; and
- d. To engage in and carry on the business of general and retail merchants, traders, factors, agents, manufacturers, processors, dealing in or with any and all classes of materials, merchandise, supplies and commodities of every kind and nature.

On March 17, 2011, the Company's Board of Directors confirmed/ratified the establishment of the Company's wholly-owned subsidiary named J-Span IT Services, Inc. in Tokyo, Japan. The Board likewise approved the establishment in the Philippines of a wholly-owned subsidiary to be named I-Resource Consulting International, Inc.

On May 25, 2011, the SEC approved the incorporation of I-Resource Consulting International, Inc. as a wholly owned subsidiary of the Company. The primary purpose of I-Resource Consulting International, Inc. is to provide consulting, technical advice and professional advisory services to persons, firms, association, corporations, partnerships and other entities.

On June 10, 2011, the SEC approved the incorporation of Porteon SEA, Inc., a wholly-owned subsidiary of the Company with the primary purpose of engaging in the business of manufacturing, marketing and selling of vehicles of all types, including but not limited to electric vehicles.

The amendment of the Secondary Purposes was approved by the SEC on August 25, 2011.

On September 02, 2011, the Company entered into a Memorandum of Understanding with Huawei International Pte., Ltd., Huawei Technologies Phils., Inc. and NOW Telecom. The parties desire to explore the possibility of entering into a business relationship which will allow each party to provide its respective contribution in order to attain the common purpose of implementing NOW Telecom's nationwide build-up plans. The milestone agreement is expected to enhance the information capabilities of the Company and NOW Telecom in partnership with the world's largest information technology company Huawei.

On August 25, 2012, the SEC approved the incorporation of I-Professional Search Network, Inc., a wholly-owned subsidiary of the Company. The primary purpose of I-Professional Search Network, Inc. is the recruitment and placement of workers domestically. This is aimed at broadening the Company's base in the area of service-related business as well as to complement the Company's other wholly-owned subsidiary, I-Resource Consulting International, Inc., which provides consulting, technical advice and professional advisory services to persons, firms, association, corporations, partnerships and other entities.

The Board of Directors and Stockholders of the Company approved the name change from Information Capital Technology Ventures, Inc. to Now Corporation on 02 July 2013 and 06 June 2013, respectively. On 16 August 2013, the SEC issued the Certificate of Filing of Amended Articles of Incorporation and the Certificate of Revision of the Title of Amended By-Laws certifying the said name change.

On December 27, 2013, the Company paid the amount of Php3,000,000.00 for the Company's subscription to 110,000 shares (at Php100.00 per share) on the proposed increase in the authorized capital stock of I-Resource from Php1,000,000.00 to Php12,000,000 or increase from 10,000 shares to 120,000 shares. The proposed increase in the authorized capital stock of i-Resource was approved by the SEC on April 2, 2014.

During the Special Stockholders' Meeting held on January 22, 2015, the shareholders approved the following: 1) increase of the capital stock of the Company from Php1.32B to Php2.120B or an increase of Php800M; 2) conversion of advances made by a shareholder, Velarde, Inc., in the amount of Php200M; 3) application for listing with the PSE of the additional 200M shares to be issued from the increase in authorized capital; and 4) waiver by a majority vote representing the outstanding shares held by the minority shareholders present of the conduct of a rights or public offering of the shares to be subscribed by Velarde, Inc. The Company's Board of Directors had previously approved a higher increase of Php2.7B during its November 27, 2014 meeting. However, upon further study and discussion, a lower amount was recommended and approved by the Board during a special meeting held on 22 January 2015 prior to the Special Stockholders' Meeting scheduled on the same day.

On 17 December 2015, the Securities and Exchange Commission approved the Company's increase in authorized capital from Php1,320,000,000.00 divided into 1,320,000,000 shares of the par value of Php1.00 each to Php2,120,000,000.00 divided into 2,120,000,000 shares of the par value of Php1.00 each.

At the 29 April 2016 Special Meeting of the Board of Directors, the Board approved the increase of the authorized capital stock of the Company from Php2.120B to Php3.0B. The Board likewise approved the conversion into equity of the 264M advances accumulated since year 2011 from a shareholder, Velarde, Inc., at a conversion price of Php1.22/share computed/ based on the daily average of the volume-weighted average price of NOW shares for a 30-day trading period ending 14 April 2016; Finally, the Board approved

the listing of 216M shares that will be issued out of the said conversion and increase in authorized capital stock.

In its 02 September 2016 Special Meeting, the Board of Directors approved the amendment of the Seventh Article of Incorporation to authorize the creation of Sixty Million (60,000,000) Redeemable, Convertible, Non-Participating and Non-Voting Preferred Shares with or without Detachable Warrants with a par value of One Peso (Php1.00) per share. The Board likewise approved the setting of the special stockholders' meeting on 08 November 2016 with the record date of 28 September 2016.

During the 08 November 2016 Special Stockholders' Meeting, the shareholders present, by a unanimous vote, approved the following: 1) Minutes of the Annual Stockholders' Meeting held on 02 June 2016; 2) Amendment to the Seventh Article of Incorporation (creation of 60M Redeemable, Convertible, Non-Participating, and Non-Voting Preferred Shares with or without Detachable Warrants with a par value of One Peso (Php1.00) per share; 3) Approval for listing of 60M Redeemable, Convertible, Non-Participating, and Non-Voting Preferred Shares with or without Detachable Warrants with a par value of One Peso (Php1.00) per share; 4) Approval for issuance and public offering of 60M Redeemable, Convertible, Non-Participating, and Non-Voting Preferred Shares with or without Detachable Warrants with a par value of One Peso (Php1.00) per share.

The Shareholders likewise expressly granted the authority to the Board of Directors to determine: (1) whether the issuance of the Preferred Shares shall be with or without warrants; (2) the actual number of warrants to be issued in connection thereto, which shall in no case be more than two (2) times the total number of Preferred Shares to be issued; (3) the total number of underlying common shares to be issued in connection with such warrant, which shall in no case be more than the number of warrants to be issued; and (4) to determine all other terms and conditions of the warrant including the strike price.

In its 21 December 2016 Regular Meeting, the Board of Directors approved the filing of the Registration Statement, Listing Application and the terms and conditions and such other relevant acts in connection with the intended public offering of shares of the Company.

On 10 January 2017, the Securities and Exchange Commission issued to the Company a Certificate of Filing of Amended Articles of Incorporation (Amending Article VII reclassification of P60,000,000.00 Common Shares to Preferred Shares thereof).

At the 20 January 2017 Special Meeting of the Board, a resolution was passed approving the issuance of detachable warrants in connection with the public offering of the Company's preferred shares;

On 20 February 2017, NOW Corporation received from the Supreme Court Bids and Awards Committee for Goods and Services the Notice of Award for the Installation of the Judiciary Email System of the Supreme Court (the "Project"). The Project, which includes the email and collaboration of 7,000 users, is being undertaken by the Company together with its joint venture partner, Accent Micro Technologies, Inc., utilizing the Integrated Business Machine (IBM) Collaboration Solution portfolio. NOW Corporation is a premier business partner of IBM, having received for two consecutive years the Top IBM Social Collaborations Partner Award for the years 2014 and 2015, for being instrumental in the digital transformation of enterprises across industries including banking, retail, logistics and government institutions.

On 13 March 2017, NOW Corporation signed with Tata Communications a Global Partner Programme Agreement. The Agreement allows NOW to provide to its existing and future enterprise clients access to Tata Communications' international portfolio of global managed network services, managed security services and unified communications and collaboration offering. Tata Communications is a leading global provider of A New World of Communications to multinational enterprises and service providers. The company leads from the front to create an open infrastructure, partner ecosystem and platforms for businesses to stay competitive in this digital age.

At the 07 August 2017 Regular Meeting of the Board of Directors, the following resolutions were approved: 1) Acceptance of disengagement of SB Capital Investment Corporation ("SB Capital") as one of the Joint Issue Managers, Joint Bookrunners and Joint Lead Underwriters. 2) Appointment of SB Capital as the Company's Financial Advisor; 3) Grant of authority to the Chairman and President and CEO to negotiate and engage the services of an Issue Manager, Bookrunner, Lead Underwriter for its proposed public offer of preferred shares; 4) Reduction of the Company's proposed public offering of its preferred shares from 15M preferred shares with 30M warrants to 5M preferred shares with 30M warrants thus resulting in the reduction of the offer size from Php 1.5B to Php 500M.



On 25 September 2017, the Company mandated Unicapital, Incorporated (“Unicapital”) to replace Philippine Commercial Capital Inc. (“PCCI”) as Issue Manager, Lead Underwriter, and Bookrunner for the Company’s planned offer and sale of Convertible Preferred Shares with Detachable Warrants in the Philippines by way of a follow-on public offering and the listing of the same with the Exchange (the “Offer”), applications for which were filed before the Securities and Exchange Commission and the Exchange, respectively. The Company shall continue with the Offer, subject to certain amendments pursuant to new discussions between Unicapital and the Company, the terms of which shall be disclosed at the appropriate time.

In its 20 December 2017 Regular Meeting, the Board approved, in relation to its conduct of Public Offering by way of a Follow-On Offering (“FOO”) of its Preferred Shares of stocks, the offer and sale of up to 10,000,000 out of the 60,000,000 redeemable, convertible, non-participating and non-voting preferred share with detachable warrants out of the unissued portion of the authorized capital stock of the Corporation (the “Offer Shares”) and up to 20,000,000 Detachable Subscription Warrants to be issued free of charge with 20,000,000 underlying common shares (collectively, the “Warrant”).

On 22 December 2017, NOW Corporation filed its Registration Statement and Prospectus with the Securities and Exchange Commission (“SEC”) pursuant to the Company’s application for the Follow-On Offering of 5,000,000 redeemable, convertible, cumulative, non-participating, non-voting, Peso-denominated, preferred shares with an Oversubscription Option of 5,000,000 with a par value of one peso (₱1.00) per share, with 10,000,000 detachable subscription warrants to be issued free of charge with 10,000,000 underlying common shares, with an Oversubscription Option of 10,000,000 Warrants and 10,000,000 underlying common shares of NOW Corporation.

NOW Corporation also has a pending application with the Philippine Stock Exchange (“PSE”) for the listing of 200M additional shares. On 20 February 2018, the PSE issued its initial comment and inquiries. The Company is currently in the process of providing the information and documents requested by the PSE.

In its 15 March 2018 Regular Meeting, the Board resolved to delegate to the Executive Committee the setting of the final conversion price related to the conversion into equity of the Php264,000,000.00 advances from a shareholder. Said conversion into equity was previously approved in 2017 by both the Board and the Stockholders, respectively, and was likewise promptly disclosed to the Philippine Stock Exchange.

The shareholders present by a unanimous vote likewise affirmed / confirmed their approval, made at the 02 June 2016 Annual Stockholders' Meeting, of the increase in authorized capital stock of the Company as well as the conversion into equity of the Php264M advances from a shareholder, Velarde, Inc., at the conversion price computed based on the daily average of the Volume-Weighted Average Price of NOW Corporation shares for a 30 day trading period ending 14 April 2016 as well as the listing of corresponding shares that will be issued out of the said conversion. The conversion price shall be set between Php1.50 per share to Php1.70 per share range. The Board of Directors is given the delegated authority to finalize the terms and other details pertaining to such increase and conversion price within the respective ranges herein set forth.

On 22 June 2018, the Securities and Exchange Commission issued the Certificate of Filing of Enabling Resolution in relation to the Company’s offer of 5,000,000 Redeemable Convertible Cumulative Non-Participating Non-Voting Peso-denominated Preferred Shares and designate the series as the Preferred “A” Shares with an Oversubscription Option of 5,000,000 Preferred A Shares, with 25,000,000 underlying Common Shares and an additional 25,000,000 Common Shares upon the exercise of the Oversubscription Option, which Common Shares shall be issued upon conversion of the Preferred Shares, with Detachable Warrants, under the terms and conditions thereof.

At the Special Meeting of the Board of Directors of NOW Corporation held on 11 October 2018, the Board approved the conversion into equity by its shareholder Velarde, Inc. in the amount of Two Hundred Nine Million Pesos (Php209,000,000.00) with the conversion price computed based on the Volume Weighted Average Price (VWAP) of the 30-day trading period ending 11 October 2018. The Board

At the special meeting of the Board of Directors of NOW Corporation held on 28 December 2018, the Board approved the Company's equity restructuring plan by reducing the par value of the common shares of stock of the Company and by applying the resulting additional paid-in capital to eliminate its accumulated deficit. For this purpose, the Board approved the amendment of Article Seventh of NOW's Articles of Incorporation to reduce the par value of common shares from One Peso (Php1.00) per share to

Seventy Centavos (Php0.70) per share, and the resulting decrease of NOW's authorized capital stock from Php2,120,000,000.00 divided into 2,060,000,000 common shares with par value of One Peso (Php1.00) each to Php1,442,000,000 divided into 2,060,000,000 common shares with par value of Seventy Centavos (Php0.70) each.

At the Special Stockholders' Meeting of NOW Corporation held on 08 March 2019, the stockholders unanimously approved Company's equity restructuring plan by reducing the par value of the common shares of stock of the Company and by applying the resulting additional paid-in capital to eliminate its accumulated deficit. The Php1.00 par value per share of the existing preferred shares will not change. For this purpose, the stockholders unanimously approved the amendment of Article Seventh of NOW's Articles of Incorporation to reduce the par value of common shares from One Peso (Php1.00) per share to Seventy Centavos (Php0.70) per share, and the resulting decrease of NOW's authorized capital stock from Php2,120,000,000.00 divided into 2,060,000,000 common shares with par value of One Peso (Php1.00) each to Php1,442,000,000 divided into 2,060,000,000 common shares with par value of Seventy Centavos (Php0.70) each.

Likewise, the stockholders unanimously approved the conversion of advances into equity of its shareholder Velarde, Inc. in the amount of Two Hundred Nine Million Pesos (Php209,000,000.00) with the conversion price computed based on the Volume Weighted Average Price (VWAP) of the 30-day trading period ending 11 October 2018 or at Php6.50 per share, and the listing of additional shares resulting from the said conversion. The waiver by a majority vote representing the outstanding shares held by the minority shareholders present of the conduct of a Rights or Public Offering of the Shares to be subscribed to by Velarde, Inc. was likewise affirmed/confirmed.

Finally, the stockholders approved the revision of the earlier approval made during the Annual Stockholders' Meeting held on 07 June 2018 to increase the authorized capital stock of the Company within a range between Php600M and Php700M in connection with the earlier conversion of another tranche of advances made by Velarde, Inc. to NOW Corporation in the amount of Php264 Million. Only the conversion into equity of Velarde, Inc.'s advances in the amount of Php264M based on the adjusted conversion price range between Php1.50 and Php1.70 per share as well as the listing of additional shares resulting from the said conversion are approved and affirmed for implementation. The contemplated increase in authorized capital stock is deemed set aside.

## **(2) Business of the Company**

Pursuant to its new primary purpose, the Company has recently shifted its operations into Telecommunications, Media and Technology (TMT). Its new primary purpose is primarily engaged in the business of providing telecommunications, media and information technology products and services under its four key operating business segments, namely: (i) Software Licenses and Services; (ii) IT Manpower and Resource Augmentation; and (iii) Broadband and Wireless Cable TV Services, and (iv) Business Partnership for internet connectivity solutions

The Company's diverse products and services portfolio include software application development and maintenance, collaboration software solutions, web integration, web and mobile applications development, technical and maintenance services, IT manpower and resource augmentation, project implementation and management, managed services outsourcing, and fixed wireless broadband services, among others. The Company also offers value-added services through partnerships with companies licensed to provide wired and wireless, fixed and mobile communications and cable TV services.

Among the programs that the Company is currently offering would be TMT services such as broadband networks worldwide, cloud hosting service, virtual private networks, multimedia content, online gaming, web hosting, cloud-based multimedia conference, cloud-based mail and messaging service, electronic communications network and services.

In 2016, the Company expanded its service offerings with the introduction of its "Fiber-in-the-Air" fixed wireless broadband service with a CIR of up to 700 Mbps, a first of its kind in the Philippines. Through its partnership with NOW Telecom and Newsnet, a wireless telecommunications operator and a cable TV service provider, respectively, the Company offers an affordable, alternative and high-speed broadband service of up to 700 Mbps and wireless cable TV services to the underserved and unserved large enterprises such as schools, hospitals, hotels, high-end residential buildings, and commercial buildings with multiple BPO locators. Currently, the Company's client broadband subscription ranges from 5 Mbps to 100 Mbps, which may be further increased to up to 700 Mbps, depending on the clients' bandwidth

requirements. The Company positions its fixed wireless broadband service either as primary, alternative or as an auxiliary link to existing broadband service providers.

The Company's Fiber-in-the-Air fixed wireless broadband service allows its subscribers to download, upload, stream and share files simultaneously without compromising performance. The Company deploys competitively priced high-speed broadband bandwidth resources with high availability through its Point-to-Point and Point-to-Multipoint Radios. From providing Software Licenses and Services to adding IT Manpower and Resource Augmentation and Broadband Wireless Cable TV Services, the Company intends to deliver high-speed broadband services with a CIR of up to 700 Mbps which may be bundled with enterprise collaborations solution, wireless cable television and interactive multi-media applications.

In 2018, The Company, along with its affiliate NOW Telecom launched the "Network ng Mamamayang Pilipino," (NOW NMP) aimed at democratizing the Philippine Telecommunications business by providing internet connectivity solutions across the Philippines through exclusive-distributorship agreements with business partner. NOW prides itself to be a pro-Filipino company with a vision of empowering Filipino enterprises operate businesses that will shape the country's digital landscape.

### Business Partners

**NOW Telecom Company, Inc. ("NOW Telecom")**, is a business partner which is in a unique position to meet the unabated increase in demands for high speed broadband connectivity of large and medium enterprises, government organizations, educational and medical institutions, financial institutions, multi-tenant/ multi-level commercial and residential buildings, clustered urban residential communities and special economic zones. This company is at the forefront in employing the latest state-of-the art wireless technologies to address the demands of clients for customized solutions yet cutting-edge broadband technology.

The **International Business Machines Corporation ("IBM")**, is an American multinational technology and consulting corporation. Since establishing its presence in the Philippines in 1937, it has evolved to become the leader in information technology, providing hardware, software and IT-enabled services to both local and global clients. IBM is known for the quality of its products and services in a long-standing tradition of excellence, customer satisfaction, and commitment to business ethics and integrity.

The **Asian Institute of Journalism and Communication, Inc. ("AIJC")**, is a Knowledge Management Center organized in 1980 as a graduate school of journalism, founded on the philosophy that communication is a vital development resource to be used to advance the common good. It has a solid record of more than 30 years in the communication field – as a graduate school for communicators and journalists, a center for continuing education in journalism, communication, and knowledge management, and a research and consulting firm advocating policies and implementing programs and projects that address development issues and concerns both at the levels of national decision making and community-based initiatives.

### Brands

**WebsiteExpress.Biz ("WebsiteExpress.Biz")** is a one-stop shop website development service - providing micro, small and medium sized enterprises affordable, professional websites in as fast as 5 days.

### Products and Services

#### **A. Software Licenses and Services**

- **IBM Collaboration Solutions**

In partnership with IBM, the Company provides IBM collaborations solutions such as provision of software and IT-enabled services aimed at developing business solutions and applications to ease business operations and boost productivity of business enterprises. The Company has been categorized as a premier business partner of IBM as an affirmation of its superior skills and market success. The Company resells essential IBM tools and products that are designed to enable new capabilities that improve business processes and help engage clients and employees in new ways. These IBM tools and products include software for instant messaging that facilitates integrated team collaboration accessible by the client's employees across all applications and devices; file sharing and enterprise electronic mails which the client can integrate in its business application allowing enterprises to have easy use real-time connections and

communication within their office space; and IBM Ustream video platform which can be utilized by enterprises to distribute content via video.

Aside from these, the Company also resells at a competitive price IBM smartcloud services which include tools for social business in the cloud. The Company also offers a wide array of IT software services including: (i) software application development, maintenance and support; (ii) data analytics; (iii) e-forms; and (iv) portal, all aimed to enhance the client's overall experience. These services simplify business operations through integrating digital technologies and functionality into a system.

The Company's services also include technical services namely: migration, network administrator services, technical support and other services related to the maintenance of IBM products.

From 2014 to 2015, the Company was hailed as the "Number One Software Collaboration Business Partner in the Philippines" by IBM, a Fortune 500 multinational IT and consulting company, and one of the world's top providers of computer products and services. IBM has been the Company's partner in delivering its collaboration software solutions since 2010.

- **Cloud Hosting Services**

Cloud hosting services cover the virtualization of the IT infrastructure to mitigate the rapid pace of technology obsolescence. These services are available to individual, small medium enterprises and corporate users in two primary space categories: (i) dedicated; and (ii) shared.

In a dedicated space arrangement, clients are allocated dedicated hardware for their exclusive use. Shared set-up are for clients with processing requirements that are not fixed, and which are clustered into a shared hosting server with pre-defined performance commitments.

- **Virtual Private Networks**

VPN is an end-to-end protection and encryption services on network connectivity that ensures secured data transport. The Company's VPN service provides anonymity on the client's connection to the internet by using thousands of IP addresses and various server connections worldwide. VPN services passes internet filters allowing secure internet access. It also routes all data transport traffic with new IP address through affiliated secured servers located in various locations. This provides tracking difficulty and ensures a slim probability that data transmission will be compromised.

- **Cloud-based Multimedia Conferencing Services**

Cloud-based multimedia conferencing services consist of cloud-based server and applications capable of hosting multimedia conferencing application that will visually connect people in different physical locations in the virtual space. This service is ideal for conducting classes, presentations, events, meetings, and lectures for participants from multiple locations. This service provides a cost-effective participation of more individuals from multiple locations.

- **Web Hosting, Cloud-based Mail and Messaging Services**

Web hosting services vary from personal to corporate with e-commerce application development, content management, database and search engine optimization support. Cloud-based mail services carry a variety of mail services ranging from electronic mail, facsimile mail, voice mail and video mail. Cloud-based mail services also include storage, calendar, contact and task management, and virus protection. These are available to individual, small medium enterprises and corporate clients.

- **Digital Media Production**

The Company also offers services such as website development, mobile application development, and animation that can be used by business enterprises to create, manage and sustain their marketing and communications through digital channels that are simple, functional and effective across multiple market segments. These services allow business enterprises to increase their engagement with potential customers and to create an online presence in order to capture a wider base market. One of the Company's notable projects is the "It's More Fun in the Philippines" website and mobile application that supported the campaign of the Department of Tourism.

The Company offers its web development through WebsiteExpress.Biz. The Company has established the brand WebsiteExpress.Biz as its vehicle in delivering quality and globally compliant websites catering to micro and medium-sized enterprises. WebsiteExpress.Biz is a one-stop website development service operator that provides development, domain, hosting, secure sockets layer certificates, shopping cart, electronic mail, among others, without engaging multiple service providers. It operates at a subscription model, providing micro and medium-sized enterprises and individual subscribers quality, affordable and

efficient websites in a span of five (5) days. One of the key features of WebsiteExpress.Biz is its responsive web design which allows a website to be responsive in all mobile devices without developing a dedicated mobile application for each kind of device.

Under its mobile application development, the Company offers customized mobile applications such as cinematic three-dimensional, game-based learning, rich media, html5 animation and gestures to allow businesses to enhance customer experience and increase brand loyalty. Through its competencies in digital media production, the Company can cater to the requirements and specifications of each client in order to deliver quality mobile applications for their businesses.

### ***B. IT Manpower and Resource Augmentation***

The Company, through its subsidiaries i-Resource and i-Professional, is engaged in the business of providing consulting, technical advice and professional advisory services to persons, firms, association, corporations, partnerships and other entities.

i-Resource is an information technology resource management company that provides IT knowledge professionals to its clients. i-Resource principally deploys IT knowledge professionals to assist its clients in managing the IT operations of their businesses ranging from short to long-term and mission-critical projects, including data center management, network infrastructure maintenance and software management. This is done through i-Resource's dedicated sourcing group and business development managers.

The services of i-Resource can be further categorized into three sub-business segments, namely:

- **IT Staff Augmentation**

Under this sub-segment, i-Resource provides IT knowledge professionals for the IT-related needs of its clients. Skilled personnel are deployed to provide additional IT knowledge professionals to the client's current roster or to provide additional support to the client's existing project team, for a limited period. Specifically, i-Resource offers the following services:

a) *Resource Management Outsourcing* – Resource management outsourcing pertains to the provision of IT knowledge professionals by i-Resource to a client for a specific duration ranging from three (3) months to one (1) year, some of which are renewable thereafter. The IT knowledge professionals deployed remain to be employees of i-Resource during the period of engagement.

b) *Assignment of Staff* – Assignment of staff pertains to the deployment of resource personnel by i-Resource for a client in order to augment client manpower requirements.

c) *Project Team Outsourcing* – Project team outsourcing ensures enterprises of available project teams that will be assigned to their project without the need to hire them directly. The assigned personnel may include project managers, developers, business analytics and quality assurance testers.

- **Managed Services**

Aside from providing IT knowledge professionals, the Company, through i-Resource also services its clients by allowing them to outsource certain business process to i-Resource. This managed services also include trainings of IT candidates and team development for its clients. In addition, this sub-segment covers:

a) *Managed Service Outsourcing* - Clients may outsource a portion of their business processes such as testing & quality assurance services, applications development, applications maintenance, disaster recovery, desktop services, technology help desk services, call center help desk services and network services (broadband internet) to i-Resource, in order for them to focus on their core business activities. i-Resource services regular or critical projects based on targeted outcomes and service level agreements.

b) *Train and Deploy* - i-Resource develops the skills of fresh graduates based on client requirements through boot camps. This is carried out in collaboration with iCollege, which is a center for continuing education established by the Company in partnership with the Asian Institute for Journalism and Communication, a knowledge management center organized in 1980 as a graduate school for journalism.

c) *Offsite Team Development* – i-Resource develops a dedicated team of IT knowledge professionals specifically for the client requirement, which are housed outside the client's office.

- Search and Select

i-Professional serves as the recruitment arm of its clients by providing the following add-on services:

a) *Contract to Hire* – This allows enterprises to try and test IT knowledge professionals before actually hiring by outsourcing them for a probationary period of six (6) months. The IT knowledge professionals become employees of the client at the end of the probationary period should they qualify with the standards of the client. The Company charges a one-time absorption fee.

b) *Recruitment Process Outsourcing* – This provides an end to end recruitment process for companies with huge IT knowledge professional requirements. It also allows enterprises to outsource the recruitment process of IT knowledge professionals for regular placements.

### **C. Broadband and Wireless Cable TV Services**

An addition to the Company's service portfolio is the Broadband and Wireless Cable TV Services. The Company offers high-speed broadband service of up to 700 Mbps CIR to the underserved and unserved large enterprises such as schools, hospitals, high-end residential buildings, and commercial buildings with multiple BPO locators. The Company was the first to market the Fiber-in-the-Air fixed wireless broadband service of up to 700 Mbps in the Philippines, which allows the Company's subscribers to download, upload, stream and share files simultaneously without compromising performance.

The Company deploys high-speed broadband bandwidth resources with high availability through its Point-to-Point and Point-to-Multipoint Radios. The Point-to-Point and Point-to-Multipoint connectivity work through network radio antennas that are installed atop strategically selected high-rise buildings and establishments around metropolis. The building's rooftop where the radio antennas are installed must have a line of sight basis from the Company's nearest hub. This allows the user to send data over much greater distances while maintaining speed and has the advantage of connecting users even in remote areas without the need for cables. To further enhance its clients' experience, the Company maintains a team of engineers and technical support available on a 24/7 basis to keep its subscribers connected.

### **D. Business Partnership Program**

In 2018, The Company, along with its affiliate NOW Telecom launched the "Network ng Mamamayang Pilipino," (NOW NMP) aimed at democratizing the Philippine Telecommunications business by providing broadband internet connectivity solutions across the Philippines through exclusive-distributorship agreements with local business partners. NOW prides itself to be a pro-Filipino company with a vision of empowering Filipino enterprises operate businesses that will shape the country's digital landscape.

The company is partnering with local entrepreneurs and local government units to bring NOW's technology to a particular area whether for horizontal deployment such as for barangays and wide area network, or for vertical deployment such as for office buildings.

## **PART II – MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

On February 7, 2002, the Board of Directors approved the increase in the number of shares of the authorized capital stock of the Company from 4,000,000 shares to 40,000,000 shares and the reduction of par value from Php10 per share to Php1 per share.

On July 23, 2002, the Board of Directors and stockholders approved the offer of up to 28,000,000 shares from the Company's unissued common stock through initial public offering (IPO). The application for the IPO of the Company was approved by the PSE and the Securities and Exchange Commission (SEC), on June 11 and July 30, 2003, respectively. The Company was listed in the PSE on July 23, 2003. Issue manager and underwriter was Abacus Capital & Investment Company. The market price is at high of

Php1.08 and low of Php.34. The following table is the summary of the Company's stock prices from first quarter of 2014 up to the 1st quarter of 2019:

Year	Quarter	High	Low	Close
2014	1 <sup>st</sup>	0.405	0.360	0.380
	2 <sup>nd</sup>	1.040	0.370	0.710
	3 <sup>rd</sup>	0.910	0.610	0.630
	4 <sup>th</sup>	0.720	0.540	0.570
2015	1 <sup>st</sup>	0.670	0.400	0.495
	2 <sup>nd</sup>	0.630	0.430	0.465
	3 <sup>rd</sup>	0.610	0.400	0.500
	4 <sup>th</sup>	1.290	0.470	0.750
2016	1 <sup>st</sup>	1.140	0.580	1.100
	2 <sup>nd</sup>	3.000	2.900	2.900
	3 <sup>rd</sup>	3.490	3.400	3.440
	4 <sup>th</sup>	2.540	2.430	2.490
2017	1 <sup>st</sup>	2.980	2.900	2.900
	2 <sup>nd</sup>	2.630	2.580	2.610
	3 <sup>rd</sup>	2.370	2.300	2.340
	4 <sup>th</sup>	2.880	2.800	2.820
2018	1 <sup>st</sup>	8.200	7.560	8.190
	2 <sup>nd</sup>	12.160	6.850	9.030
	3 <sup>rd</sup>	9.970	7.000	7.310
	4 <sup>th</sup>	8.150	1.850	3.440
2019	1 <sup>st</sup>	4.300	2.440	2.550

During the 02 June 2006 Annual Shareholders Meeting of the Company, the shareholders approved the Memorandum of Agreement dated April 28, 2006 (MOA) entered into by the Company with NOW Telecom and five other companies namely, Top Mega Enterprises Limited, Joyce Link Holdings Limited, Gamboa Holdings, Inc., Emerald Investments, Inc., Food Camp Industries and Marketing, Inc. (the five companies collectively known as NOW Telecom Shareholders).

However, certain amendments were made to the MOA in view of the fact that upon further consultation with the PSE, it was determined that the Company could not revise its primary purpose at that time. Hence, the stockholders approved the amendment in the MOA that there will be no change in the primary purpose of the Company. In addition, the stockholders also approved the proposal that the Company shall acquire only nineteen percent (19%) equity interest in NOW Telecom and not 97%, as originally intended. It was agreed that the acquisition shall be based on the same terms and valuation stated in the MOA in the event that additional equity in NOW Telecom will be acquired by the Company in the future.

The amendment in the MOA was approved by the stockholders such that the shareholders of NOW Telecom will transfer to the Company shares of NOW Telecom in the aggregate number of 2,656,580 shares constituting 19% equity interest in NOW Telecom in exchange for new shares of the Company with an aggregate value of Php1,289,278,350.00 for 19% of NOW Telecom, or effectively at a price of Php485.315085.00 per NOW Telecom share.

In accordance with the amendment in the MOA, the needed increase in authorized capital stock of the Company to accommodate the foregoing transaction is Php1,280,000,000 at Php1.00 par value per share. Accordingly, the stockholders approved the proposal to increase the authorized capital of the Company by Php1,280,000,000.

On September 19, 2006, the SEC approved the increase in the authorized (to Php1.320 Billion) and paid-up capital (to Php1,317,278,350) of the Company as well as the change of the corporate name from Cashrounds, Inc. to Information Capital Technology Ventures, Inc.

On September 27, 2006, the Company submitted to the PSE a listing application of additional 1,289,278,350 common shares to cover its share-for-share swap transaction with NOW Telecom shareholders. Following the Company's re-application for listing of the same shares in October 2008, the PSE approved the same and were listed on February 24, 2009.

On December 10, 2008, the PSE approved the transfer of the listing of the shares of the Company from the SME Board to the Second Board of the PSE, and the transfer finally took effect on June 29, 2009.

On March 12, 2010, the Board approved the Company's increase in authorized capital stock from P1.32 billion to P5 billion as well as the listing of the additional shares from the increase.

On March 16, 2011, the Company filed with PSE its application for transfer from the Second Board to the First Board of the Exchange.

The movement in the number of shares and capital stock amount for the year ended December 31, 2018, 2017 and 2016 are as follows:

	2018		2017		2016	
	Number of Shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance at beginning of year	<b>1,517,278,350</b>	<b>1,517,278,350</b>	<b>1,517,278,350</b>	<b>1,517,278,350</b>	<b>1,517,278,350</b>	<b>1,517,278,350</b>
Increase in number of shares as a result of reduction in par value	-	-	-	-	-	-
Issuance during the year	-	-	-	-	-	-
	<b>1,517,278,350</b>	<b>1,517,278,350</b>	<b>1,517,278,350</b>	<b>1,517,278,350</b>	<b>1,517,278,350</b>	<b>1,517,278,350</b>

No party or person holds any voting trust over any of the Company's shares. There are approximately 47 Holders of Common Stock as of 31 March 2019. The Top Twenty (20) Holders of Common Stock as of 31 March 2019 are as follows:

Name	Nationality	No. of shares	Percentage
PCD Nominee Corporation	Filipino	773,283,562	50.97%
Top Mega Enterprises Limited	Chinese	341,146,855	22.48%
Velarde, Inc.	Filipino	200,571,550	13.18%
Emerald Investments, Inc	Filipino	170,739,360	11.25%
Joyce Link Holdings Limited	British V.I.	86,208,552	5.68%
Food Camp Industries and Marketing, Inc.	Filipino	72,361,472	4.76%
Gamboa Holdings, Inc.	Filipino	224,573,966	14.80%
Food Camp Industries and Marketing, Inc.	Filipino	72,361,472	4.76%
Chua Co Kiong, William N.	Filipino	145,000	0.0096%
Cuan, Rowell D.	Filipino	26,000	0.0017%
Arias, Ma. Purificacion Bugho	Filipino	10,000	0.0007%
Bulaag, Ernesto V.	Filipino	10,000	0.0007%
Chua, Paul Vincent	Filipino	10,000	0.0007%
Cometa, Roel B.	Filipino	10,000	0.0007%
Bocabil, Alben B.	Filipino	10,000	0.0007%
De Leon, Jose Mari	Filipino	10,000	0.0007%
Dela Cuesta, Karlo S.	Filipino	10,000	0.0007%
Atienza, Ma. Nenita Robosa	Filipino	10,000	0.0007%
Alvarez Jr., Servando B.	Filipino	10,000	0.0007%
Dela Cruz, Melanio C.	Filipino	10,000	0.0007%
Harvey, Sarah Jean	Filipino	10,000	0.0007%



## **Dividends**

No cash dividend was declared in the past three (3) years. There are no restrictions that limit the ability to pay dividends on common equity or that are likely to do so in the future.

---

### **RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION FOR THE YEAR ENDED DECEMBER 31, 2019**

Deficit, as adjusted to available for dividend distribution, beginning	(P431,831,234)
Net income during the period	5,241,673
<b>Deficit</b>	<b>(P426,589,561)</b>

---

## **Recent Sale of Unregistered Securities**

There was neither sale of unregistered securities nor issuance of securities constituting an exempt transaction within the last three years.

## **PART III - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLANS OF OPERATION**

### **Registrant's Financial Condition, Changes in Financial Condition and Results of Operations**

#### **Plans and Prospects for 2019**

##### *Expansion of Fiber Air for Business*

The Company continues to expand its Fiber in the Air business as it continues to penetrate enterprises, commercial and residential buildings. The Company continues to also utilize new technologies in order to provide more capacity to its current and prospective customers.

##### *Expansion of the Business Partnership Program*

Through the Business Partnership Program tagged as Network ng Mamamayang Pilipino (NOW NMP) program, NOW Corporation's affiliate NOW Telecom will leverage on business partnership opportunities with local government and entrepreneurs to provide better internet connection to the country by democratizing telecommunications.

##### *Expansion of Existing Software Licenses and Services and IT Manpower*

The Company continues to aggressive sell software solutions, technical services and IT Manpower. The Company aims to maintain its position as the number one social collaborations solutions provider of IBM. In addition, it continues to market and to sell Microsoft software products and licenses. This allows the firm to broaden its customer base in the industry and increase the Company's recurring revenues.

##### *Quasi-Reorganization*

At the special meeting of the Board of Directors of NOW Corporation held on 28 December 2018, the Board approved the Company's equity restructuring plan by reducing the par value of the common shares of stock of the Company and by applying the resulting additional paid-in capital to eliminate its accumulated deficit.

For this purpose, the Board approved the amendment of Article Seventh of NOW's Articles of Incorporation to reduce the par value of common shares from One Peso (Php1.00) per share to Seventy Centavos (Php0.70) per share, and the resulting decrease of NOW's authorized capital stock from Php2,120,000,000.00 divided into 2,060,000,000 common shares with par value of One Peso (Php1.00) each to Php1,442,000,000 divided into 2,060,000,000 common shares with par value of Seventy Centavos (Php0.70) each.

With the quasi-reorganization plan, NOW aims to continue the public issuance of up to 10 Million Preferred Shares as part of its Follow-On Offering, a continuing effort since 2017.

## **Plans and Prospects for 2018**

### *Partnership with Global Technology, Media and Information Technology Companies*

The Company aims to maintain its position as the number one social solutions business partner of IBM to further strengthen the Company's brand. The Company believes that new collaborations will further improve the Company's technical competencies and enhance its reputation as a trustworthy and dependable provider of diversified IT-related products and services. The Company also believes that this will broaden the Company's customer base in the IT industry and ultimately, increase the Company's recurring revenues.

### *High-Speed Broadband Internet Connection*

The Company intends to start the build-up of its fiber optic underground network. Fiber optic cable is expected to be equipped to have a minimum capacity of 100 Gbps. It is also expected to serve as the backbone of the Company's broadband business to complement its existing Fiber-in-the-Air technology. With Fiber-in-the-Air, the Company can provide up to 700 Mbps CIR per client enterprise, which can be further increased by installing another radio antenna with the same capacity. On the other hand, with fiber optic underground, the Company can provide up to 1 Gbps per connection. With these two technologies combined, the Company believes that it can provide better broadband services to the growing market for fast and reliable internet connection

### *Broadband Services to Medium and Large Enterprises*

The Company intends to offer its broadband service to medium and large enterprises and residential subscribers by 2018. The Company is undertaking research and development activities with its suppliers in order to deliver a more cost-effective and higher throughput of bandwidth for this market segment. The Company believes that this will broaden the Company's customer base and ultimately, increase the Company's recurring revenues from its Broadband Service business.

### *Quasi-Reorganization*

At the special meeting of the Board of Directors of NOW Corporation held on 28 December 2018, the Board approved the Company's equity restructuring plan by reducing the par value of the common shares of stock of the Company and by applying the resulting additional paid-in capital to eliminate its accumulated deficit.

For this purpose, the Board approved the amendment of Article Seventh of NOW's Articles of Incorporation to reduce the par value of common shares from One Peso (Php1.00) per share to Seventy Centavos (Php0.70) per share, and the resulting decrease of NOW's authorized capital stock from Php2,120,000,000.00 divided into 2,060,000,000 common shares with par value of One Peso (Php1.00) each to Php1,442,000,000 divided into 2,060,000,000 common shares with par value of Seventy Centavos (Php0.70) each.

With the quasi-reorganization plan, NOW aims to continue the public issuance of up to 10 Million Preferred Shares as part of its Follow-On Offering, a continuing effort since 2017.

## **Plans and Prospects for 2017**

- *Expansion of the Fiber Air for Business and Fiber Air for Homes*

The Company intends to expand its Fiber Air network coverage in order to cover more areas including increase of capacity in central business districts as well as areas that are unserved and underserved. This would cover southern and northern part of Metro Manila. The Company has thus far cemented its positioning as one of the preferred enterprise broadband of choice as it continues to win enterprise clients ranging from hospitals, hotels, government agencies, schools, broadcasting companies and commercial buildings.

In addition, the Company intends to start offering its Fiber Air for Homes to subdivisions and villages where fiber optic or high data capacity is not available.

- *Continue to Bundle High-Value IT Services with Broadband Connectivity*

On top of its Broadband connectivity service, the Company intends to continue bundling high-value TMT services such as cloud hosting service, virtual private networks, multimedia content, online gaming, web hosting, cloud-based multimedia conference, cloud-based mail and messaging service, electronic communications network and services. This is the Company's forward looking strategy whereby it shall

capitalize in using new technologies that will cater to the changing needs of the sophisticated enterprise and consumer market.

- *Preferred Share Offering and Quasi-Reorganization in order to Eliminate Retained Deficit*

NOW Corporation filed its Registration Statement and Prospectus with the Securities and Exchange Commission ("SEC") pursuant to the Company's application for the Follow-On Offering of 5,000,000 redeemable, convertible, cumulative, non-participating, non-voting, Peso-denominated, preferred shares with an Oversubscription Option of 5,000,000 with a par value of one peso (₱1.00) per share, with 10,000,000 detachable subscription warrants to be issued free of charge with 10,000,000 underlying common shares, with an Oversubscription Option of 10,000,000 Warrants and 10,000,000 underlying common shares of NOW Corporation.

The conversion ratio of common shares to preferred shares is five-is-to-one (5:1) at a conversion price of ₱20.00. Therefore, assuming that all holders of the Offer Shares exercise the convertibility option in full, converted Offer Shares will result into 25,000,000 primary common shares without the oversubscription option, or result into 50,000,000 primary common shares with oversubscription.

Moreover, For every one (1) Preferred Share held, the holder is entitled to receive two (2) Warrants. The issuance will have a maximum of 10,000,000 warrants without oversubscription, and maximum of 20,000,000 warrants with full exercise of the oversubscription, or two (2) warrants per Preferred Share. The Warrants will have a Strike Price of ₱10.00 for the duration of the Exercise Period.

The Company intends to use the proceeds of the share issuance to acquire assets for the expansion of the Fiber-in-the-Air broadband network consisting primarily of purchase of core network facilities, point-to-point and point-to-multi-point radios and the corresponding installation services. This additional funding shall expand the Company's reach in order to connect more buildings at greater distances via radio antennas.

The company intends to undergo an equity restructuring, in order to meet capital requirements for the issuance of securities, such as the aforementioned preferred equity issuance, by applying the additional paid in capital created by the Offer, to wipe out the company's retained deficit which may be currently impairing the ability of the Company to declare and pay dividends.

#### **Plans and Prospects for 2016**

The Company plans to expand its service offerings with the introduction of its "Fiber-in-the-Air" fixed wireless broadband service with a committed information rate ("CIR") of up to 700 Mbps, a first of its kind in the Philippines. Through its partnership with NOW Telecom Inc. ("NOW Telecom") and News and Entertainment Network Inc., ("Newsnet"), a wireless telecommunications operator and a cable TV service provider, respectively, the Company offers an affordable, alternative and high-speed broadband service of up to 700 Mbps and wireless cable TV services to the underserved and unserved large enterprises such as schools, hospitals, hotels, high-end residential buildings, and commercial buildings with multiple BPO locators. Currently, the Company's client broadband subscription ranges from 5 Mbps to 100 Mbps, which may be further increased to up to 700 Mbps, depending on the clients' bandwidth requirements. The Company positions its fixed wireless broadband service either as primary, alternative or as an auxiliary link to existing broadband service providers.

The Company's Fiber-in-the-Air fixed wireless broadband service shall allow its subscribers to download, upload, stream and share files simultaneously without compromising performance. The Company shall deploy competitively priced high-speed broadband bandwidth resources with high availability through its Point-to-Point and Point-to-Multipoint Radios. From providing Software Licenses and Services to adding IT Manpower and Resource Augmentation and Broadband Wireless Cable TV Services, the Company shall deliver high-speed broadband services with a CIR of up to 700 Mbps which may be bundled with enterprise collaborations solution, wireless cable television and interactive multi-media applications.

#### **Plans and Prospects for 2015**

Now Corporation plans to launch broadband Internet service with guaranteed speeds with wireless cable TV broadcast and cloud services.

Its planned launch signals the Company's mission to achieve true convergence thru the following features simultaneously: (a) browsing 24x7 Internet throughput at guaranteed speed, (b) watching their favorite shows from free TV such VHF and UHF signals (c) interacting with web channels such as TED Talks, YouTube, Facebook, Twitter, Instagram, etc. (d) playing high definition, fast motion networked games; (e) using cloud services such as e-mail, task, calendar, files, community collaboration, video chat, document management with one terabyte of storage per customer, (f) watching, streaming or downloading high-definition videos and 4k/6k/8k

films, (g) making phone calls on Skype and live video conference to as many as 200 participants per session — all with the flexibility of using any device such as regular or 4k TVs, desktops, laptops, tablets and smartphones.

## **Results of Operations**

### **March 31, 2019**

- Total consolidated revenues in the first quarter of 2019 is Php49.903 Million, increased by 47% or Php16.058 Million from last year's first quarter revenue of Php33.845 Million. Service Revenue increase by Php22.317 million from last year figure of Php19.958 million to Php42.276 million in 2019 first quarter. Service revenues mainly pertains to Broadband Services and fees or income earned from the deployment by the Company of professionals to its clients to render IT-related solutions and services. The increase of Service Revenues was due to an increase in Broadband Revenue from Php9.599 Million last year, it goes up to Php17.078 Million this year.
- Cost and Expenses for the first quarter of 2018 is Php42.309 Million, which is an increase from last year's cost and expense of Php28.852 Million. This was brought about by an increase in cost of sales and services of Php11.897 Million from Php9.063 Million in 2018 to Php20.960 in 2019. Other expenses which has a significant increase are Interest and Other Charges which has a Php2.067 Million increase and Advertising and Promotion which has an increase of Php1.814 Million.
- As of March 31, 2019, the total consolidated assets of the Company stood at Php1.934 Billion compared with last year's Php1.749 Billion or an increase of Php184.727 Million. Current Assets increased by Php187.524 Million or 47% from Php394.970 Million in 2018 to Php582.495 Million in 2019. This was due to the increase in Trade and other receivables by Php25.108 Million, from last year's Php183.076 Million to this year's Php208.184 Million, Due from related parties increased by Php170.811 Million from last year's Php140.309 increased to this year's Php311.120 Million. Other current assets decreased by Php7.072 Million. Non-Current Assets decreased to Php1.351 Billion from last year's Php 1.354 Billion.
- Current liabilities increased by Php96.305 Million or 25% from Php388.179 Million in 2018 to Php484.484 Million in 2019. Accounts Payable and accrued expenses increased by Php11.560 Million or 9%, from Php130.320 Million in 2018, it increased to Php141.920 Million in 2019. Loans payable – current portion increased by Php12.065 Million due to a short- term loan with a private investor amounting to Php10.000 million received during March, 2019.
- Non-current Liabilities increased from Php1.362 million to Php50.598 million which was due to Php50.000 million term loan availed from a local bank. Deposit for future subscription amounting to Php264.000 million was classified as part of equity since as at the Special Meeting of the Board of Directors held on April 23, 2019, the Board finalized and approved the conversion price at Php1.70 per share of the conversion of advances into equity of the amount of Php264.000 million.
- As of March 31, 2019, the total Assets stood at Php1.934 Billion, Liabilities at Php535.082 Million and Equity at Php1.399 Billion.
- Current assets and Current Liabilities Increased by 47% and 25% respectively resulting to an increase of the Company's Liquidity Ratio wherein Current Ratio stood at 1.2023:1 and 1.0175:1, while Acid Test Ratio stood at 1.1058 and 0.8828 for the First Quarter of 2018 and 2017 respectively.
- The Company's Return on Equity for the first quarter, 2018 and 2017 was at 0.38% and 0.26% respectively.
- A further analysis indicates that NOW Corp.'s Asset to Debt Ratio stood at 3.6137x and 4.4896x; while its Debt to Asset Ratio stood at 0.2767x and 0.2227x for the first quarter of 2018 and 2017 respectively.

### **Year 2018**

- The consolidated revenue for the year 2018 is Php217.862 million, there is an increase of Php69.497 million or 46.84% from last year's Php148.364 million. The increase is mainly due to the increase in revenue from broadband services which amounted to Php47.211 million in 2018, representing an increase of 92.60% from Php24.513 million in 2017. Company's sales from IT manpower and resource augmentation has decreased by Php7.023 million or 16.61% from Php42.274 million in 2017. Revenue from Software Licenses and services for 2018 amounted to Php135.399 million for 2018 which has an increase of Php53.822 million or 65.98% from revenue in 2017 which amounted to Php81.577 million.

- Cost of sales and services during the year amounted to ₱148.326 million, higher by 72.86% or Php62.521 million compared to the Php85.803 million cost of sales and services level posted for the year ended December 31, 2017. This was primarily attributed to the increase of cost data services during the year amounting to Php46.278 million compared to the amount last year of Php7.386 million. Cost for Software collaboration services also increased by Php31.060 million from Php46.636 Million in 2017. Costs relating to sales decreased from Php31.981 million to Php24.549 million when comparing amounts from those of December 31, 2017 to those of December 31, 2018. The General and administrative expenses for the year 2018 slightly increased to Php57.829 million or 6.94% increase from last year's Php54.078 million. This slight increase in 2018 was mainly due to increase in advertising and promotion amounting to Php8.350 million as compared to Php2.368 million in 2017.
- The Net income for the year ended December 31, 2018 is Php8.137 million or Php1.847 million higher compared with last year's Net Income of Php6.290 million. This was brought about by a higher increase in revenue during the year as compared to the increase in cost of sales and services and operating expenses.
- As of December 31, 2018, the total consolidated assets of the Company stood at Php1.914 billion compared with last year's Php1.672 billion, an increase by Php242.152 million or 14.48%. Current Assets increased by Php240.182 million or 74.60%, from Php321.958 million in 2017 to Php562.140 million in 2018. The increase in Current assets was mainly due to the increase in trade receivables from Php167.943 million in 2017 to Php207.414 million in 2018 and an increase also in Due from Related Parties from Php95.955 million in 2017 to Php287.567 million in 2018. Non-current Assets slightly increased by Php1.970 million in 2018.
- Current liabilities increased by Php158.765 million or 50.30%, from Php315.619 million in 2017 to Php474.384 million in 2018. The increase was due to Php50.000M short term loan payable from Land Bank of the Philippines. Noncurrent Liabilities increased from Php0.351 million in 2017 to P310.854 million in 2018. The increase was due to a Php50 Million Term loan agreement with Producers bank and to the reclassification of the Php264M deposit for future stock subscription to Liability account.
- On December 9, 2013, the bank has approved the conversion of the short-term loans in the amount of Php44.5M into a two-year term loan. The principal balance of the loan is payable on January 19, 2016. This was paid in June 2016.
- On December 22, 2016, the Company availed a chattel mortgage amounting to Php564K from a local universal bank for the purchase of a vehicle, which serves as the property mortgage. The new loan requires 60 monthly repayments until November 23, 2021.
- On January 30, 2018, the Parent Company secured a short-term loan agreement with Land Bank of the Philippines amounting to ₱50,000,000 with an interest rate of 4.80% per annum. The loan, including the interests incurred, will mature on July 27, 2018. On the maturity date, the loan was renewed for six (6) months with the same terms and conditions with maturity date of January 23, 2019. On the maturity date, the loan was renewed for another six (6) months with the same terms and conditions with latest maturity date of July 23, 2019.
- On October 31, 2018, the Parent Company signed a five-year ₱50,000,000 loan agreement with PSBC maturing on October 31, 2023. The loan is secured by a real estate and carries an interest rate of 12.23% per annum. Total consolidated assets as of December 31, 2018 stood at Php1.914 billion, with Liabilities at Php785.239 million and Equity at Php1.129 billion
- Current assets and Current Liabilities Increased by 74.60% and 50.30% respectively resulting to a minimal increase of the Company's Liquidity Ratio wherein Current Ratio stood at 1.1850:1 and 1.0201:1, while Acid Test Ratio stood at 1.1011 and 0.8700 for the years 2018 and 2017 respectively.
- The Company's Return on Equity for the year ended, 2018 and 2017 was at 0.72% and 0.046% respectively.
- A further analysis indicates that NOW Corp.'s Asset to Debt Ratio stood at 2.4374x and 5.2909x; while its Debt to Asset Ratio stood at 0.4103x and 0.189x for the year 2018 and 2017 respectively.

### **Year 2017**

The consolidated revenue for the year 2017 is Php148.364 million, there is an increase of Php44.692million or 43.11% from last year's Php103.672million. The increase is mainly due to the increase in revenue from software licenses and services which amounted to Php81.577 million in 2017, representing an increase of 50.29% from

Php54.279million in 2016. Company's sales from IT manpower and resource augmentation slightly decreased to Php42.274 million from Php43.412 million in 2016. Revenue from Broadband services for 2017 amounted to Php24.513 million for 2017 which has an increase of Php18.532 million or 309.84% from revenue in 2016 which amounted to Php5.981 million.

Cost of services during the year amounted to Php85.80 million, higher by 51.47% or Php29.156 million compared to the Php56.65 million cost of sales and services level posted for the year ended December 31, 2016. The increase was primarily attributed to the higher cost of outside services and data services during the year amounting to Php53.822 million compared to the amount last year of Php46.431 million. Costs relating to sales increased from Php10.22 million to Php31.98 million when comparing amounts from those of December 31, 2016 to those of December 31, 2017.

The Operating Expenses is Php53.600 million in 2017 and Php42.334million in 2016. There is an increase by Php11.266million or 26.61% in 2017 as compared to 2016 and was mainly due to salaries and wages expense, transportation and travel and also taxes and licenses amounting to Php18.823million.

The Net income for the year ended December 31, 2017 is Php6.290 million or Php3.791 million higher compared with last year's Net Income of Php2.499 million. This was brought about by a higher increase in revenue during the year as compared to the increase in cost of sales and services and operating expenses.

As of December 31, 2017, the total consolidated assets of the Company stood at Php1.672 billion compared with last year's Php1.547 billion, an increase by Php124.742million or 8.06%. Current Assets increased by Php121.874 million or 60.91%%, from Php200.084 million in 2016 to Php321.958 million in 2017. The increase in Current assets was mainly due to the increase in trade receivables from Php115.532 million in 2016 to Php167.943 million in 2017 and an increase also in Amounts Owed by Related Parties from Php72.496 million in 2016 to Php95.955 million in 2017. Non-current Assets slightly decreased by Php2.868 million due to increase in Property and Equipment.

Current liabilities increased by Php118.368 million or 60.01%, from Php197.251 million in 2016 to Php315.619 million in 2017. The increase was due to the increase in accounts payable and accrued expenses which has an increase of Php44.425 million and due from related parties which has an increase of Php73.934 million. Total consolidated assets as of December 31, 2017 stood at Php1.672 billion, with Liabilities at Php315.971 million and Equity at Php1.356 billion.

## **Year 2016**

The consolidated revenue for the year 2016 is Php103.672million, there is a slight decrease of Php10.767 million or 9.41% from last year's Php114.439million. The decrease is mainly due to the shifting of the Company's main business from software licenses to broadband. Revenue from software licenses and services decreased to Php54.279million in 2016 from Php75.018 million in 2015. Company's sales from IT manpower and resource augmentation increased to Php43.412 million in 2016 from Php39.421 million in 2015. Broadband sales for 2016 amounted toPhp5.981 million.

The Operating Expenses is Php42.334million in 2016 and Php32.095million in 2015. There is a significant increase by Php10.239 million or 31.90% in 2016 as compared to 2015 was mainly due to impairment of advances by the Company to one of its affiliates amounting to Php5.000 million and also due to an increase in advertising and promotion expense amounting to Php4.524 million.

The Net income for the year ended December 31, 2016 is Php2.499 million or Php2.736 million lower compared with last year's Net Income of Php5.235 million. This year's slight decrease in revenue was due to the shifting of the Company's main business to broadband services from software licenses.

As of December 31, 2016, the total consolidated assets of the Company stood at Php1.547 billion compared with last year's Php1.498 billion, an increase by Php48.683 million or 3.25%. Current Assets increased by Php49.751 million or 33.09%, from Php150.333 million in 2015 to Php200.084 million in 2016. The increase in Current assets was mainly due to the increase in trade receivables from Php81.788 million in 2015 to Php115.532 million in 2016 and an increase also in Amounts Owed by Related Parties from Php48.387 million in 2015 to Php72.496 million in 2016. Non-current Assets slightly decreased by Php1.068 million due to decrease in due from related party non-current portion.

Current liabilities decreased by Php218.255 million or 52.53%, from Php415.505 million in 2015 to Php197.251 million for 2016. The decrease was due to the conversion of advances from an affiliate into equity during the year which amounted to Php264.000 million and payment of loan amounting to Php44.500 million. Accounts Payable and accrued expenses also decrease from Php132.927 million to Php119.643 million. Amounts Owed to Related Parties decrease by Php160.558 million. Non-current Liabilities on the other hand increased by Php0.449 million due to loan availment made by the Company during the year.

Total consolidated assets as of December 31, 2016 stood at Php1.547 billion, with Liabilities at Php197.700 million and Equity at Php1.349 billion.

### **Year 2015**

The consolidated revenue for the year 2015 is Php114.439 million, there is a significant increase of Php46.172 million or 67.63% from last year's Php68.267million. The increase is contributed largely by an increase in revenue from IT Service Fees. Revenue from IT service fees increased to Php39.421million in 2015 from Php38.580 million in 2014. Company's sales from IBM licenses and other services also increased by Php45.331million or 152.70%, the sales increased to Php75.018million this year from last year's Php29.687million.

The Operating Expenses is Php32.095 million in 2015 and Php44.544million in 2014. There is a significant decrease by Php12.449million or 27.95% in 2015 as compared to 2014 due to decrease in Interest expenses from Php19.001 million in 2014 down to Php1.054 million in 2015. General and Administrative Expenses and Other Expenses increased by Php0.569 million

The Net income for the year ended December 31, 2015 is Php5.235 million or Php43.718 million higher compared with last year Net Loss of Php38.482 million. This year's increase in revenue contributed the positive bottom line in 2015.

As of December 31, 2015, the total consolidated assets of the Company stood at Php1.498 billion compared with last year's Php1.454 billion, an increase of Php43.803 million or 3%. Current Assets increased by Php20.529 million or 16%, from Php129.804 million in 2014 to Php150.333 million in 2015. The increase in Current assets was a result of an increase in Cash from Php2.007 million in 2014 to Php15.980 million in 2015. There is an increase in trade receivables from Php51.803 in 2014 to Php81.788 million in 2015. There is a decrease in Amounts Owed by Related Parties and other current assets from Php75.995 million in 2014 to Php52.565 million in 2015. Non-current Assets increased by Php23.275 million due to the increase in the noncurrent portion of the amounts owed by the related parties amounting to Php26.564 million.

Current liabilities increased by Php279.429 million or 205%, from Php136.077 million for 2014 to Php415.505 million for 2015. The increase is due to the reclassification of a Php44.5 million bank loan from long term to current. Accounts Payable and accrued expenses also increase from Php120.397 million to Php132.927 million. Amounts Owed from Related Parties also increased by Php223.074 million. However, Obligation under finance lease become zero this year from Php675K last year. Non-current Liabilities on the other hand decreased significantly by Php440.847 million due to the reclassification of a Php44.5 million bank loan from long term to current as stated above. And a decrease in Due to related parties from Php396.347 million in 2014 to zero in 2015.

Total consolidated assets as of December 31, 2015 stood at Php1.498 billion, with Liabilities at Php415.505 million and Equity at Php1.083 billion.

### **Year 2014**

The consolidated revenue for the year 2014 is Php73.779 million, a decrease of 7% from last year's Php79.318 million. The unfavorable variance of Php5.539 is due to the decrease in IT Service Fees. This year's IT Service Fees is Php47.031 million while in year 2013 it was Php53.320 million. However, the company's sales of IBM licenses in 2014 increased to Php21.235 million from last year's Php20.486 million. Interest Income increased to Php472,549 from last year's Php471,820.

The Operating Expenses is Php50.058 million in 2014 and Php95.670 million in 2013. There is significant decrease by Php45.612 million or 48% in 2014 as compared to 2013. The decrease in operating expenses was brought about largely by decrease on contracted outside services amounting to Php22.383 million or 88%. This is inclusive of manpower reduction for cost efficiency measures. Interest Expense decreased by Php19.369 million or 50% due to restructured advances from an affiliate. The savings on the following cost line items for 2014 as against 2013 were due to cost efficiency measures, such as: Utilities decreased by Php2.745 million or 68%; Professional fees decreased by Php2.533 million or 65%; Communication decreased by Php2.448 million or 46%; Rental decreased by Php399K or 12% and, others decreased by Php853K or 11%. Depreciation and Amortization decreased by Php1.160 million or 19% is due to retirement of some assets. However, there is increase by Php6.278 million or 706% in Impairment loss in 2014 as compared to 2013. The company provided an allowance for impairment of receivables and other assets Php7.167M in 2014, while in 2013 was Php889K.

Total Net loss for 2014 is Php38.482 million or Php48.752 million less compared with last year of Php87.234 million. This year's decrease of cost and expenses contributed the improved bottom line in 2014.

As of December 31, 2014, the total consolidated assets of the Company stood at Php1.455 billion compared with last year's Php1.445 billion, an increase by Php9.684 million or 1%. Current Assets increased by Php14.742 million or 13%, from Php115.062 million in 2013 to Php129.804 million in 2014. The increase in Current assets was a result of an increase in trade receivables by Php6.808 million or 15%. There was an increase in Amounts Owed by Related Parties by Php17.111 million or 31%, while Cash account and Other Current Assets decreased by Php7.649 million and Php1.527 million, respectively. Non-current Assets decreased by Php5.058 million attributed from a decrease in Property and Equipment and other Non-Current Assets by Php4.704 million and Php354K.

Current liabilities increased by Php1.446 million or 1%, from Php134.630 million of 2013 to Php136.077 million of 2014. The variance is due to an increase in Amounts Owed from Related Parties by Php10.163 million or 210% and decrease in Accounts Payable as well as decrease in the Current portion of obligations under Finance Lease by Php6.383 million and Php2.333 million, respectively. Non-current Liabilities on the other hand increased by Php46.648 million or 12% due to an increase in Amounts Owed from Related parties by Php47.323 million or 14%. On the other hand, Non-current portion of Obligations under Finance Lease is zero in 2014 and Php675K in 2013.

Total consolidated assets as of December 31, 2014 stood at Php1.455 billion, with Liabilities at Php576.923 million and Equity at Php877.625 million.

### **Receivables and Payables with Related Parties Eliminated During Consolidation**

The amount eliminated with related parties on trade receivables and payables are:

J-Span IT Services, Inc.	<u>₱</u> 4,700,917
Porteon Sea, Inc.	3,443
i-Resource Consulting International, Inc.	434,185
i-Professional Search Network, Inc.	6,147,298
Softrigger Interactive, Inc.	7,187,488

### **Key Variable and Other Qualitative and Quantitative Factors**

The performance indicators are the (1) Gross revenues earned for the period, (2) Profit Margin, (3) Net Income. Deals in process are monitored and discussed on a monthly basis, including a review of the possible income that may arise from the deals that may close for a certain period.



## Financial Soundness Indicators

Financial Soundness Indicators		March 31		December 31	
		2019	2018	2018	2017
Liquidity	Current Ratio	1.2023	1.0175	1.1850	1.0201
	Acid Test Ratio	1.1058	0.8828	1.1011	0.8700
Solvency	Debt to Equity Ratio	0.3826	0.2866	0.6957	0.2330
	Asset to Debt Ratio	3.6137	4.4896	2.4374	5.2909
	Debt to Asset Ratio	0.2767	0.2227	0.4103	0.1890
Equity	Asset to Equity Ratio	1.3826	1.2866	1.6957	1.2330
Interest	Interest Rate Coverage Ratio	4.3173	23.4463	3.9795	173.2806
Profitability	Profit Margin	58.00%	73.22%	31.92%	42.17%
	Return on Assets	0.27%	0.20%	0.43%	0.38%
	Return on Equity	0.38%	0.26%	0.72%	0.46%
	Book Value per share	0.9217	0.8959	0.7439	0.8936
	Earnings per share	0.0035	0.0023	0.0052	0.0045

The Financial Indicators are computed as follows:

Liquidity:                    Current Ratio = Current Assets/Current Liabilities  
 Acid Test= (Current Assets- Inventory- Prepayments) / Current Liabilities

Solvency:                    Debt to Equity Ratio = Total Liabilities/Total Stockholders' Equity  
 Debt to Asset Ratio = Total Liabilities/Total Assets  
 Asset to Debt Ratio= Total Assets / Total Liabilities

Equity:                        Asset to Equity Ratio = Total Assets/Total Stockholders' Equity

Interest:                     Interest Rate Coverage Ratio = Earnings Before Interest and Taxes/Interest Expense

Profitability:                Profit Margin %: Profit margin = Gross Profit/Total Revenue x 100  
 Return on Assets %: Return on assets = Net Income/Total Assets x 100  
 Return on Equity % = Net Income/Total Stockholders' Equity x 100  
 Book Value per share = Total Stockholders' Equity/Average Outstanding Shares  
 Earning per share = Net Income/Average Outstanding Shares

### *Any Known Trends, Events or Uncertainties*

There are no known trends, demand, commitments, events or uncertainties that will have a material impact on the Company's liquidity, nor any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. No material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

#### *Events that will trigger Direct or Contingent Financial Obligation*

There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

There are no significant elements of income or loss that did not arise from the Company's continuing operations.

#### *Material Off-Balance Sheet Transactions*

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

#### *Material Commitment for Capital Expenditures*

As the business volume builds up progressively, the Company also plans to beef up its organization by engaging the right talents particularly to join the telecommunications, media, information technology and product development and marketing teams.

#### **Trends, Events or Uncertainties (Material Impact on Sales)**

There is no seasonality or cyclicity of the interim operations of the Company.

#### **Compliance with Corporate Governance**

Compliance with the principles of good corporate governance starts with the Board of Directors. It is the Board's responsibility to foster the long-term success of the Company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Company, its shareholders and other stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

The Company has complied with the requirements of the Revised Manual on Corporate Governance for the completed year, and no deviation was made in any form as provided for in the Compliance System of the Model Manual. The Company has undertaken measures in adopting the leading practices on good corporate governance by regularly reviewing and discussing compliance with the said manual. Any plan to improve the Company's corporate governance will be discussed in the coming annual stockholders' meeting.

On 19 December 2013, the Board adopted and ratified the Audit and Risk Committee Charter in accordance with SEC Memorandum Circular No. 4, Series of 2012.

During the third quarter of 2014, the Company adopted the following: Conflict of Interest Policy, Insider Trading Policy, Related Party Transaction Policy, and the Whistle-Blowing Policy.

**SIGNATURES**


Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on this 10th day of May 2019.

**NOW CORPORATION**

By:

  
**MEL V. VELARDE**  
President and CEO

  
**VICENTE I. PEÑANUEVA**  
Chief Finance Officer and Treasurer


  
**ANGELINE L. MACASAET**  
Corporate Secretary

**MAKATI CITY**

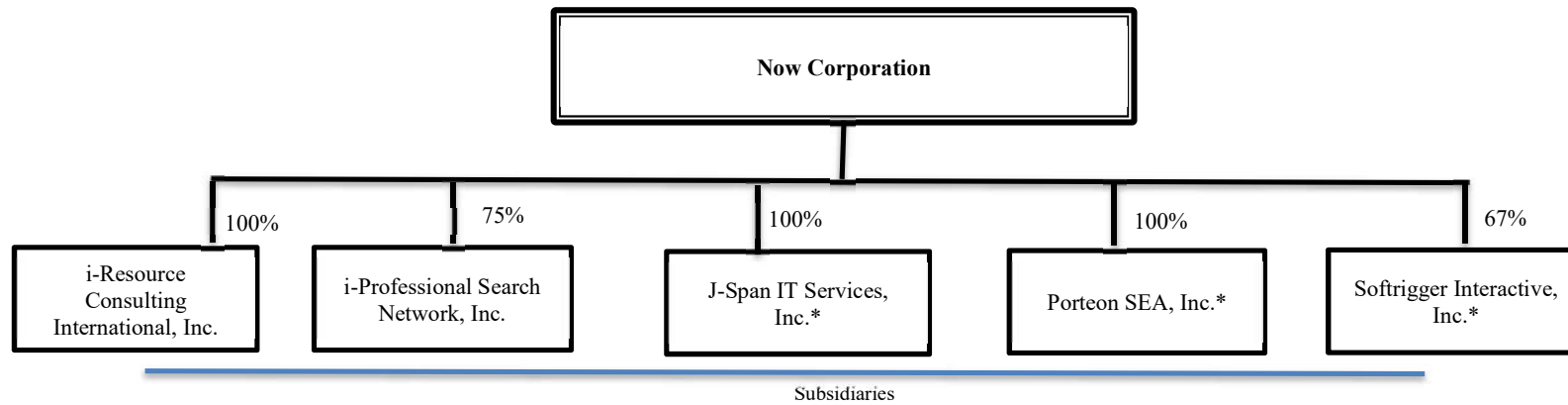
**SUBSCRIBED AND SWORN** to before me this 10th day of May 2019, affiants exhibiting to me their government-issued identification evidence of identity, as follows:

<b>NAMES</b>	<b>Competent Evidence of Identity</b>	<b>Expiry Date</b>
Mel V. Velarde	Philippine Passport No. P8333779A	12 August 2028
Vicente I. Peñanueva	PhilHealth Card No. 19-089347195-0	
Angeline L. Macasaet	Philippine Passport No. P3600193A	05 July 2022

Doc. No.: 395 ;  
Page No.: 80 ;  
Book No.: LXXXI  
Series of 2019.

  
**FELIPE I. ILEDAN JR.**  
Notary Public for and in Makati City  
Until Dec. 31, 2020, Appt. No. M-02  
Roll No. 27625, TIN 136897808  
Rm. 412, 4<sup>th</sup> Flr. VGP Center, Ayala, Makati City  
2019 PTR No. Mfa 8009506 12/18/2018  
IBP No. 1046422; 8/5/2016  
MCLE Comp. VI-0012066, 9/11/2018

# Conglomerate Map



\*Non-operational

As of March 31, 2019

---

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION  
FOR THE YEAR ENDED DECEMBER 31, 2019**

<b>Deficit</b> , as adjusted to available for dividend distribution, beginning	(P431,831,234)
Net income during the period	5,241,673
<b>Deficit</b>	<b>(P426,589,561)</b>

---

---

## Schedule of Financial Soundness Indicators

Financial Soundness Indicators		March 31		December 31	
		2019	2018	2018	2017
Liquidity	Current Ratio	1.2023	1.0175	1.1850	1.0201
	Acid Test Ratio	1.1058	0.8828	1.1011	0.8700
Solvency	Debt to Equity Ratio	0.3826	0.2866	0.6957	0.2330
	Asset to Debt Ratio	3.6137	4.4896	2.4374	5.2909
	Debt to Asset Ratio	0.2767	0.2227	0.4103	0.1890
Equity	Asset to Equity Ratio	1.3826	1.2866	1.6957	1.2330
Interest	Interest Rate Coverage Ratio	4.3173	23.4463	3.9795	173.2806
Profitability	Profit Margin	58.00%	73.22%	31.92%	42.17%
	Return on Assets	0.27%	0.20%	0.43%	0.38%
	Return on Equity	0.38%	0.26%	0.72%	0.46%
	Book Value per share	0.9217	0.8959	0.7439	0.8936
	Earnings per share	0.0035	0.0023	0.0052	0.0045

The Financial Soundness Indicators are computed as follows:

**Liquidity:** Current Ratio = Current Assets/Current Liabilities  
 Acid Test= (Current Assets- Inventory- Prepayments) / Current Liabilities

**Solvency:** Debt to Equity Ratio = Total Liabilities/Total Stockholders' Equity  
 Debt to Asset Ratio = Total Liabilities/Total Assets  
 Asset to Debt Ratio= Total Assets / Total Liabilities

**Asset to Equity:** Asset to Equity Ratio = Total Assets/Total Stockholders' Equity

**Interest:** Interest Rate Coverage Ratio = Earnings Before Interest and Taxes/Interest Expense

**Profitability:** Profit Margin %: Profit margin = Gross Profit/Total Revenue x 100  
 Return on Assets %: Return on assets = Net Income/Total Assets x 100  
 Return on Equity % = Net Income/Total Stockholders' Equity x 100  
 Book Value per share = Total Stockholders' Equity/Average Outstanding Shares  
 Earnings per share = Net Income/Average Outstanding Shares

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

The annual meeting of the stockholders of NOW Corporation (the "Company") will be held on 06 June 2019, Thursday, 10:00 o'clock in the morning, at the Sixth Floor of NOWPlanet Building, No. 2244 Espana Boulevard, Sampaloc, Manila with following agenda:

- 1) Call to Order
- 2) Report on Attendance and Quorum
- 3) Approval of the Minutes of the Previous Stockholders' Meeting
- 4) Management Report and Submission to the Stockholders of the 2018 Audited Financial Statements
- 5) Ratification of All Acts of the Board of Directors and Management Since the 08 March 2019 Special Stockholders' Meeting
- 6) Appointment of an External Auditor
- 7) Election of the Board of Directors (including the Independent Directors) for the Ensuing Term
- 8) Approval of Employee Stock Option Program
- 9) Other Matters
- 10) Adjournment

The deadline for submission of proxies is on 01 June 2019. For a corporation, its proxy must be accompanied by its Corporate Secretary's sworn certification setting the corporate officer's authority to represent the corporation in the meeting. Validation of proxies will be on 04 June 2019 at the principal address of the Company.

Only stockholders of record at the close of business hours on 06 May 2019 are entitled to notice of, and to vote at, this meeting. At the meeting, some form of identification, such as driver's license, passport or any government-issued I.D. should be presented.

Makati City, 25 April 2019.

**ANGELINE L. MACASAET**  
Corporate Secretary



**CERTIFICATION OF QUALIFICATION OF INDEPENDENT DIRECTOR**

I, **MARLOU BUENAFE UBANO**, Filipino, of legal age and with residence address at No. 3350 Ibarra Street, Palanan, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of NOW Corporation.
2. I am affiliated with the following companies or organizations:

<b>Company/Organization</b>	<b>Position/Relationship</b>	<b>Period of Service</b>
Ubano Sianghio Cabantac & Sta. Romana Law Offices	Founding Partner	June 2002 - Present
Integrated Bar of the Philippines	Director, Commission on Bar Discipline	2017 - 2019
Integrated Bar of the Philippines – Western Visayas Region	Governor	2013 - Present
Asean Law Association	Member	2013 - Present
Intellectual Property Association of the Philippines, Inc.	Member	2012 - Present
Philippine Department of Transportation and Communications	Assistant Secretary for Legal Affairs	2011 - 2013
Integrated Bar of the Philippines – Capiz Chapter	President	2011
Integrated Bar of the Philippines – Capiz Chapter	President	2007 - 2009
Integrated Bar of the Philippines, Commission on Bar Discipline	Commissioner	2005 - 2007
University of the Philippines, Office of Legal Aid	Supervising Lawyer	March 2005 - 2006
ACCRA Law Offices	Senior Associate	1997 to 2002

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of NOW Corporation, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any of the directors/officers/substantial shareholders of NOW Corporation, any of its related companies or any of its substantial shareholders with respect to the relationship/s provided under Rule 38.2.3 of the Securities Regulation Code.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities and Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
7. I shall inform the Corporate Secretary of NOW Corporation of any changes in the abovementioned information within five (5) days of its occurrence.

Done this 25<sup>th</sup> day of April 2019 at Makati City, Philippines.


  
**MARLOU BUENAFE UBANO**  
 Affiant



Subscribed and sworn to before me this 25<sup>th</sup> day of April 2019 at Makati City affiant personally appeared before me and exhibited his IBP Roll of Attorney's No. 5196

Doc No. 517  
Page No. 2  
Book No. I  
Series of 2019.



  
JANNEISA AINEE R. DIMAKUTA  
- Notary Public for Makati City  
Ubano Stanghie Cabanac & Sta. Romana Law Offices  
5th Floor, COCOFED Building, 141 Arawaka Street  
Legaspi Village, 1229 Makati City  
Roll of Attorney's No. 67947  
U.P. No. 1176-1181, 1176  
Appointment Commission No. 11-412  
PTR No. 7-08039-21/04/2018; Makati City  
IBP Member No. 030039; 01/04/18; Lupon Del Sur

ANNEX "C"

**CERTIFICATION OF QUALIFICATION OF INDEPENDENT DIRECTOR**

I, **DOMINGO BUSTOS BONIFACIO**, Filipino, of legal age and with residence address at No. 30 Alfani Street, Portofino Heights Village Vista Alabang, Las Pinas City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of NOW Corporation and have been its independent director since 20 January 2017.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Automated Technology (Phils.) Inc. (ATEC) Connectivity Division	EVP/General Manager	July 2016 – Present
Automated Technology (Phils.) Inc. (ATEC)	Board Director	December 2016 – Present
Phil. Chamber of Industrial Estates & Ecozones	Board Trustee	2007- Present
Menlo Health and Wellness Innovations, Inc.	Board Director	2016 - Present
El Circulo Masantonelo Scholarship Foundation	Chairman of the Board	2015 - Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of NOW Corporation, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any of the directors/officers/substantial shareholders of NOW Corporation, any of its related companies or any of its substantial shareholders with respect to the relationship/s provided under Rule 38.2.3 of the Securities Regulation Code.

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

7. I shall inform the Corporate Secretary of NOW Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

Done this 25<sup>th</sup> day of April 2019 at Makati City, Philippines.

  
**DOMINGO BUSTOS BONIFACIO**  
 Affiant

Subscribed and sworn to before me this 25<sup>th</sup> day of April 2019 at Makati City affiant personally appeared before me and exhibited his Tax Identification No. 199-940-876.

Doc No. 475  
 Page No. 94  
 Book No. 08  
 Series of 2019.

  
**ATTY. ROBERT CRUZ**  
 Notary Public  
 Until December 31, 2019  
 Appt. No. M-102 Makati City  
 IBP #058192 for 2019 - RSM  
 PTR #7328679 Jan. 03, 2018-Makati  
 S.C. Roll No. 17-07  
 MCLE Compliance No. 12-001-2018-0114-10218  
 Unit 301 3<sup>rd</sup> Flr. Gateway Center Bldg.  
 101 Urban Avenue, Elyse Field Pkwy  
 Makati City

**CERTIFICATION OF QUALIFICATION OF INDEPENDENT DIRECTORS**


I, **JESUS PEDRO S. ADAN II**, Filipino, of legal age and with residence address at 20 Bach St., Filinvest Homes II, Batasan Hills, Diliman, Quezon City having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of NOW Corporation and have been its independent director since 20 January 2017.
2. I am and was affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Marsman Estate Plantation, Inc.	Chief Audit Executive and Risk Officer	December 2017-Present
Marsman Drysdale Group	Chief Financial Officer	2006-2017
Sky Cable, Inc.	Director	
Philippine Wireless, Inc.	Director	2006-2018
Marsman Drysdale Agribusiness Holdings	Director	2010-2018
Marsman Drysdale Medical Products	Director	2010-2018
Marsman Drysdale Travel, Inc.	Director	2010-2018
Marsman Drysdale Foundation, Inc.	Trustee	2007-2018

3. I possess all the qualifications and none of the disqualifications to serve as an independent Director of NOW Corporation, as provided for in Section 38 of the Securities Regulation Code, its implementing Rules and Regulations and other SEC issuances.
4. I am not related to any of the directors/officers/substantial shareholders of NOW Corporation, any of its related companies or any of its substantial shareholders with respect to the relationship/s provided under Rule 38. 2.3 of the Securities Regulation Code.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceedings.
6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
7. I shall inform the Corporate Secretary of NOW Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

Done this \_\_\_ day of May 2019 at Makati City Philippines.

  
**Jesus Pedro S. Adan II**  
 Affiant

APR 26 2019

Subscribed and sworn to before me this \_\_\_\_ day of May 2019 at Makati City affiant personally appeared before me and exhibited his Tax Identification No. 179-004-091

NOTARY PUBLIC

ATTY. GERVASIO B. ORTIZ JR.

Notary Public Makati City

Until Dec. 31, 2019

Appointment No. M-183 (2019-2020)

PTR No. 7333104 Jan. 9, 2019/Makati

IBP Lifetime No. 65675 Roll No. 40091

MCLE Compliance No. V-0006934

101 Urban Ave. Campos Rueda Bldg.

Brgy. Pio Del Pilar, Makati City

Doc. No. 173 ;

Page No. 31 ;

Book No. XV ;

Series of 2019.



# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	1	9	9	6	-	0	0	1	7	9
---	---	---	---	---	---	---	---	---	---	---

**COMPANY NAME**

N	O	W	C	O	R	P	O	R	A	T	I	O	N	A	N	D	S	U	B	S	I	D	I	A	R	I
E	S																									

**PRINCIPAL OFFICE** ( No. / Street / Barangay / City / Town / Province )

U	n	i	t	5	-	I	,	5	T	h	F	l	o	o	r	,	O	P	L	B	u	i	l	d	
i	n	g	1	0	0	C	.	P	a	l	a	n	c	a	S	t	r	e	e	t	,	L	e	g	
a	s	p	i	V	i	l	l	a	g	e	,	M	a	k	a	t	i	C	i	t	y				

Form Type

A	C	F	S
---	---	---	---

Department requiring the report

C	R	M	D
---	---	---	---

Secondary License Type, If Applicable

N	/	A
---	---	---

**COMPANY INFORMATION**

Company's Email Address

Vicente.penanueva@now-corp.com

Company's Telephone Number

(632) 750-0461 /  
(632) 750-0211

Mobile Number

N/A

No. of Stockholders

68

Annual Meeting (Month / Day)

1<sup>st</sup> Thursday of June

Fiscal Year (Month / Day)

12/31

**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Mr. Vicente Penanueva

Email Address

Vicente.penanueva@now-corp.com

Telephone Number/s

799-7700

Mobile Number

09175999525

**CONTACT PERSON'S ADDRESS**

Unit 5-I, 5th Floor, OPL Building 100 C. Palanca Street, Legaspi Village, Makati City

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders  
NOW Corporation  
Unit 5-I, 5<sup>th</sup> Floor, OPL Building  
100 C. Palanca Street, Legaspi Village  
Makati City

### Opinion

We have audited the consolidated financial statements of NOW Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated 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.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.





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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is  
Jhoanna Feliza C. Go.

SYCIP GORRES VELAYO & CO.



Jhoanna Feliza C. Go

Partner

CPA Certificate No. 0114122

SEC Accreditation No. 1414-AR-1 (Group A),

March 2, 2017, valid until March 1, 2020

Tax Identification No. 219-674-288

BIR Accreditation No. 08-001998-103-2017,

January 31, 2017, valid until January 30, 2020

PTR No. 7332556, January 3, 2019, Makati City

April 12, 2019





**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**



	December 31		
	2018	2017	2016
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash (Note 19)	P25,828,933	P10,694,196	P4,396,419
Trade and other receivables (Notes 4 and 19)	207,414,086	167,943,224	115,532,368
Contract assets (Note 2)	1,520,541	-	-
Due from related parties (Notes 9 and 19)	287,566,552	95,955,268	72,495,743
Other current assets (Note 5)	39,809,721	47,364,921	7,659,213
<b>Total Current Assets</b>	<b>562,139,833</b>	<b>321,957,609</b>	<b>200,083,743</b>
<b>Noncurrent Assets</b>			
Financial asset at fair value through other comprehensive income (Notes 6 and 19)	1,337,638,090	-	-
Available-for-sale investment (Notes 6 and 19)	-	1,312,871,168	1,312,871,168
Due from related parties (Notes 9 and 19)	-	27,497,744	27,030,711
Property and equipment (Note 7)	11,686,408	8,711,463	6,614,680
Other noncurrent assets	2,465,543	739,715	434,987
<b>Total Noncurrent Assets</b>	<b>1,351,790,041</b>	<b>1,349,820,090</b>	<b>1,346,951,546</b>
<b>TOTAL ASSETS</b>	<b>P1,913,929,874</b>	<b>P1,671,777,699</b>	<b>P1,547,035,289</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses (Notes 8 and 19)	P156,652,462	P164,067,259	P119,642,574
Due to related parties (Notes 9 and 19)	265,667,135	151,454,345	77,520,582
Current portion of loans payable (Notes 11 and 19)	52,064,583	97,337	87,426
<b>Total Current Liabilities</b>	<b>474,384,180</b>	<b>315,618,941</b>	<b>197,250,582</b>
<b>Noncurrent Liabilities</b>			
Loans payable (Notes 11 and 19)	45,878,924	351,614	449,107
Retirement benefits obligation (Note 12)	975,690	-	-
Deposit for future stock subscriptions (Note 13)	264,000,000	-	-
<b>Total Noncurrent Liabilities</b>	<b>310,854,614</b>	<b>351,614</b>	<b>449,107</b>
<b>Total Liabilities</b>	<b>785,238,794</b>	<b>315,970,555</b>	<b>197,699,689</b>
<b>Equity</b>			
Equity attributable to equity holders of the Parent Company:			
Common stock (Note 13)	1,517,278,350	1,517,278,350	1,517,278,350
Deposits for future stock subscriptions (Note 13)	-	264,000,000	264,000,000
Cumulative translation adjustment	1,126,608	1,152,963	1,140,435
Equity reserve (Note 2)	(1,978,794)	(1,978,794)	-
Net accumulated unrealized gain on financial assets at fair value through other comprehensive income (Note 6)	48,359,740	-	-
Accumulated unrealized loss on remeasurement of retirement benefits (Note 12)	(515,882)	-	-
Deficit	(432,343,009)	(421,158,169)	(427,950,225)
	<b>1,131,927,013</b>	<b>1,359,294,350</b>	<b>1,354,468,560</b>
Non-controlling interest	(3,235,933)	(3,487,206)	(5,132,960)
<b>Total Equity</b>	<b>1,128,691,080</b>	<b>1,355,807,144</b>	<b>1,349,335,600</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P1,913,929,874</b>	<b>P1,671,777,699</b>	<b>P1,547,035,289</b>

See accompanying Notes to Consolidated Financial Statements.



**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Years Ended December 31</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>REVENUES</b> (Note 14)			
Service fees	<b>₱184,419,924</b>	₱126,666,201	₱90,623,757
Sales	<b>33,441,602</b>	21,698,063	13,048,685
	<b>217,861,526</b>	148,364,264	103,672,442
<b>COSTS OF SALES AND SERVICES</b> (Note 15)	<b>(148,323,593)</b>	(85,803,478)	(56,646,942)
<b>GROSS INCOME</b>	<b>69,537,933</b>	62,560,786	47,025,500
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 16)	<b>(57,828,777)</b>	(54,077,860)	(43,401,136)
<b>OTHER INCOME (CHARGES)</b>			
Interest expense (Notes 11 and 19)	<b>(3,324,724)</b>	(52,015)	(572,962)
Foreign exchange gain (loss) - net	<b>9,478</b>	(3,084)	-
Others	<b>1,512,260</b>	533,347	1,640,371
	<b>(1,802,986)</b>	478,248	1,067,409
<b>INCOME BEFORE INCOME TAX</b>	<b>9,906,170</b>	8,961,174	4,691,773
<b>PROVISION FOR CURRENT INCOME TAX</b> (Note 17)	<b>1,769,401</b>	2,670,958	2,193,264
<b>NET INCOME</b>	<b>₱8,136,769</b>	₱6,290,216	₱2,498,509
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company	<b>₱7,885,496</b>	₱6,792,056	₱2,500,433
Non-controlling interests	<b>251,273</b>	(501,840)	(1,924)
	<b>₱8,136,769</b>	₱6,290,216	₱2,498,509
<b>Basic/Diluted Earnings Per Share</b> (Note 18)	<b>₱0.0052</b>	₱0.0045	₱0.0016

*See accompanying Notes to Consolidated Financial Statements.*

**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2018	2017	2016
<b>NET INCOME</b>	<b>₱8,136,769</b>	₱6,290,216	₱2,498,509
<i>Other comprehensive gain (losses) to be reclassified to profit or loss in subsequent periods:</i>			
Cumulative translation adjustments	(26,355)	12,528	(9,553)
<i>Other comprehensive losses not to be reclassified to profit or loss in subsequent periods:</i>			
Changes in fair value of equity investments designated at fair value through other comprehensive income (Note 6)	(136,498,637)	–	–
Remeasurement of retirement benefits (Note 12)	(515,882)	–	–
	(137,014,519)	–	–
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>(137,040,874)</b>	12,528	(9,553)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(128,904,105)</b>	6,302,744	2,488,956
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>			
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Parent Company	(₱129,155,378)	₱6,804,584	₱2,490,880
Non-controlling interests	251,273	(501,840)	(1,924)
	<b>(₱128,904,105)</b>	₱6,302,744	₱2,488,956

*See accompanying Notes to Consolidated Financial Statements.*

## NOW CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	For the year ended December 31, 2018									
	Attributable to Equity Holders of the Parent									
	Common Stock (Note 13)	Deposit for future stock subscriptions	Cumulative Translation Adjustment	Equity reserve (Note 2)	Net accumulated unrealized gain on financial assets at fair value through other comprehensive income (Notes 6 and 19)	Accumulated unrealized loss on remeasurement of retirement benefits (Note 12)	Deficit	Total	Non-controlling Interest	Total
<b>Balances at January 1, 2018, as previously reported</b>	<b>₱1,517,278,350</b>	<b>₱264,000,000</b>	<b>₱1,152,963</b>	<b>(₱1,978,794)</b>	<b>₱-</b>	<b>₱-</b>	<b>(₱421,158,169)</b>	<b>1,359,294,350</b>	<b>(₱3,487,206)</b>	<b>₱1,355,807,144</b>
<b>Impact of adoption of:</b>										
<b>PFRS 9</b> (Notes 2 and 6)	-	-	-	-	184,858,377	-	(19,297,217)	165,561,160	-	<b>165,561,160</b>
<b>PFRS 15</b> (Note 2)	-	-	-	-	-	-	226,881	226,881	-	<b>226,881</b>
<b>Balances at January 1, 2018, as adjusted</b>	<b>1,517,278,350</b>	<b>264,000,000</b>	<b>1,152,963</b>	<b>(1,978,794)</b>	<b>184,858,377</b>	<b>-</b>	<b>(440,228,505)</b>	<b>1,525,082,391</b>	<b>(3,487,206)</b>	<b>1,521,595,185</b>
<b>Reclassification of deposit for future stock subscription</b> (Note 13)	-	(264,000,000)	-	-	-	-	-	(264,000,000)	-	<b>(264,000,000)</b>
<b>Total comprehensive income:</b>										
<b>Net income</b>	-	-	-	-	-	-	7,885,496	7,885,496	251,273	<b>8,136,769</b>
<b>Cumulative translation adjustment</b>	-	-	(26,355)	-	-	-	-	(26,355)	-	<b>(26,355)</b>
<b>Net accumulated unrealized gain on financial assets at fair value through other comprehensive income</b> (Note 6)	-	-	-	-	(136,498,637)	-	-	(136,498,637)	-	<b>(136,498,637)</b>
<b>Remeasurement of retirement benefits</b> (Note 12)	-	-	-	-	-	(515,882)	-	(515,882)	-	<b>(515,882)</b>
<b>Total other comprehensive income</b>	-	-	(26,355)	-	(136,498,637)	(515,882)	-	(137,040,874)	-	<b>(137,040,874)</b>
	-	-	(26,355)	-	(136,498,637)	(515,882)	7,885,496	(129,155,378)	251,273	<b>(128,904,105)</b>
<b>Balances at December 31, 2018</b>	<b>₱1,517,278,350</b>	<b>₱-</b>	<b>₱1,126,608</b>	<b>(₱1,978,794)</b>	<b>₱48,359,740</b>	<b>(₱515,882)</b>	<b>(₱432,343,009)</b>	<b>₱1,131,927,013</b>	<b>(₱3,235,933)</b>	<b>₱1,128,691,080</b>

See accompanying Notes to Consolidated Financial Statements.

For the year ended December 31, 2017

Attributable to Equity Holders of the Parent

	Common Stock (Note 13)	Deposit for future stock subscriptions	Cumulative Translation Adjustment	Equity reserve (Note 2)	Net accumulated unrealized gain on financial assets at fair value through other comprehensive income (Notes 6 and 19)	Deficit	Total	Non-controlling Interest	Total
Balances at January 1, 2017	₱1,517,278,350	₱264,000,000	₱1,140,435	₱-	₱-	(₱427,950,225)	₱1,354,468,560	(₱5,132,960)	₱1,349,335,600
Total comprehensive income	-	-	12,528	-	-	6,792,056	6,804,584	(501,840)	6,302,744
Sale of i-Professional shares (Note 2)	-	-	-	(1,978,794)	-	-	(1,978,794)	2,147,594	168,800
Balances at December 31, 2017	₱1,517,278,350	₱264,000,000	₱1,152,963	(₱1,978,794)	₱-	(₱421,158,169)	₱1,359,294,350	(₱3,487,206)	₱1,355,807,144

For the year ended December 31, 2016

Attributable to Equity Holders of the Parent

	Common Stock (Note 13)	Deposit for future stock subscriptions	Cumulative Translation Adjustment	Equity reserve (Note 2)	Net accumulated unrealized gain on financial assets at fair value through other comprehensive income (Notes 6 and 19)	Deficit	Total	Non-controlling Interest	Total
Balances at January 1, 2016	₱1,517,278,350	₱-	₱1,149,988	₱-	₱-	(₱430,450,658)	₱1,087,977,680	(₱5,131,036)	₱1,082,846,644
Total comprehensive income	-	-	(9,553)	-	-	2,500,433	2,490,880	(1,924)	2,488,956
Deposit for future stock subscription (Note 13)	-	264,000,000	-	-	-	-	264,000,000	-	264,000,000
Balances at December 31, 2016	₱1,517,278,350	₱264,000,000	₱1,140,435	₱-	₱-	(₱427,950,225)	₱1,354,468,560	(₱5,132,960)	₱1,349,335,600

See accompanying Notes to Consolidated Financial Statements.

**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2018	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱9,906,170	₱8,961,174	₱4,691,773
Adjustments for:			
Depreciation and amortization (Notes 7 and 16)	7,309,611	4,411,001	2,214,569
Interest expense (Notes 11 and 19)	3,324,724	52,015	572,962
Provision for impairment losses on:			
Trade and other receivables (Notes 4, 16 and 19)	724,729	1,940	685,685
Advances to affiliates (Note 6)	–	–	5,000,000
Retirement benefits expense (Note 12)	459,808	–	–
Straight-line adjustment on rent (Note 10)	18,300	5,933	–
Interest income	(1,566,262)	(472,507)	(470,984)
Operating income before working capital changes	20,177,080	12,959,556	12,694,005
Decrease (Increase) in:			
Trade and other receivables	(59,492,808)	(52,412,796)	(34,439,198)
Contract asset	(1,293,660)	–	–
Other current assets	7,555,200	(16,065,878)	(3,481,122)
Increase (Decrease) in accounts payable and accrued expenses	(7,433,097)	20,778,922	(13,284,487)
Net cash used in operations	(40,487,285)	(34,740,196)	(38,510,802)
Income taxes paid, including CWTs	(1,769,401)	(2,670,958)	(2,193,264)
Interest received	252,050	5,474	3,951
Interest paid	(2,923,364)	(52,015)	(572,806)
Net cash flows used in operating activities	(44,928,000)	(37,457,695)	(41,272,921)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase (Decrease) in:			
Due from related parties	(139,232,865)	(23,446,997)	(24,109,146)
Other noncurrent assets	(1,726,553)	(354,465)	(227,928)
Additions to property and equipment (Note 7)	(10,283,831)	(6,458,047)	(5,451,837)
Cash flows used in investing activities	(151,243,249)	(30,259,509)	(29,788,911)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in due to related parties	114,212,790	73,933,763	58,942,202
Proceed from loan availment	97,287,870	–	45,036,377
Finance charges	(194,674)	(87,582)	–
Payment of loan	–	–	(44,500,000)
Sale of i-Professional shares (Note 2)	–	168,800	–
Cash flows from financing activities	211,305,986	74,014,981	59,478,579
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>15,134,737</b>	<b>6,297,777</b>	<b>(11,583,253)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>10,694,196</b>	<b>4,396,419</b>	<b>15,979,672</b>
<b>CASH AT END OF YEAR</b>	<b>₱25,828,933</b>	<b>₱10,694,196</b>	<b>₱4,396,419</b>

*See accompanying Notes to Consolidated Financial Statements.*

# **NOW CORPORATION AND SUBSIDIARIES**

---

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

---

### **1. Corporate Information**

#### Corporate Background

NOW Corporation (formerly Information Capital Technology Ventures, Inc.; the Parent Company) started as a duly licensed investment house when it was incorporated on June 5, 1996 and registered in the Philippine Securities and Exchange Commission (SEC) as MF Shroder & Co., Inc. It was originally a wholly owned subsidiary of Amalgamated Investment Bancorporation (AIB) and was initially engaged in the purchase and sale of securities.

In 2000, AIB expanded the services of the Parent Company by establishing an information technology (IT) enabled facility geared towards servicing the private equity needs of small and medium enterprises by matching them online with direct equity investors. Hence, the Parent Company's Article of Incorporation (AOI) was changed to expand its primary purpose of engaging in the business of securities brokerage through the use of IT.

On July 23, 2002, the Parent Company's Board of Directors (BOD) and stockholders approved the offer of up to 28,000,000 shares from the Parent Company's unissued common stock through initial public offering (IPO). The application for the IPO of the Parent Company was approved by the Philippine Stock Exchange (PSE) and SEC on June 11, 2003 and July 30, 2003, respectively. The Parent Company was listed in the PSE on July 23, 2003 with an issue/share price of ₱1.00 per share.

In 2008, the PSE approved the application for the listing of the additional 1,289,278,350 common shares with an issue/share price of ₱1.00 per share to cover the share-for-share swap transactions with NOW Telecom, Inc. (NOW Telecom) shareholders (see Notes 6 and 13).

In July 2009, the SEC approved the amendment of the Parent Company's AOI which provides for the change in its primary purpose of engaging in the securities brokerage business to a technology, media and telecommunication (TMT) business.

In August 2010, the SEC approved further the amendment of the Parent Company's AOI, removing the pre-emptive rights of shareholders with respect to subscription to any class of the Parent Company's shares of stock.

On December 16, 2010, the Parent Company's BOD approved the amendment in its AOI to include secondary purpose. The inclusion of the secondary purpose was subsequently ratified by the Parent Company's stockholders on July 2, 2011 and was approved by the SEC on August 25, 2011. The additional secondary purposes include:

- a. Providing professional services and manpower in the field of TMT;
- b. Acting as commission agent, manufacturer's representative, or principal for the purpose, sale, distribution, manufacture, assembly, import or export of any and all classes of materials, merchandise, supplies and commodities of every kind and nature; and
- c. Engaging in the business of general and retail merchants, traders, factors, agents, manufacturers, processors, dealing in or with any and all classes of materials, merchandise, supplies and commodities of every kind and nature.

On December 21, 2016, the Parent Company's BOD approved the filing of the Registration Statement, Listing Application and the terms and conditions and such other relevant acts in connection with the intended public offering of preferred shares of the Parent Company.

On June 22, 2018, the SEC issued the certificate of Filing of Enabling Resolution of the preferred shares of the Parent Company (see Note 13).

#### Change in Corporate Name

The SEC approved the Parent Company's application to change its name from MF Shroder & Co., Inc. to Cashrounds, Inc. in January 2002 and Information Capital Technology Ventures, Inc. in September 2006.

Subsequently, on August 16, 2013, the SEC approved the change in the Parent Company's name to its current corporate name, NOW Corporation.

#### Certificates and Memorandum of Understanding and Agreements

On March 22, 2005, a Memorandum of Agreement (MOA) was executed by AIB and Gamboa Holdings, Inc. (GHI), whereby AIB agreed to sell and GHI agreed to purchase 18,171,286 shares of the Parent Company at an aggregate purchase price of ₱74,395,000. The sale of the Parent Company's shares became effective on August 20, 2005 resulting to a 66.67% ownership interest of GHI in the Parent Company.

On March 10, 2006, the National Telecommunication Commission (NTC), through the efforts of IMX Broadband Inc. (IBI), issued a Certificate of Registration (CoR) to the Parent Company to allow it to operate and maintain value added services (VAS) and voice over internet protocol (VOIP) services in all cities and municipalities nationwide.

On November 27, 2015, NTC issued CoR to the Parent Company that will authorized it as a VAS provider for services such as cloud hosting services, virtual private network, multimedia content and program services, online game services, cloud-based multimedia conferencing services, web hosting and cloud-based mail and messaging services. The CoR is valid for a period of five (5) years which will expire on November 26, 2020.

In 2015, the Parent Company entered into three (3) separate agreements with NOW Telecom, GHT Network, Inc. (GHT) and News and Entertainment Network Corporation (Newsnet) (the Parties), wherein the Parties mutually agreed to collaborate and interconnect their respective networks in order for the Parent Company to provide VAS to the public such as cloud hosting services, virtual private network, multimedia content and program services, online game services, cloud-based multimedia conferencing services, web hosting and cloud-based mail and messaging services (VAS contracts) (see Note 9).

#### Registered Address

The Parent Company's registered address is Unit 5-I, 5<sup>th</sup> Floor OPL Building, 100 Carlos Palanca St., Legaspi Village, Makati City.

#### Authorization for Issuance

In the March 8, 2019 Regular BOD Meeting, the BOD delegated to the Chairman, the President, and the Chief Finance Officer the authority to approve the issuance of the consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to herein as the Group) as of December 31, 2018, 2017 and 2016 and for the years then ended.

The consolidated financial statements of the Group as of December 31, 2018, 2017 and 2016 and for the years then ended were authorized for issue by the Chairman, the President and the Chief Finance Officer on April 12, 2019.



## 2. Basis of Preparation, Statement of Compliance, Basis of Consolidation and Summary of Significant Accounting Policies

### Basis of Preparation

The consolidated financial statements of the Group have been prepared under the historical cost basis, except for the financial asset at fair value through other comprehensive income that is measured at fair value. The consolidated financial statements are presented in Philippine peso (₱), which is the Parent Company's functional currency. Amounts are rounded to the nearest Philippine peso, except when otherwise indicated.

### Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries as of December 31, 2018, 2017 and 2016 and for the years then ended:

	Year of Incorporation	Nature of Business	Percentage of Ownership		
			2018	2017	2016
J-Span IT Services, Inc. (JSIT)	2011	Service	100%	100%	100%
Porteon SEA, Inc. (Porteon)	2011	Manufacturing	100%	100%	100%
I-Resource Consulting International, Inc. (IRCII)	2011	Service	100%	100%	100%
I-Professional Search Network, Inc.(I-Professional)	2012	Service	75%	100%	100%
Softrigger Interactive, Inc. (SII)	2000	Service	67%	67%	67%

All the subsidiaries were incorporated in the Philippines except for JSIT, which was incorporated in Japan.

On January 25, 2017, Velarde, Inc. entered into a subscription agreement with i-Professional for the subscription of 6,750 common shares of the latter, representing 25% interest, thereby reducing the ownership of the Company in i-Professional from 100% to 75%. This resulted to an equity reserve amounting to ₱1,978,794.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and,
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary

begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Non-controlling interest represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the profit or loss and within equity in the consolidated financial position, separately, from the equity attributable to equity holders of the parent of the Group. Transactions with non-controlling interests are accounted for as equity holders transactions. Any excess or deficit of consideration paid over the carrying amount of non-controlling interest acquired is recognized in equity of the Group as "Equity reserve".

The acquisition of an additional ownership interest in subsidiary without a change in control is accounted for as an equity transaction in accordance with PAS 27. In transactions where the non-controlling interest is acquired or sold without loss of control, any excess or deficit of consideration paid over the carrying amount of the non-controlling interest is recognized as part of "Equity reserve" account in the equity attributable to the equity holders of the Parent Company.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2018:

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

The amendments do not have any impact on the Group's consolidated financial statements as the Group has no share-based payment transactions.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group has adopted this new standard without restating comparative information, which continues to be reported under PAS 39.

The effect of adopting PFRS 9 as at January 1, 2018 is as follows:

<b>Increase (decrease) in consolidated statements of financial position:</b>	<b>Adjustments</b>	<b>As at January 1, 2018</b>
<b>Assets</b>		
Trade and other receivables	(b)	(₱19,297,217)
Available-for-sale investments	(a)	(1,312,871,168)
Financial assets at FVOCI	(a)	1,497,729,545
<b>Total assets</b>		<u><u>₱165,561,160</u></u>
<b>Equity</b>		
Net accumulated unrealized gain on financial assets at fair value through other comprehensive income	(a)	₱184,858,377
Retained earnings	(b)	(19,297,217)
<b>Total equity</b>		<u><u>₱165,561,160</u></u>

The nature of these adjustments is described below:

(a) *Classification and measurement*

Under PFRS 9 which is effective beginning January 1, 2018, there is a change in the classification and measurement requirements relating to financial assets. Previously, there were four (4) categories of financial assets: loans and receivables, fair value through profit or loss, held to maturity and available for sale (AFS). Under PFRS 9, financial assets are either classified as amortized cost, FVTPL or FVOCI.

PFRS 9 requires that the Group classifies debt instruments based on the contractual cash flow characteristics of the assets and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost, FVTPL or FVOCI.

The Group's debt financial assets consist of cash, trade and other receivables and due from related parties. The Group assessed that the contractual cash flows of its debt financial assets are solely payments of principal and interest (SPPI) and are expected to be held to collect all contractual cash flows until their maturity. As a result, the Company concluded these debt financial assets to be measured at amortized cost.

The Group elected to classify irrevocably its unquoted equity investment previously classified as AFS financial assets under financial asset at FVOCI as it intends to hold these investments for the foreseeable future. There were no impairment losses recognized in profit or loss for these investments in prior periods. Upon transition, the AFS financial asset which was previously carried at cost under PAS 39 was classified as financial asset at FVOCI which resulted to the recognition of an adjustment for unrealized gain on changes in fair value of financial asset at FVOCI amounting to ₱184,858,377 as at January 1, 2018.

There were no changes to the classification and measurement of financial liabilities. As of December 31, 2018, 2017 and 2016, the Group does not hold financial liabilities designated at fair value through profit or loss.

The table below illustrates the classification and measurement of financial instruments under PFRS 9 and PAS 39 at the date of initial application.

<b>Financial assets</b>	<b>Original Measurement</b>	<b>Original Carrying</b>	<b>New Measurement</b>	<b>New Carrying</b>
	<b>Category under PAS 39</b>	<b>Amount Under PAS 39</b>	<b>Category under PFRS 9</b>	<b>Amount Under PFRS 9</b>
Cash	Loans and receivables	₱10,694,196	Financial assets at amortized cost	₱10,694,196
Trade and other receivables*	Loans and receivables	166,534,628	Financial assets at amortized cost	147,237,411
Due from related parties	Loans and receivables	123,453,012	Financial assets at amortized cost	123,453,012
Advances to employees	Loans and receivables	1,408,596	Financial assets at amortized cost	1,408,596
Equity investments**	AFS investments	1,312,871,168	Equity instruments at FVOCI	1,497,729,545

\*The change in the carrying amount is a result of the new impairment requirements of PFRS 9. See discussion below.

\*\*The change in the carrying amount is a result of new valuation requirements of PFRS 9.

#### (b) Impairment

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon adoption of PFRS 9, the Group recognized an additional impairment loss amounting to ₱19,297,217 on its trade and other receivables which resulted in a decrease in retained earnings of ₱19,297,217 as at January 1, 2018. As a result, the ending impairment allowance as at December 31, 2017 determined in accordance with PAS 39 amounting to ₱13,832,892 was adjusted, which resulted to an impairment allowance as at January 1, 2018 determined in accordance with PFRS 9 amounting to ₱33,130,109.

The Group has applied its existing governance framework to ensure that appropriate controls and validations are in place over key processes and judgments in implementing PFRS 9. The Group continues to refine its internal controls and processes which are relevant in the proper implementation of PFRS 9.

#### (c) Hedge accounting

The changes introduced by PFRS 9 relating to hedge accounting currently have no impact as the Group does not apply hedge accounting

- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two (2) options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies to all revenues arising from contracts with customers, unless those contracts are in the scope of other standards. PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers which are as follows:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with the customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted PFRS 15 using the modified retrospective method, effective January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the method only to contracts with customers that are not yet completed as at January 1, 2018.

The Group's revenue from contracts with customers include (i) broadband service contracts which are either offered separately or bundled with software licenses, (ii) contracts on sale and/or installation of software licenses, (iii) management service contracts and (iv) manpower augmentation service contracts.

The Group undertook a comprehensive analysis of the impact of the new revenue standard based on a review of the contractual terms of its principal revenue streams with the primary focus being to understand whether the timing and amount of revenue recognized could differ under PFRS 15.

The effect of adopting PFRS 15 as at January 1, 2018 is as follows:

<b>Increase in consolidated statements of financial position:</b>	<b>Adjustments</b>	<b>As at January 1, 2018</b>
<b>Assets</b>		
Contract asset	(a)	₱226,881
<b>Total assets</b>		<b>₱226,881</b>
<b>Equity</b>		
Retained earnings	(a)	₱226,881
<b>Total equity</b>		<b>₱226,881</b>

For most of the Group's revenue streams, the nature and timing of satisfaction of the performance obligations, and, hence, the amount and timing of revenue recognized under PFRS 15, is the same as that under PAS 18. The adoption of PFRS 15 however, modified the way the Group recognized its revenue from contracts with customers for broadband service contracts bundled with software licenses beginning January 1, 2018 as described below:

*(a) Broadband service contracts*

Prior to adoption of PFRS 15, the Group recognizes revenue from the broadband service contracts bundled with software licenses based on monthly fixed invoice amounts. Under PFRS 15, the Group assessed that broadband services are separate performance obligation from the bundled software licenses and are capable of being distinct and separately identifiable. The Group performed a re-allocation of contract consideration based on the relative stand-alone selling prices of each performance obligation which decreased the amount allocated to broadband service.

Also, previously under PAS 18, revenue from the bundled software licenses were deferred and amortized over the contract period. Under PFRS 15, the customer obtains control when the licenses have been delivered to and accepted by them. As such, revenue should be recognized upon delivery. The impact of this change on items other than revenue is an increase in contract asset and retained earnings.

Except for the effect of the above changes, the adoption of PFRS 15 has no other impact to the consolidated statements of financial position, statements of income, statements of comprehensive income and statements of cash flows.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first

becomes a parent. Retrospective application is required. These amendments do not have any impact on the Group's consolidated financial statements.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

These amendments do not have any impact on the Group's consolidated financial statements since the Group does not have investment property.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

This interpretation does not have any impact on the consolidated financial statement since the Group's current practice is in line with the clarifications issued.

## Summary of Significant Accounting Policies

### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification. An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

#### Foreign Currency Translations

Transactions in foreign currencies are recorded using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange prevailing at the reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or financial statement date are credited to or charged against current operations.

The Group determines the functional currency for each entity within the Group and items included in the financial statements of each entity are measured using that functional currency. For subsidiary whose functional currency is different from the presentation currency, the Group translates the results of their operations and financial position into the presentation currency. As at the financial reporting date, the assets and liabilities presented (including comparatives) are translated into the presentation currency at the closing rate of exchange prevailing at the financial reporting date while the capital stock and other equity balances are translated at historical rates of exchange. The income and expenses for the profit or loss presented (including comparatives) are translated at the exchange rates at the dates of the transactions, where determinable, or at the weighted average rate of exchange during the reporting period. The exchange differences arising on the translation to the presentation currency are recognized as a separate component of equity under the “Cumulative translation adjustment” account in the consolidated statement of financial position.

The functional currency of the Group’s subsidiaries is Philippine Peso, except for JSIT which is US dollar.

#### Cash

Cash includes cash on hand and with banks.

#### Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### *Financial Assets*

##### *Initial Recognition and Measurement*

Prior to January 1, 2018, financial assets within the scope of PAS 39 are classified, at initial recognition, as financial assets at FVTPL, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The Group determines the classification of its financial instruments on initial recognition and, where allowed and appropriate, re-evaluates this designation of each financial reporting date.

Beginning January 1, 2018 upon adoption of PFRS 9, financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI; FVOCI), and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are “solely payments of principal and interest (SPPI)” on the principal



amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### *Subsequent Measurement*

Beginning January 1, 2018 under PFRS 9, for purposes of subsequent measurement, financial assets are classified in four (4) categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

#### *Financial Assets at Amortized Cost (Debt Instruments)*

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes cash, trade and other receivables and due from related parties. Prior to adoption of PFRS 9 on January 1, 2018, these financial assets were classified as loans and receivables.

#### *Financial Assets at FVOCI (Debt Instrument)*

The Group measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group has no debt instruments at FVOCI as of December 31, 2018, 2017 and 2016.

#### *Financial Assets Designated at FVOCI (Equity Instruments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under

PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group elected to classify irrevocably its unquoted equity investment under this category. Prior to adoption of PFRS 9 on January 1, 2018, these unquoted equity investments were classified as AFS investments measured at cost.

*Loans and Receivables (Policy applicable prior to adoption of PFRS 9)*

Prior to January 1, 2018, loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as or designated as AFS financial assets or financial assets at FVTPL.

After initial measurement, loans and receivables are carried at amortized cost using the EIR method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are not integral part of the EIR. The amortization is included in "Interest income" account in the consolidated statement of income.

The losses arising from impairment of loans and receivables are recognized in the statement of income. The level of allowance for impairment losses is evaluated by management on the basis of the factors that affect the collectability of accounts. Loans and receivables are classified as current assets when it is expected to be realized within 12 months after the financial reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets. Classified under loans and receivables are cash, trade and other receivables, and due from related parties.

*AFS Investments (Policy applicable prior to adoption of PFRS 9)*

Prior to January 1, 2018, AFS investments are those non-derivative financial assets that are designated as such or are not classified as financial assets designated at FVTPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value with unrealized gains and losses being recognized as other comprehensive income (OCI) in the "Net accumulated unrealized gain on available-for-sale investments" account until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity are recognized in the profit or loss. The Group uses the specific identification method in determining the cost of securities sold. Interest earned on the investments is reported as interest income using the effective interest rate method. Dividends earned on investment are recognized in the profit or loss when the right to receive payment has been established.

AFS investments are classified as current if they are expected to be realized within 12 months from the financial reporting date. Otherwise, these are classified as noncurrent assets.

AFS investments include investment in unquoted equity investment.

*HTM Investments (Policy applicable prior to adoption of PFRS 9)*

Prior to January 1, 2018, HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Furthermore, the Group would be prohibited to classify any financial assets as HTM investments for the following two years. After initial measurement, HTM investments are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. Gains and losses are recognized in the profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process. The effect of restatement of foreign currency-denominated HTM investments are also recognized in profit or loss.

The Group has no HTM investments as of December 31, 2017, and 2016.

*Impairment of financial assets*

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions Note 3
- Trade and other receivables, and contract assets Notes 4 and 19
- Due from related parties Notes 9 and 19

Beginning January 1, 2018 upon adoption of PFRS 9, the Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Prior to adoption of PFRS 9, the Group assesses at each reporting date whether there is an objective evidence that a financial or group of financial asset is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred loss

event) and that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Objective evidences of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group triggers its assessment whether its financial asset is in default when contractual payments are past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that does not have quoted price in an active market and that is not carried at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the unquoted equity instrument and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset such impairment loss shall not be reversed.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Other income" in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and that increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

#### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Write-offs*

The Group's write-off policy under PFRS 9 remained the same as it was under PAS 39. A financial asset together with the associated allowance is written off either partially or in their entirety when there is no realistic prospect of future recovery.

#### *Financial liabilities*

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities which include trade and other payables, due to related parties and long-term liabilities are classified as loans and borrowings.

##### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

##### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

##### *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of income.

This category is applied for those issued financial liabilities or their components where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or

another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares, which are not designated as financial liabilities at FVTPL.

#### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### Fair Value of Financial Instruments

The Group measures financial instruments, such as derivatives, financial assets through profit or loss, financial assets through other comprehensive income and AFS investments, at fair value at each reporting date.

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### “Day 1” Differences

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference amount.

#### Creditable Withholding Taxes (CWTs)

CWTs, included under “Other current assets” account in the consolidated statement of financial position, are amount withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve months are classified as current asset. CWTs are stated at NRV.

#### Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable. When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

#### Investment in Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group’s investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group’s share of net assets of the associate since the acquisition date. Goodwill relating to the associate or is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The aggregate of the Group’s share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax. When the Group’s share of losses exceeds the Group’s interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group have an obligation or have made payments on behalf of the investee. The consolidated financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as “Equity in net earnings of an associate” in profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

#### Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. The initial cost of property and equipment consists of purchase price, including import duties, nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment if the recognition criteria are met.

Depreciation is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Years
Transportation equipment	5
Office and IT equipment	5
Furniture and fixtures	2

Leasehold improvements are depreciated over their useful lives of five (5) years or the term of the lease, whichever is shorter.

The residual values, useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are maintained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, the cost, related accumulated depreciation and any allowance for impairment losses are removed from the accounts and any resulting gain or loss (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is credited to or charged against current operations.

#### Computer Software

Computer software is initially recognized at cost. Following initial recognition, the computer software is carried at cost less accumulated amortization and any accumulated impairment in value.

The computer software is amortized on a straight-line basis over its estimated useful economic life of three (3) years and is assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the computer software is available for use. The amortization period and the amortization method for the computer software are reviewed at each financial year end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treated a changes in accounting estimates.

The net book value of Computer software is recognized as part of “Other noncurrent assets” account in the consolidated statement of financial position.



### Impairment of Nonfinancial Assets

#### *Property and Equipment and Other Nonfinancial Assets*

The Group assesses at each reporting date whether there is an indication that its property and equipment and other nonfinancial assets may be impaired when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. Where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their estimated recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired nonfinancial asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss.

#### *Investment in Associate*

After the application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's investment in associate. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the investment in associate and the carrying cost and recognizes the amount as a reduction of the "Equity in net earnings of an associate" account in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds the Group's interest in an associate, the carrying amount of the investment, including long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group have an obligation or have made payments on behalf of the investee.

### Capital Stock

The Group has issued capital stocks that are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction from proceeds. The excess of proceeds from issuance of share over the par value are credited to share premium.

### Deficit

The amount included in deficit includes profits and losses attributable to the Group's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Group's stockholders. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Deficit may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

#### Deposit for Future Stock Subscription

Deposit for future stock subscription represents the amount received that will be applied as payment in exchange for a fixed number of the Group's own equity instruments. It is classified as an equity item if there is sufficient unissued authorized capital stock, or if in case the unissued authorized capital stock is insufficient to cover the amount of deposit, (a) the BOD and stockholders have approved a proposed increase in authorized capital stock for which a deposit was received, and (b) the proposed increase was filed with the SEC as of financial reporting date; otherwise, the deposit is classified as a liability.

#### Revenue Recognition

Beginning January 1, 2018, upon adoption of PFRS 15, the Group's revenue recognition is as follows:

##### *Revenue from Contracts with Customers*

The Group's revenue from contracts with customers generally include broadband service contracts which are either offered separately or bundled with software licenses, contracts on sale and/or installation of software licenses, management service contracts and manpower augmentation service contracts.

Revenue from contracts with customers is recognized when control of the services or goods are transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services or goods.

Revenue from broadband service contracts offered separately, management service contracts and manpower augmentation service contracts are based on a fixed sales price and are recognized over time because the customer simultaneously receives and consumes the benefits provided by the Group.

Meanwhile, revenue from contracts on sale and/or installation of software licenses are recognized at the point in time when substantial control on the goods or service is transferred to the customer. The revenue from these contracts are based on a fixed sales price.

Contracts from broadband service contracts bundled with software licenses are comprised of two performance obligations because the promise to provide broadband service and transfer software licenses are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the broadband services and software license. The Group recognizes revenue from broadband services over time because the customer simultaneously receives and consumes the benefits provided by the Group. Revenue from the transfer of software licenses are recognized at a point in time, generally upon the delivery of the software licenses when the control of the goods is transferred to the customers.

The revenues are presented as "Service fees" and "Sales" respectively, in the consolidated statement of income for the year ended December 31, 2018, 2017 and 2016.

The Group has concluded that it is acting as a principal in all its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

### *Interest*

Interest income is recognized as interest accrues using the EIR.

Prior to adoption of PFRS 15, the Group's revenue recognition is as follows:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

### *Sale of Goods*

Sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyers and the amount of revenue can be measured reliably. Net sales is measured at the fair value of the consideration received, excluding sales taxes, discounts, returns and rebates, if any. Revenues that falls in this category includes sales of software licenses. Sales of goods are included under "Sales" in the consolidated statement of comprehensive income.

### *Service, Marketing, Management and Consultancy Fees*

Fees are recognized when the related services have been rendered. Revenues that falls in this category include IT Manpower and Resource Augmentation, and Broadband services. Services, marketing, management and consultancy fees are included under "Service fees" in the consolidated statement of comprehensive income.

### Contract Assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

### Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

### Cost and Expenses

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are recognized when the services are used or the expenses are incurred.

### *Cost of Sales*

Beginning January 1, 2018, upon adoption of PFRS 15, cost of sales is recognized when the significant control of the goods have passed to the buyer upon delivery. Before adoption of PFRS 15, the cost of sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer upon delivery. This pertains to the cost of software licenses sold.

### *Cost of Services*

Cost of services are direct costs incurred in relation to service revenues. This mainly consists of bandwidth and personnel costs.

### *General and Administrative Expenses*

General and administrative expenses consist of expenses incurred in the direction and general administration of day-to-day operation of the Group and are generally recognized when the services are used or the expenses arise.

### Retirement Benefit Plan

The Group operates a defined retirement benefit plan in the Philippines. These benefits are unfunded.

The defined benefit obligation is the aggregate of the present value of the defined benefit obligation at the end of the reporting period. The cost of providing benefits under the defined benefit plan is actuarially determined by an independent qualified actuary using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Interest expense on the defined benefit obligation
- Remeasurements of defined benefit obligation

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment occurs.

Interest expense on the defined benefit obligation is the change during the period in the defined benefit obligation that arises from the passage of time which is determined by applying the discount rate based on government bonds to the defined benefit obligation. Interest expense on the defined benefit obligation is recognized as expense in profit or loss.

Remeasurements comprising actuarial gains and losses (excluding interest expense on defined benefit obligation) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

### Taxes

#### *Current Tax*

Current tax liabilities for the current and prior periods are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

#### *Deferred Tax*

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carry forward benefits of unused tax credits in the form of net operating loss carryover (NOLCO) and minimum corporate income tax (MCIT) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at reporting date and are recognized to the extent that it has become probable that future

taxable profit will allow the deferred income tax assets to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted as of the reporting date.

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

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and involves an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

#### *Operating Leases*

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessor. Lease payments under an operating lease are recognized as an expense on straight-line bases over the terms of the lease.

#### *Finance Lease Commitments - Group as Lessee*

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in the consolidated statement of comprehensive income.

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

#### Provisions

Provisions, if any, are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements when an inflow of economic benefit is probable.

#### Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to common stockholders by the weighted average number of common shares issued and outstanding during the year adjusted for any

subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares.

#### Segment Reporting

For management purposes, the Group's operating segments are organized and managed separately according to the nature of the services offered.

The Group's identified operating segments are consistent with the segments reported to the BOD, which is the Group's chief operating decision maker. Financial information on the operating segments are presented in Note 20.

#### Events After the Financial Reporting Date

Events after the financial reporting date that provide additional information about the Group's financial position at the financial reporting date (adjusting events) are reflected in the consolidated financial statements. Events after the financial reporting date that are not adjusting events are disclosed in the notes to the consolidated financial statements.

#### Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

*Effective beginning on or after January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

These amendments have no impact on the consolidated financial statements of the Group.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two (2) recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two (2) types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16 in the Group's consolidated financial statements.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

The Group is currently assessing the impact of adopting these amendments in the Group's consolidated financial statements.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net

investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

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

The interpretation specifically addresses the following:

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

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

The Group is currently assessing the impact of adopting this interpretation in the Group's consolidated financial statements.

#### *Annual Improvements to PFRSs 2015-2017 Cycle*

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.



An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Group current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

*Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

The amendments are not expected to have any impact on the Group's consolidated financial statements.

#### *Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

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

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

The core of PFRS 17 is the general model, supplemented by:

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

The amendments are not expected to have any impact on the Group's consolidated financial statements.

#### *Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

---

### 3. Significant Accounting Judgments and Estimates

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. The judgments and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates.

#### Judgments

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

#### *Determination of Significant Influence over an Associate*

The Group considers its 50% equity interest in Softweb Consulting, Inc. (Softweb) as investment in an associate. Critical judgment was exercised to assess the facts and circumstances indicating the elements of control or level of influence of the Group over Softweb. The Group has two (2) representatives out of the five (5) members of the board. Thus, the Group has determined that it has significant influence, but no control nor joint control, over the financial and operating policy decisions over Softweb.

#### *Revenue from Contracts with Customers (Applicable upon adoption of PFRS 15)*

Beginning January 1, 2018, the Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

##### *a) Identifying Performance Obligations*

The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

The Group assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if:

1. each distinct good or services in the series are transferred over time; and
2. the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation

The Group provides broadband services that are either sold separately or bundled with software licenses. The software licenses are a promise to transfer goods and are part of the negotiated exchange between the Group and the customer.

The Group determined that both the broadband services and transfer of software licenses are capable of being distinct. The fact that the Group regularly sells both broadband services and software licenses on a stand-alone basis indicates that the customer can benefit from both products on their own. The Group determined that the promise to provide broadband services and to transfer software licenses are distinct within the context of the contract. Consequently, the

Group allocated a portion of the transaction price to the broadband services and the software licenses based on relative stand-alone selling prices.

*b) Revenue Recognition*

The Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Group concluded that revenue from broadband services, management services and manpower augmentation services are to be recognized over time, since customers simultaneously receive and consume the benefits as the Group provided the services. Other revenue sources are recognized at a point in time.

*c) Identifying Methods for Measuring Progress of Revenue Recognized Over Time*

The Group determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

Revenue from broadband services is recognized through the use of input method wherein recognition is over time based on the customer subscription period since the customer simultaneously receives and consumes the benefits as the seller renders the services.

*Operating Leases - Group as Lessee*

The Group has entered into commercial property leases on its offices. Based on an evaluation of the terms and conditions of the lease agreements, there will be no transfer of ownership of assets to the Group at the end of the lease term. The Group has determined that all significant risks and rewards of ownership are retained by the lessors. Thus, the leases are classified as operating leases.

*Finance Lease Commitments - Group as Lessee*

The Group has entered into leases of transportation equipment. The Group has determined that these lease arrangements (i.e. lease term is for the major part of the economic useful life of the asset) are finance leases since the significant risks and rewards of ownership related to these properties are transferred to the Group from the date of the lease agreement.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk causing material adjustments to the carrying amounts of the assets and liabilities within the next financial years are discussed below:

*Fair Value Measurement of Financial Instruments*

The fair values of financial instruments that are not quoted in active markets are determined using valuation techniques including discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. To the extent practicable, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported

fair value of financial instruments (see Note 19 to the consolidated financial statements for the fair values of financial instruments).

For the fair valuation of the investment in NOW Telecom, the key assumptions used by the Group in determining the present value of estimated future cash flows generated by frequencies with no comparable market value are as follows:

- *Discount rate*  
The discount rate is based on NOW Corporation's weighted average cost of capital. This rate is further adjusted to reflect the market assessment of any risk for which future estimates of cash flows have not been adjusted.
- *Long-term growth rate*  
Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at the terminal value.
- *Revenue growth rate*  
Revenue for the five-year period are forecasted using a growth rate which is within the industry outlook.

*Provision for Expected Credit Losses on Trade Receivables and Other Receivables and Contract Assets (Applicable upon adoption of PFRS 9)*

Beginning January 1, 2018, the Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns such as by product type and customer type and rating.

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

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

The information about the ECLs on the Group's trade and other receivables is disclosed in Note 4.

*Provision for Expected Credit Losses on Due from Related Parties (Applicable upon adoption of PFRS 9)*

Beginning January 1, 2018, ECL on due from related parties is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The Group considers the probability of its counterparty to default its obligation and the expected loss at default after considering the effects of collateral, any potential value when realized and time value of money. The assumptions underlying the ECL calculation are monitored and reviewed at every reporting period.

The Group incorporates a forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. To do this, management considered a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs.

No provision for ECL on due from related parties was recognized in 2018. Due from related parties amounted to ₱287,566,552 as of December 31, 2018 (see Note 9).

*Impairment of Trade and Other Receivables and Due from Related Parties (Applicable prior to adoption of PFRS 9)*

Prior to January 1, 2018, the Group maintains an allowance for impairment of receivables at a level that management considers adequate to provide for potential uncollectibility of its trade and other receivables. The Group evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Group uses judgment, based on available facts and circumstances, and based on a review of the factors that affect the collectibility of the accounts including, but not limited to, the age and status of the receivables, collection experience and past loss experience. The review is made by management on a continuing basis to identify accounts to be provided with allowance. The specific allowance is re-evaluated and adjusted as additional information received affects the amount estimated.

In addition to specific allowance against individually significant receivables, the Group also provides a collective impairment allowance against exposures, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on historical default experience.

The aggregate carrying amount of trade and other receivables amounted to ₱207,414,086, ₱167,943,224 and ₱115,532,368 as of December 31, 2018, 2017 and 2016, respectively (see Notes 4 and 19). The aggregate carrying amount of due from related parties amounted to ₱287,566,552, ₱123,453,012 and ₱99,526,454 as of December 31, 2018, 2017 and 2016 (see Notes 9 and 19). The total amount of provision for impairment recognized amounted to ₱724,729, ₱1,940 and ₱685,685 in 2018, 2017 and 2016, respectively (see Notes 4 and 16).

*Recoverability of Investment in NOW Telecom, Inc. (Applicable prior to the adoption of PFRS 9)*

The Group assesses at each reporting date whether there is any objective evidence that the investment in NOW Telecom is impaired. The Group has determined that NOW Telecom's continuing losses over the past several years is an objective evidence that the investment may no longer be recoverable.

When there is objective evidence of impairment, the Group is required to determine the recoverable amount of the investment, which is the sum of the (i) market value of comparable radio frequencies, and the (ii) present value of estimated future cash flows that can be generated by frequencies with no comparable market value.

i. *Market value of comparable radio frequencies*

Market value of comparable frequencies is the estimated market value of the radio frequencies owned by NOW Telecom based on the implied price per MHzPop of the most recent comparable market transaction involving buy-outs of entities with radio frequencies.

ii. *Present value of estimated future cash flows generated by radio frequencies with no comparable market value*

The key assumptions used by the Group in determining the present value of estimated future cash flows generated by frequencies with no comparable market value are as follows:

- *Discount rate*  
The discount rate is based on NOW Corporation's weighted average cost of capital. This rate is further adjusted to reflect the market assessment of any risk for which future estimates of cash flows have not been adjusted.
- *Long-term growth rate*  
Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at the terminal value.
- *Revenue growth rate*  
Revenue for the five-year period are forecasted using a growth rate which is within the industry outlook.

No impairment loss on the investment in NOW Telecom was recognized in 2017 and 2016. The carrying amount of the investment in NOW Telecom amounted to ₱1,289,278,350 as of December 31, 2017 and 2016 (see Notes 6 and 19).

#### *Estimating Useful Lives of Property and Equipment, and Computer Software*

The Group estimates the useful lives of significant parts 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. In addition, the Group's estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. Depreciation and amortization charged to operations amounted to ₱7,309,611, ₱4,411,001 and ₱2,214,569 for the years ended December 31, 2018, 2017 and 2016, respectively (see Notes 7 and 16). The aggregate net book value of property and equipment amounted to ₱11,686,408, ₱8,711,463 and ₱6,614,680 as of December 31, 2018, 2017 and 2016, respectively (see Note 7). The net book value of computer software as of December 31, 2018, 2017, and 2016 amounted to ₱1,624,335, ₱9,965 and ₱59,702, respectively.

#### *Estimating Realizability of Deferred Income Tax Assets*

The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its deferred income tax assets to be utilized.

The Group did not recognize deferred income tax assets on temporary differences and carry forward benefits of unused NOLCO, unused tax credits from excess MCIT, allowance for impairment on trade and other receivables and others amounting to ₱37,354,235, ₱19,037,918 and ₱30,227,110 as of December 31, 2018, 2017 and 2016, respectively (see Note 17). The Group believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

*Estimating Retirement Benefits*

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Future salary increases are based on expected inflation rates.

Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

Further details about assumptions used are provided in Note 12.

In 2018, the Group recognized retirement benefit expense amounting to ₱459,808. The Group has recognized retirement benefit obligation amounting to ₱975,690 as of December 31, 2018 (see Note 12). No retirement benefit expense was recognized in 2017 and 2016.

---

**4. Trade and Other Receivables**

	2018	2017	2016
Trade receivables:			
Related parties (Notes 9 and 19)	<b>₱156,844,438</b>	₱146,752,260	₱101,220,311
Third parties	<b>82,595,527</b>	31,403,489	24,581,615
Others (Notes 9 and 19)	<b>1,828,959</b>	3,620,367	3,566,889
	<b>241,268,924</b>	181,776,116	129,368,815
Less allowance for impairment losses	<b>33,854,838</b>	13,832,892	13,836,447
	<b>₱207,414,086</b>	₱167,943,224	₱115,532,368

Trade and nontrade receivables from third parties are noninterest-bearing and are generally on 30 to 60 days term.

Trade receivables from related parties are unsecured, noninterest-bearing and are to be settled upon demand.

Others include advances to officers and personnel, and outstanding loan receivable from Holy Cow Animation, Inc. (Holy Cow) (see Note 9).



Movement in allowance for impairment losses on trade receivables are as follows:

	2018	2017	2016
Balance at beginning of year	₱13,832,892	₱13,836,447	₱13,150,762
Impact of adoption of PFRS 9 (Note 2)	19,297,217	–	–
Balance at beginning of year, as adjusted	33,130,109	13,836,447	13,150,762
Provisions for the year (Note 16)	724,729	1,940	685,685
Recovery of previously recognized doubtful accounts	–	(5,495)	–
Balance at end of year	₱33,854,838	₱13,832,892	₱13,836,447

## 5. Other Current Assets

	2018	2017	2016
Prepayments	₱19,207,442	₱36,284,267	₱3,417,471
CWT – net	16,124,593	5,687,696	3,810,966
Deferred input VAT	1,893,143	1,735,627	–
Input VAT – net	1,621,803	2,882,411	285,426
Others	962,740	774,920	145,350
	₱39,809,721	₱47,364,921	₱7,659,213

Prepayments includes deferred transaction costs amounting to ₱13,379,420, ₱10,763,277 and nil as of December 31, 2018, 2017 and 2016, respectively, in connection with the Group's planned offering of redeemable, convertible, non-participating and non-voting Peso-denominated preferred shares. As of April 12, 2019, the Group is in the process of securing the approval of the PSE of the said transaction (see Note 13). This also includes the prepayments made by the Parent Company in purchasing IBM Licenses related to installation of email system for the Supreme Court of the Philippines amounting to nil as of December 31, 2018, 2016 and ₱23,638,466 as of December 31, 2017.

Deferred input VAT is recognized for the unpaid services rendered to the Parent Company.

The Group has written-off CWT amounting to ₱706,270. No impairment loss on CWT is recognized in 2018, 2017 and 2016.

## 6. Investments and Advances

	2018	2017	2016
Financial assets at FVOCI	₱1,337,638,090	₱–	₱–
AFS investments	–	1,312,871,168	1,312,871,168
	₱1,337,638,090	₱1,312,871,168	₱1,312,871,168

### *Financial assets at FVOCI/AFS Investments*

#### *a. NOW Telecom*

On April 28, 2006, the Group entered into a MOA with NOW Telecom and five (5) controlling stockholders of NOW Telecom namely, Top Mega Enterprise, Ltd, Joycelink Holdings, Ltd (Joyce Link), GHI, Emerald Investment, Inc., Food Camp Industries and Marketing, Inc. (the five companies are collectively referred to hereafter as NOW Telecom stockholders) to swap

or exchange shares of stock.

Under the MOA, the Parent Company shall issue its shares in exchange for interest in NOW Telecom. The agreed upon swap of shares was subject to certain conditions, including necessary corporate and regulatory approvals. The MOA was approved by the Parent Company's stockholders on June 2, 2006.

However, certain amendments were subsequently made to the MOA in view of the fact that upon further consultation with the PSE, it was determined that the Parent Company could not revise its primary purpose at that time. Hence, the stockholders approved the amendment in the MOA that there will be no change in the Parent Company's primary purpose. Moreover, the Parent Company's stockholders also approved the proposal that the Parent Company shall only acquire 19% equity interest in NOW Telecom and not 97% as originally intended. As a result, the Parent Company acquired 2,656,580 NOW Telecom shares constituting 19% equity interest in NOW Telecom, in exchange for new shares of the Parent Company, with par value of ₱1 with an aggregate value of ₱1,289,278,350, or effectively, at a price of ₱485.32 per NOW Telecom share.

The Parent Company applied for an increase in its authorized capital stock to accommodate the foregoing transaction (see Note 13).

In September 2006, the SEC issued Certificate of Approval of Valuation of Shares of Stock of NOW Telecom and Certificate of Increase in Capital Stock of the Parent Company.

In 2008, the PSE approved the application for the listing of the additional 1,289,278,350 common shares to cover the share-for-share swap transactions with the NOW Telecom shareholders.

On February 22, 2018, the franchise granted to NOW Telecom has been extended for another 25 years or until year 2043 under Republic Act No. 10972 which was signed for approval into law by the President of the Republic of the Philippines. With the said law, NOW Telecom, as a telecommunications company, now has privileges similar to those granted to existing dominant players in the industry.

*b. Thumbmob Philippines, Inc. and Holy Cow Animation, Inc.*

The Group entered into agreements with Thumbmob and Holy Cow for the subscription of Thumbmob and Holy Cow shares. Holy Cow is a full service animation studio that produces 2D, 3D, Flash and HTML5 animation and special effect animation for the media and entertainment business. Thumbmob develops, publishes, and distributes games and applications for social networking and mobile environments. It serves brands, businesses, and institutions.

On September 27, 2018, the advances made for the subscription are sold to Joyce Link (see Note 9).

Set out below is the reconciliation between the carrying amounts of AFS investment reported under PAS 39 to the balances reported under PFRS 9 as at January 1, 2018:

AFS investment as at December 31, 2017	₱1,312,871,168
Impact of adoption of PFRS 9	
Reclassifications to financial asset at FVOCI (Note 2)	(1,312,871,168)
<u>AFS investment as at January 1, 2018</u>	<u>₱—</u>

As at December 31, 2018, the movements in the financial asset at FVOCI is as follow:

Reclassification to financial asset at FVOCI (Note 2)	₱1,312,871,168
Adjustment on FVOCI as at January 1, 2018	184,858,377
Financial assets at FVOCI as at January 1, 2018	1,497,729,545
Changes in fair value of equity instrument at FVOCI	(136,498,637)
Sale of equity instruments at FVOCI (Note 9)	(23,592,818)
Financial assets at FVOCI as at December 31, 2018	<u>₱1,337,638,090</u>

In 2018, the Group sold its equity interest in Thumbmob and Holy Cow as these investments no longer coincides with the Group's investment strategy. The fair value on the date of sale is ₱23,592,818 which is equal to the carrying value of the investments. No gain or loss was recognized in the sale. No accumulated gain or loss recognized in OCI was transferred to retained earnings.

The movements of the net accumulated unrealized gain related to financial asset at FVOCI in 2018 are presented in the 2018 consolidated statement of comprehensive income with details as follows:

Impact of adoption of PFRS 9 as at January 1, 2018 (Note 2)	₱184,858,377
Changes in fair value of equity instrument at FVOCI during the year	(136,498,637)
Net accumulated unrealized gain on financial asset at FVOCI as at December 31, 2018	<u>₱48,359,740</u>

#### *AFS financial assets*

Prior to adoption of PFRS 9, the Group's investment in NOW Telecom, Thumbmob and Holycow amounting to ₱1,312,871,168 was previously classified as AFS investment measured at cost. No impairment loss was recognized in 2017 and 2016.

#### *Investment in an Associate*

##### *a. Softweb Consulting, Inc.*

On December 20, 2010, the Group entered into a subscription agreement with Softweb for an investment amounting to ₱6,000,000, representing a 50% interest in Softweb.

Softweb specializes in Lotus consulting and training services as well as comprehensive Domino working solutions. As an IBM partner, Softweb offers the full range of IBM services and licensed products integrated in its own list of business solutions, software development and training.

As of December 31, 2018, 2017 and 2016, the Group's share in losses of Softweb have already exceeded the cost of investment. The Group only recognizes the loss to the extent of the cost of investment. Accordingly, the carrying amount of investment in Softweb as of December 31, 2018, 2017 and 2016 is nil. The Group does not have any legal or constructive obligation to make payments on behalf of Softweb.

The unrecognized share in net loss amounted to ₱7,077,304 as of December 31, 2018, 2017 and 2016.

The Group has advances to Softweb amounting to ₱5,000,000. This pertains to deposit for future stock subscription in Softweb pending the increase in its authorized capital stock. In 2016, the Group recognized provision for impairment loss on its advances to Softweb amounting to ₱5,000,000 (see Notes 9 and 16).

## 7. Property and Equipment

### 2018

	Leasehold Improvements	Transportation Equipment	Office and IT Equipment	Furniture and Fixtures	Total
<b>Cost:</b>					
Balances at beginning of year	₱4,937,446	₱15,989,027	₱22,531,141	₱1,393,888	₱44,851,502
Additions	–	3,835,981	6,391,875	55,975	10,283,831
Balances at end of year	4,937,446	19,825,008	28,923,016	1,449,863	55,135,333
<b>Accumulated depreciation and amortization:</b>					
Balances at beginning of year	4,880,447	15,337,824	14,656,989	1,264,779	36,140,039
Depreciation and amortization for the year (Note 16)	56,999	735,537	6,477,059	39,291	7,308,886
Balances at end of year	4,937,446	16,073,361	21,134,048	1,304,070	43,448,925
Net book value	₱–	₱3,751,647	₱7,788,968	₱145,793	₱11,686,408

### 2017

	Leasehold Improvements	Transportation Equipment	Office and IT Equipment	Furniture and Fixtures	Total
<b>Cost:</b>					
Balances at beginning of year	₱4,937,446	₱15,860,277	₱16,201,844	₱1,393,888	₱38,393,455
Additions	–	128,750	6,329,297	–	6,458,047
Balances at end of year	4,937,446	15,989,027	22,531,141	1,393,888	44,851,502
<b>Accumulated depreciation and amortization:</b>					
Balances at beginning of year	4,445,217	15,191,753	10,945,948	1,195,857	31,778,775
Depreciation and amortization for the year (Note 16)	435,230	146,071	3,711,041	68,922	4,361,264
Balances at end of year	4,880,447	15,337,824	14,656,989	1,264,779	36,140,039
Net book value	₱56,999	₱651,203	₱7,874,152	₱129,109	₱8,711,463

### 2016

	Leasehold Improvements	Transportation Equipment	Office and IT Equipment	Furniture and Fixtures	Total
<b>Cost:</b>					
Balances at beginning of year	₱4,937,446	₱15,169,919	₱11,440,365	₱1,393,888	₱32,941,618
Additions	–	690,358	4,761,479	–	5,451,837
Balances at end of year	4,937,446	15,860,277	16,201,844	1,393,888	38,393,455
<b>Accumulated depreciation and amortization:</b>					
Balances at beginning of year	3,944,495	14,795,001	9,863,876	1,087,739	29,691,111
Depreciation and amortization for the year (Note 16)	500,722	396,752	1,082,072	108,118	2,087,664
Balances at end of year	4,445,217	15,191,753	10,945,948	1,195,857	31,778,775
Net book value	₱492,229	₱668,524	₱5,255,896	₱198,031	₱6,614,680

Cost of fully depreciated assets still in use amounted to ₱23,332,218, ₱17,836,276 and ₱17,134,057 as of December 31, 2018, 2017 and 2016, respectively.

## 8. Accounts Payable and Accrued Expenses

	2018	2017	2016
Trade payables:			
Third parties	₱35,794,933	₱59,917,133	₱22,510,846
Related parties (Notes 9 and 19)	12,177,558	16,396,954	18,808,706
Accrued expenses:			
Interest (Notes 9 and 19)	59,903,586	59,903,586	59,903,586
Others	22,454,270	11,563,299	8,432,065
Deferred output VAT	25,320,246	14,954,494	9,265,728
Withholding tax payable	1,001,869	1,331,793	721,643
	<b>₱156,652,462</b>	<b>₱164,067,259</b>	<b>₱119,642,574</b>

Trade payables from third parties are noninterest-bearing and are generally on 30 to 60 days' term. Trade and nontrade payables from related parties are unsecured, noninterest-bearing and are to be settled upon demand.

## 9. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form. Unless otherwise indicated, settlement of outstanding balances of related party transactions at year-end are expected to be settled with cash.

The Group entered into transactions with related parties, principally consisting of the following:

- a. In 2018, the Group Company entered into a deed of sale with Joyce Link to sell the following advances and receivables to the latter in exchange for a one-year 8% convertible promissory note at the option of the holder amounting to ₱91,521,581 which corresponds to the total carrying amount of the advances and receivables. Accordingly, no gain or loss was recognized on the transaction.

Related Party	Category	Amount
Thumbmob	Advances	₱14,344,369
Holycow	Advances, Loans and Interest	11,616,220
Softweb	Trade receivables	34,372,311
	Loans and Interest	714,000
	Advances - net	483,228
IBI	Advances	15,567,752
	Interest	12,263,401
Porteon	Loans	2,160,300

Interest income earned from the promissory note amounted to ₱980,802 in 2018 and is recognized as part of the advances to Joyce Link.

- b. On August 30, 2005, the Parent Company entered into a Loan Agreement with IBI for research and development purposes in connection with IBI's plan to expand its IT platform and introduce IT-related products and services. The loan is subject to 9.0% interest per annum and is payable no later than August 30, 2010. Partial pre-payments on the principal may be made prior to this date. The interest is due and demandable only on maturity date. Interest was reduced by the parties to 5.5% per annum in 2007 and shall be subject to annual repricing subsequent to 2007.

On June 25, 2010, both parties agreed to extend the maturity of the loan from August 30, 2010 to August 30, 2012. On August 31, 2012, both parties agreed to further extend the maturity of the loan up to August 30, 2015, with the interest rate further reduced to 3% per annum starting January 1, 2013. On August 31, 2015, both parties agreed to extend the maturity of the loan to five (5) years ending August 30, 2020. Interest was retained at 3% per annum. On September 27, 2018, the loan and the corresponding interest was transferred to Joyce Link which effectively terminated the loan agreement between the parties.

Interest income amounted to ₱333,409, ₱467,033 and ₱467,033 in 2018, 2017 and 2016, respectively, and is reflected as part of "Others Income". As of December 31, 2018, 2017 and 2016, amounts owed by IBI, including interest, amounted to nil, ₱27,497,744 and ₱27,030,711, respectively. IBI is an entity under common control.

- c. As of December 31, 2018, 2017 and 2016 the Group has outstanding liabilities to Emerald Investment, Inc. (EII) amounting to ₱2,902,918 which arose from the Group's sub-lease agreement with EII that ended in 2011.
- d. On January 1, 2013, the Parent Company renewed its service agreement with KPSC for a period of four (4) years beginning January 1, 2013 to December 31, 2016. On January 3, 2017, the Parent Company renewed its service agreement with KPSC for a period of five (5) years beginning January 3, 2017 up to January 2, 2022.

Under the service agreement, KPSC shall provide consultancy and manpower services depending on the services specifically required by the Group. Amounts owed to KPSC, in relation to the service agreement, amounted to ₱8,819,096, ₱13,038,492 and ₱15,450,244 as of December 31, 2018, 2017 and 2016, respectively.

Previously, the Group's administrative and management functions, including key management personnel, are being handled by personnel of KPSC. Outside services incurred by the Group for the provision of key management personnel services that are provided by the KPSC amounted to nil, ₱2,863,646, and ₱6,176,177 in 2018, 2017 and 2016, respectively. In February 2017, the administrative and management functions, including key management personnel, were transferred from KPSC to the Parent Company.

Compensation of identified key management personnel both from the Group and under KPSC, classified as short-term and post-employment benefits, amounted to ₱10,916,783, ₱9,124,721, ₱6,176,177 in 2018, 2017 and 2016, respectively.

- e. Due to related parties include interest bearing advances from Velarde, Inc. for working capital and investment requirements.

On January 22, 2015, Velarde, Inc. agreed to convert its advances amounting to ₱200,000,000 into equity interest in the Parent Company for 200,000,000 common shares with a par value of ₱1. It was further agreed that the remaining balances and subsequent advances from Velarde,

Inc. shall no longer be subject to interest and shall be due on demand (see Note 13).

On April 29, 2016, the Parent Company's BOD approved the conversion into equity of the advances from Velarde, Inc. amounting to ₱264,000,000 at a conversion price of ₱1.22 per share computed on the volume-weighted average price of the Parent Company's shares for a 30-day trading period ended April 14, 2016. On June 2, 2016, the stockholders of the Parent Company approved the said increase in the Parent Company's authorized capital stock.

On June 20, 2016, additional advances were incurred from Velarde Inc., through the latter's payment of the loans payable to bank on behalf of the Parent Company amounting to ₱44,500,000 (see Notes 11 and 19). On October 11, 2018, the Parent Company's BOD approved the conversion into equity of the advances from Velarde, Inc. amounting to ₱209,000,000 at a conversion price of ₱6.50 per share computed on the volume-weighted average price of the Parent Company's shares for a 30-day trading period ended October 11, 2018. The conversion is approved by the shareholders on March 8, 2019 and is yet to be filed in SEC as of April 12, 2019. Outstanding accrued interest presented as part of the "Accounts payable and accrued expenses" amounted to ₱59,903,586 as of December 31, 2018, 2017 and 2016 (see Notes 8 and 19).

Due to Velarde, Inc. presented as part of "Due to related parties" amounted to ₱254,613,559, ₱141,326,966 and ₱68,322,816 as of December 31, 2018, 2017 and 2016, respectively.

- f. On January 1, 2011, the Group entered into a sublease contract with I-College Philippines, Inc. (I-College) for the period November 1, 2011 to May 31, 2012 with a monthly rental fee of ₱77,526. The term of the lease can be renewed upon mutual consent of both parties. The most recent renewal of this sublease agreement is for a period of three (3) years from November 1, 2017 to October 31, 2020. All other terms and conditions of the sublease agreement dated January 1, 2011 remain in full force.

Rent expense incurred by the Group amounted to ₱930,313 in 2018, 2017 and 2016. In connection with this, the related due to I-College amounted to ₱6,667,238, ₱5,736,925 and ₱4,806,612 as of December 31, 2018, 2017 and 2016, respectively.

- g. The Group sells IBM licenses to Softweb, an associate. Sales of IBM license to Softweb amounted to nil in 2018 and 2017 and ₱5,412,232 in 2016.

Trade receivables from Softweb totalling to ₱34,372,311 was transferred to Joyce Link in 2018. The Group has outstanding receivables from Softweb amounting to nil as of December 31, 2018 and ₱34,372,311 as of December 31, 2017 and 2016. The Group also transferred to Joyce Link its loans and net advances to Softweb amounting to ₱714,000 and ₱483,228, respectively.

- h. *Infrastructure build-up*

In January 2015, the Parent Company entered into two (2) separate one-year service agreements with GHT Network, Inc. (GHT) and News and Entertainment Network, Inc. (Newsnet) to provide bandwidth services to its customers. The Parent Company provided the infrastructure build-up and technology design and consultancy.

In 2016, the Parent Company amended its contracts with GHT and Newsnet, and includes NOW Telecom whereas the Parent Company will provide project management services, design and planning services and installation services covering up to 10 major network hubs for a contract price of ₱45,000,000 each. Right to receive payments arise upon acceptance of GHT, Newsnet and NOW Telecom of completed hubs. Payments are due upon receipt of invoice.

In 2018, the contracts were amended to include an additional one (1) and two (2) network hubs for Newsnet and GHT, respectively, with the same terms and conditions as the contracts entered in 2016.

A total of four (4), nine (9) and 10 network hubs were completed in 2018, 2017 and 2016, respectively. Service revenue recognized related to infrastructure build-up amounted to ₱10,000,000 each for GHT and Newsnet in 2018, ₱20,000,000 for GHT and ₱25,000,000 for Newsnet in 2017 and ₱15,000,000 each for GHT and Newsnet in 2016.

i. *Technical services*

Included in the contract entered in 2016, the Parent Company will provide technology consultancy services for a period of ten (10) years with a monthly fee of ₱50,000 each for GHT and Newsnet. The parties mutually agreed to defer this arrangement in 2018 since no technical services related to the project was provided to GHT and Newsnet during the year. Service revenue recognized amounted to ₱600,000 and ₱450,000 each for GHT and Newsnet in 2017 and 2016, respectively. No such revenue was recognized in 2018.

In 2016, the Parent Company provided technical service related to NOW Telecom for a service revenue amounting to ₱7,500,000.

j. *Value-added services (VAS)*

In 2015, the Parent Company entered into three (3) separate agreements with NOW Telecom, GHT and Newsnet (the Parties), wherein the Parties mutually agreed to collaborate and interconnect their respective networks in order for the Parent Company to provide VAS to the public such as cloud hosting services, virtual private network, multimedia content and program services, online game services, cloud-based multimedia conferencing services, web hosting and cloud-based mail and messaging services (VAS contracts).

On December 5, 2016, the Parties agreed to amend Chapter 5 of their VAS contracts to add provision on revenue sharing from the broadband revenue.

On December 23, 2016, the Parties further agreed to amend their VAS contracts to include additional fees from actual usage of bandwidth and other provision on charging to the Parent Company on a cost-plus margin arrangement.

In January 2018, the Parties further agreed to amend their VAS contracts to include additional fees for the use of the network equipment of NOW telecom, GHT and Newsnet.

Total cost of data services charged to cost of services amounted to ₱15,664,294, ₱3,121,774 and ₱1,696,912 in 2018, 2017 and 2016, respectively.

k. *Management fees*

The Parent Company entered into a contract with Asian Institute of Journalism and Communication (AIJC) to provide management services commencing from January 1, 2018 to December 31, 2020 with an agreed monthly fee of ₱20,000. Service revenue related to management consultancy services to AIJC amounted to ₱240,000 in 2018.

The Parent Company also entered into a contract with GHT for the management of the latter's renewal of franchise in 2018 in exchange for an amount totalling to ₱12,000,000 in 2018. The contract was finalized in September 2018 after the approval of renewal of franchise of GHT.



In March 2018, Parent Company also entered into a contract with NOW Tel for the services rendered in relation to the latter's renewal of franchise in 2018 amounting to ₱10,000,000. The contract was finalized in March 2018 after the approval of renewal of franchise of NOW Tel.

Another management service contract was entered into by the parties in January 2018 for NOW Tel's bidding on the selection of new major player (NMP) in the public telecommunications market as spearheaded by NTC. Revenue recognized in 2018 from the contract amounted to ₱15,000,000 after the completion of the selection of NMP in October 2018.

Parent Company also entered into a contract with NOW Telecom to provide management consultancy services commencing from January 2017 to January 2020 with an agreed monthly fee of ₱650,000. Service revenue related to management consultancy services to NOW Telecom amounted to ₱7,800,000 each in 2018 and 2017.

The Group charges Velarde, Inc. management fees for the administration and operations of the companies. Payments are due within five (5) days upon receipt of invoice. Management fees charged to Velarde, Inc. amounted to ₱240,000 in 2018, 2017 and 2016. Outstanding trade receivables from Velarde, Inc. amounting to ₱1,920,000, ₱1,680,000 and ₱1,440,000 as of December 31, 2018, 2017 and 2016, respectively.

1. The Group has various advances to and from its related parties which pertain to working capital and administrative requirements.

The Group entered into a non-interest bearing loan agreement with Porteon Electric Vehicles, Inc. (Porteon). The loan was sold to Joyce Link during the year which effectively terminated the loan agreement between the two (2) parties. Outstanding amount due from Porteon Electric Vehicles, Inc. amounted to nil as of December 31, 2018 and ₱2,160,300 as of December 31, 2017 and 2016 which is due on demand.

The Group made various advances to NOW Telecom, Paradiso Verde, GHT, Newsnet, AIJC, KPSC and EII for working capital requirements. The Group also has outstanding liabilities to NOW Telecom and Paradiso Verde.

<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Transaction amount</b>	<b>Due from related parties</b>	<b>Trade and other receivables (Notes 4 and 19)</b>	<b>Due to related parties</b>	<b>Trade and other payables (Note 8 and 19)</b>	<b>Advances to affiliates (Note 6)</b>	<b>Terms</b>	<b>Conditions</b>
<i>Shareholders</i>										
Velarde, Inc.	Advances	2018	₱113,286,593	₱-	₱-	₱254,613,559	₱-	₱-	On demand	Unsecured
		2017	₱73,004,050	₱-	₱-	₱141,326,966	₱-	₱-	On demand	Unsecured
		2016	₱73,626,954	₱-	₱-	₱68,322,816	₱-	₱-	On demand	Unsecured
	Management fee	2018	240,000	-	1,920,000	-	-	-	On demand	Unsecured, no impairment
		2017	240,000	-	1,680,000	-	-	-	On demand	Unsecured, no impairment
		2016	240,000	-	1,440,000	-	-	-	On demand	Unsecured, no impairment
	Interest	2018	-	-	-	-	59,903,586	-	On demand	Unsecured
		2017	-	-	-	-	59,903,586	-	On demand	Unsecured
		2016	-	-	-	-	59,903,586	-	On demand	Unsecured
GHI	Advances	2018	-	2,000	-	-	-	On demand	Unsecured	
		2017	2,000	2,000	-	-	-	On demand	Unsecured	
		2016	-	-	-	-	-	On demand	Unsecured	
EII	Advances	2018	-	40,848	-	-	-	On demand	Unsecured, no impairment	
		2017	-	40,848	-	-	-	On demand	Unsecured, no impairment	
		2016	-	40,848	-	-	-	On demand	Unsecured, no impairment	
	Leases	2018	-	-	-	2,902,918	-	-	On demand	Unsecured
		2017	-	-	-	2,902,918	-	-	On demand	Unsecured
		2016	-	-	-	2,902,918	-	-	On demand	Unsecured

(Forward)

<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Transaction amount</b>	<b>Due from related parties</b>	<b>Trade and other receivables (Notes 4 and 19)</b>	<b>Due to related parties</b>	<b>Trade and other payables (Note 8 and 19)</b>	<b>Advances to affiliates (Note 6)</b>	<b>Terms</b>	<b>Conditions</b>
Joyce Link	<b>Advances</b>	<b>2018</b>	<b>₱91,521,581</b>	<b>₱91,521,581</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>Due within 1 year</b>	<b>Secured</b>
		<b>2017</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>-</b>	<b>-</b>
		<b>2016</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>-</b>	<b>-</b>
	<b>Interest</b>	<b>2018</b>	<b>980,802</b>	<b>980,802</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>Due within 1 year</b>	<b>Secured</b>
		<b>2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
		<b>2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Affiliates</i>										
NOW Telecom	<b>Advances</b>	<b>2018</b>	<b>91,008,956</b>	<b>154,754,395</b>	<b>-</b>	<b>878,208</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>12,398,938</b>	<b>63,745,439</b>	<b>-</b>	<b>878,208</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	<b>2,704,687</b>	<b>51,346,501</b>	<b>-</b>	<b>878,208</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
	<b>Services</b>	<b>2018</b>	<b>32,800,000</b>	<b>-</b>	<b>40,486,900</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>7,800,000</b>	<b>-</b>	<b>13,102,508</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	<b>7,500,000</b>	<b>-</b>	<b>8,400,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
KPSC	<b>Advances</b>	<b>2018</b>	<b>-</b>	<b>209,708</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2017</b>	<b>5,000</b>	<b>209,708</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2016</b>	<b>-</b>	<b>204,708</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
	<b>Outside services</b>	<b>2018</b>	<b>26,650,140</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,819,096</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2017</b>	<b>41,998,319</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,038,492</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2016</b>	<b>50,716,312</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,450,244</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>

(Forward)

<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Transaction amount</b>	<b>Due from related parties</b>	<b>Trade and other receivables (Notes 4 and 19)</b>	<b>Due to related parties</b>	<b>Trade and other payables (Note 8 and 19)</b>	<b>Advances to affiliates (Note 6)</b>	<b>Terms</b>	<b>Conditions</b>
IBI	<b>Advances</b>	<b>2018</b>	₱-	₱-	₱-	₱-	₱-	₱-	<b>Due within 5 years</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	₱-	₱15,567,752	₱-	₱-	₱-	-	Due within 5 years	Unsecured, no impairment
		<b>2016</b>	₱-	₱15,567,752	₱-	₱-	₱-	-	Due within 5 years	Unsecured, no impairment
	<b>Interest</b>	<b>2018</b>	333,409	-	-	-	-	-	<b>Due within 5 years</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	467,033	11,929,992	-	-	-	-	Due within 5 years	Unsecured, no impairment
		<b>2016</b>	467,033	11,462,959	-	-	-	-	Due within 5 years	Unsecured, no impairment
Asian Institute of Journalism and Communication	<b>Advances</b>	<b>2018</b>	81,087	570,196	-	-	-	-	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	18,048	489,109	-	-	-	-	On demand	Unsecured, no impairment
		<b>2016</b>	1,039	471,061	-	-	-	-	On demand	Unsecured, no impairment
	<b>Management fee</b>	<b>2018</b>	240,000	-	240,000	-	-	-	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	-	-	-	-	-	-	-	-
		<b>2016</b>	-	-	-	-	-	-	-	-
Paradiso Verde, Inc.	<b>Advances</b>	<b>2018</b>	-	-	-	-	3,358,462	-	<b>On demand</b>	<b>Unsecured</b>
		<b>2017</b>	-	-	-	-	3,358,462	-	On demand	Unsecured
		<b>2016</b>	-	-	-	-	3,358,462	-	-	Unsecured
	<b>Services</b>	<b>2018</b>	-	-	-	₱605,212	-	-	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	-	-	-	605,212	-	-	On demand	Unsecured, no impairment
		<b>2016</b>	-	-	-	605,212	-	-	On demand	Unsecured, no impairment

(Forward)

<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Transaction amount</b>	<b>Due from related parties</b>	<b>Trade and other receivables (Notes 4 and 19)</b>	<b>Due to related parties</b>	<b>Trade and other payables (Note 8 and 19)</b>	<b>Advances to affiliates (Note 6)</b>	<b>Terms</b>	<b>Conditions</b>
	<b>Revenue</b>	<b>2018</b>	<b>₱11,700,000</b>	<b>₱-</b>	<b>₱11,700,000</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2017</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>		
		<b>2016</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>		
Porteon	<b>Loans</b>	<b>2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>-</b>	<b>2,160,300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	<b>-</b>	<b>2,160,300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
Newsnet	<b>Advances</b>	<b>2018</b>	<b>13,638,233</b>	<b>32,999,144</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On-demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>8,623,951</b>	<b>19,360,911</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On-demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	<b>4,669,416</b>	<b>10,736,960</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Services</b>	<b>2018</b>	<b>10,000,000</b>	<b>-</b>	<b>48,681,799</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On-demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>25,600,000</b>	<b>-</b>	<b>53,441,589</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On-demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	<b>15,450,000</b>	<b>-</b>	<b>28,504,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
GHT	<b>Advances</b>	<b>2018</b>	<b>2,338,894</b>	<b>6,475,917</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On-demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>2,411,588</b>	<b>8,588,889</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On-demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	<b>1,177,121</b>	<b>6,177,301</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Services</b>	<b>2018</b>	<b>22,000,000</b>	<b>-</b>	<b>65,332,304</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On-demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>20,600,000</b>	<b>-</b>	<b>44,032,048</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	<b>15,450,000</b>	<b>-</b>	<b>28,504,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(Forward)

<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Transaction amount</b>	<b>Due from related parties</b>	<b>Trade and other receivables (Notes 4 and 19)</b>	<b>Due to related parties</b>	<b>Trade and other payables (Note 8 and 19)</b>	<b>Advances to affiliates (Note 6)</b>	<b>Terms</b>	<b>Conditions</b>
Holycow	<b>Loans</b>	<b>2018</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>₱-</b>	<b>₱-</b>	<b>₱2,211,771</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	On demand	Unsecured, no impairment
		<b>2016</b>	<b>₱-</b>	<b>₱-</b>	<b>₱2,211,771</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	On demand	Unsecured, no impairment
	<b>Interest</b>	<b>2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>-</b>	<b>156,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	On demand	Unsecured, no impairment
		<b>2016</b>	<b>-</b>	<b>156,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	On demand	Unsecured, no impairment
	<b>Advances</b>	<b>2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,248,449</b>	On demand	Unsecured, no impairment
		<b>2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,248,449</b>	On demand	Unsecured, no impairment
Thumbmob	<b>Advances</b>	<b>2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,344,369</b>	On demand	Unsecured, no impairment
		<b>2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,344,369</b>	On demand	Unsecured, no impairment
I-College	<b>Advances</b>	<b>2018</b>	<b>11,241</b>	<b>11,961</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>-</b>	<b>720</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	On demand	Unsecured, no impairment
		<b>2016</b>	<b>-</b>	<b>720</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	-	-
	<b>Lease</b>	<b>2018</b>	<b>930,313</b>	<b>-</b>	<b>-</b>	<b>6,667,238</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2017</b>	<b>930,313</b>	<b>-</b>	<b>-</b>	<b>5,736,925</b>	<b>-</b>	<b>-</b>	On demand	Unsecured
		<b>2016</b>	<b>930,313</b>	<b>-</b>	<b>-</b>	<b>4,806,612</b>	<b>-</b>	<b>-</b>	On demand	Unsecured

(Forward)

<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Transaction amount</b>	<b>Due from related parties</b>	<b>Trade and other receivables (Notes 4 and 19)</b>	<b>Due to related parties</b>	<b>Trade and other payables (Note 8 and 19)</b>	<b>Advances to affiliates (Note 6)</b>	<b>Terms</b>	<b>Conditions</b>
	<b>Loans</b>	<b>2018</b>	<b>₱59,631</b>	<b>₱-</b>	<b>₱183,435</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>₱44,837</b>	<b>₱-</b>	<b>123,804</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
<i>Associate</i>										
Softweb	<b>Advances</b>	<b>2018</b>	-	-	-	-	-	-	<b>On demand</b>	<b>Unsecured</b>
		<b>2017</b>	-	487,344	2,380,860	4,116	-	-	<b>On demand</b>	<b>Unsecured</b>
		<b>2016</b>	-	487,344	2,380,860	4,816	-	-	<b>On demand</b>	<b>Unsecured</b>
	<b>Loans</b>	<b>2018</b>	-	-	-	-	-	-	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	-	714,000	-	-	-	-	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	-	714,000	-	-	-	-	<b>On demand</b>	<b>Unsecured, no impairment</b>
	<b>Sales</b>	<b>2018</b>	-	-	-	-	-	-	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	-	-	16,401,451	-	-	-	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	5,412,232	-	16,401,451	-	-	-	<b>On demand</b>	<b>Unsecured, no impairment</b>
	<b>Management fee</b>	<b>2018</b>	-	-	-	-	-	-	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	-	-	15,590,000	-	-	-	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	-	-	15,590,000	-	-	-	<b>On demand</b>	<b>Unsecured, no impairment</b>
			<b>2018</b>	<b>₱287,566,552</b>	<b>₱156,844,438</b>	<b>₱265,667,135</b>	<b>₱72,081,144</b>	<b>₱-</b>		
			<b>2017</b>	<b>₱123,453,012</b>	<b>₱148,964,031</b>	<b>₱151,454,345</b>	<b>₱76,300,540</b>	<b>₱23,592,818</b>		
			<b>2016</b>	<b>₱99,526,454</b>	<b>₱103,432,082</b>	<b>₱77,520,582</b>	<b>₱78,712,292</b>	<b>₱23,592,818</b>		

Summary of related party transactions affecting consolidated statements of income:

<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Revenues</b>	<b>Cost of sales and services</b>	<b>General and administrative expenses</b>
Velarde Inc.	<b>Management fee</b>	<b>2018</b>	<b>₱240,000</b>	<b>₱-</b>	<b>₱-</b>
		<b>2017</b>	<b>₱240,000</b>	<b>₱-</b>	<b>₱-</b>
		<b>2016</b>	<b>₱240,000</b>	<b>₱-</b>	<b>₱-</b>
NOW Telecom	<b>Management fee</b>	<b>2018</b>	<b>32,800,000</b>	-	-
		<b>2017</b>	<b>7,800,000</b>	-	-
		<b>2016</b>	-	-	-
	<b>Services</b>	<b>2018</b>	-	-	-
		<b>2017</b>	-	-	-
		<b>2016</b>	<b>7,500,000</b>	-	-
	<b>Cost of data services</b>	<b>2018</b>	-	<b>3,922,957</b>	-
		<b>2017</b>	-	<b>1,757,720</b>	-
		<b>2016</b>	-	<b>779,715</b>	-
	<b>Lease</b>	<b>2018</b>	-	-	<b>120,000</b>
		<b>2017</b>	-	-	<b>120,000</b>
	Newsnet	<b>Services</b>	<b>2018</b>	<b>10,000,000</b>	-
<b>2017</b>			<b>25,600,000</b>	-	-
<b>2016</b>			<b>15,450,000</b>	-	-
<b>Cost of data services</b>		<b>2018</b>	-	<b>10,041,776</b>	-
		<b>2017</b>	-	<b>1,364,054</b>	-
		<b>2016</b>	-	<b>1,696,912</b>	-
GHT	<b>Services</b>	<b>2018</b>	<b>10,000,000</b>	-	-
		<b>2017</b>	<b>20,600,000</b>	-	-
		<b>2016</b>	<b>15,450,000</b>	-	-
	<b>Management fee</b>	<b>2018</b>	<b>12,000,000</b>	-	-
		<b>2017</b>	-	-	-
		<b>2016</b>	-	-	-
	<b>Cost of data services</b>	<b>2018</b>	-	<b>1,699,561</b>	-
		<b>2017</b>	-	-	-
		<b>2016</b>	-	-	-
IBI	<b>Interest</b>	<b>2018</b>	<b>333,409</b>	-	-
		<b>2017</b>	<b>467,033</b>	-	-
		<b>2016</b>	<b>467,033</b>	-	-
KPSC	<b>Outside services</b>	<b>2018</b>	-	<b>24,343,211</b>	<b>2,306,929</b>
		<b>2017</b>	-	<b>39,355,462</b>	<b>2,642,857</b>
		<b>2016</b>	-	<b>43,226,619</b>	<b>7,489,693</b>
Softweb	<b>Sales</b>	<b>2018</b>	-	-	-
		<b>2017</b>	-	-	-
		<b>2016</b>	<b>5,412,232</b>	-	-
Asian Institute of Journalism and Communication	<b>Management fee</b>	<b>2018</b>	<b>240,000</b>	-	-
		<b>2017</b>	-	-	-
		<b>2016</b>	-	-	-
Joyce Link	<b>Interest</b>	<b>2018</b>	<b>980,802</b>	-	-
		<b>2017</b>	-	-	-
		<b>2016</b>	-	-	-
(Forward)					



<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Revenues</b>	<b>Cost of sales and services</b>	<b>General and administrative expenses</b>
Paradiso Verde	Revenue	2018	₱11,700,000	₱-	₱-
		2017	₱-	₱-	₱-
		2016	₱-	₱-	₱-
I-College	Lease	2018	-	-	930,313
		2017	-	-	930,313
		2016	-	-	930,313
		<b>2018</b>	<b>₱78,294,211</b>	<b>₱40,007,505</b>	<b>₱3,357,242</b>
		<b>2017</b>	<b>₱54,707,033</b>	<b>₱42,477,236</b>	<b>₱3,693,170</b>
		<b>2016</b>	<b>₱44,519,265</b>	<b>₱45,703,246</b>	<b>₱8,420,006</b>

## 10. Lease Commitments

The Group has entered into operating lease agreements in respect of its office premises. There are no restrictions placed upon the Group by entering into these leases. Operating lease payments recognized in the statement of comprehensive income are as follows:

- a. On January 1, 2011, the Group entered into a sublease contract with I-College Philippines, Inc. (I-College) for the period from November 1, 2011 to May 31, 2012 with a monthly rental fee of ₱77,526. The term of the lease can be renewed upon mutual consent of both parties. The Group renewed its sublease agreement for the periods of three (3) years from November 1, 2017 to October 31, 2020. All other terms and conditions of the sublease agreement dated January 1, 2011 remain in full force.
- b. On April 16, 2013, the Group entered into a contract of lease with Robert C. Lantin with a monthly rental fee of ₱40,000 and security deposit amounting to ₱120,000 equivalent to three (3) months rental fee. The term of the lease can be renewed upon mutual consent of both parties. In April 2016, the Group entered into a new lease contract commencing on April 1, 2016 to March 31, 2017 renewable upon mutual agreement of the parties. Based on the lease agreement, monthly rental payment was set at ₱47,368. In March 2017, the parties did not renew the contract.
- c. On April 1, 2017, the Group entered into a contract of lease with monthly rental fee of ₱23,067 for its principal office for one (1) year and may be renewed upon mutual agreement of both parties. On April 1, 2018, the lease agreement was renewed for another one (1) year. On April 1, 2019, the lease agreement was renewed for another one (1) year.
- d. On January 1, 2017, the Group entered into a contract of lease with NOW Telecom with monthly rental fee of ₱10,000 for an office for five (5) years ending December 31, 2020.
- e. The Group entered into contract of lease with various building owners for the common areas and facilities of the latter for the Group's fiber optic cable facilities and its value-added services for the period ranging from November 11, 2016 to December 31, 2022. The monthly rental payment ranges from ₱5,000 to ₱15,000 with annual escalation rate of 5% after the first and second year. Accrued rent amounting to ₱18,300 as of December 31, 2018 represents straight-line adjustment on rent.

Future minimum lease payment related to the lease as of December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Within one (1) year	<b>₱1,762,266</b>	₱1,179,514	₱917,365
After one (1) year but not more than five (5) years	<b>3,798,207</b>	1,900,572	—
	<b>₱5,560,473</b>	₱3,080,086	₱917,365

Total rent expense recognized in 2018, 2017 and 2016 amounted to ₱1,389,075, ₱1,739,036 and ₱1,728,730, respectively (see Note 16).

## 11. Loans Payable

	2018	2017	2016
Land Bank	<b>₱50,000,000</b>	₱—	₱—
PSBC	<b>47,591,893</b>	—	—
BDO	<b>351,614</b>	448,951	536,533
	<b>97,943,507</b>	448,951	536,533
Less current portion	<b>52,064,583</b>	97,337	87,426
<b>Loans payable</b>	<b>₱45,878,924</b>	₱351,614	₱449,107

### Land Bank loan

On January 30, 2018, the Parent Company secured a short-term loan agreement with Land Bank of the Philippines amounting to ₱50,000,000 with an interest rate of 4.80% per annum. The loan, including the interests incurred, will mature on July 27, 2018. On the maturity date, the loan was renewed for six (6) months with the same terms and conditions with maturity date of January 23, 2019. On the maturity date, the loan was renewed for another six (6) months with the same terms and conditions with latest maturity date of July 23, 2019.

Interest expense recognized on this loan amounted to ₱2,299,212 in 2018.

### Producers Savings Bank Corporation (PSBC) loan

On October 31, 2018, the Parent Company signed a five-year ₱50,000,000 loan agreement with PSBC maturing on October 31, 2023. The loan is secured by a real estate and carries an interest rate of 12.23% per annum.

Interest expense recognized including amortization of transaction cost on this loan amounted to ₱981,801 in 2018.

### BDO loan

On December 22, 2016, the Parent Company availed a chattel mortgage loan amounting to ₱564,800 from BDO Unibank, Inc. for the purchase of a vehicle, which serves as the property mortgaged. The new loan requires 60 monthly payments until November 23, 2021, has a term of five (5) years and bears an interest rate of 9.44% per annum.

Interest expense recognized on this loan amounted to ₱43,711, ₱52,015 and ₱1,607 in 2018, 2017 and 2016, respectively.

Metropolitan Bank and Trust Company and Bank of Makati loan

In September 2012, the Parent Company availed of short term loan bearing 2.40% interest per annum from Metropolitan Bank and Trust Company (MBTC) amounting to ₱44,500,000. In December 2013, the said loan was extended for another two (2) years with a maturity date of January 2016. Interest is payable every 30 days.

On March 1, 2016, the Parent Company availed of a ₱44,500,000 loan from the Bank of Makati to settle the loan from MBTC. The new loan, which will mature on March 1, 2018, has a term of 2.03 years and bears a fixed interest rate of 1.75% per annum.

On June 20, 2016, the loan from Bank of Makati was paid by Velarde, Inc. on behalf of the Parent Company (see Note 9).

Interest expense on the said loan amounted to ₱571,355 in 2016.

---

**12. Retirement Benefits Obligation**

The Company has an unfunded non-contributory defined benefit plan covering substantially all of its qualified employees. The defined benefit obligation is determined using the projected unit credit method.

The amounts recognized in the statement of financial position and the components of retirement benefit expense recognized in the statement of comprehensive income are based on the latest actuarial valuation as of December 31, 2018.

The Group recognized retirement benefit in the statements of financial position amounting to ₱975,690 as of December 31, 2018.

Retirement benefit expense recognized in profit or loss consists of current service cost amounting to ₱459,808 in 2018 (see Note 16).

The component of the present value of the defined benefit obligation includes current service cost recognized in profit or loss amounting to ₱459,808 and actuarial loss arising from change in financial assumptions recognized in OCI amounting to ₱515,882 in 2018. As of December 31, 2018, the balance of defined benefit obligation amounts to ₱975,690.

The principal actuarial assumptions used in determining the projected benefit obligation for the Group in 2018 are as follows:

	<b>2018</b>
Discount rate	<b>7.38-7.46%</b>
Salary increase rate	<b>5.00%</b>

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2018, assuming if all other assumptions were held constant:

	Increase/Decrease in Percentage Point	Increase (Decrease) in Defined Benefit Obligation
Discount rate	+1%	(₱123,317)
	-1%	147,512
Salary increase rate assumption	+1%	₱148,898
	-1%	(127,711)

The maturity analysis of the undiscounted benefit payments as of December 31, 2018 are as follows:

Less than 1 year	<b>₱-</b>
More than 1 to 10 years	<b>3,518,213</b>
More than 10 to 15 years	<b>11,087,065</b>
More than 15 years	<b>36,212,345</b>
<b>Total</b>	<b>₱50,817,623</b>

The average duration of the defined benefit payment as of December 31, 2018 is 18 years.

---

### 13. Capital Stock

In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Parent Company's track record of registration of securities.

	Number of shares registered	Issue/offer price	Date of approval
Common shares	28,000,000	₱1.00	July 30, 2003
Common shares	1,289,278,350	₱1.00	December 10, 2008

On April 28, 2006, the BOD and stockholders approved the increase in the authorized capital stock from 40,000,000 shares to 1,320,000,000 shares at ₱1 par value per share. This was subsequently approved by the SEC on September 19, 2006.

On May 12, 2010, the BOD and stockholders of the Parent Company approved proposal to increase its authorized capital stock from 1,320,000,000 shares to 5,320,000,000 shares at ₱1 par value per shares. On November 7, 2014, the BOD and stockholders of the Parent Company approved the amendment in the proposal to increase the authorized capital stock up to 2,700,000,000 shares. On January 22, 2015, the Parent Company's BOD approved a new proposal to supersede previous increase in authorized capital stock plans. It was decided for the Parent Company to apply for an increase of 800,000,000 shares at ₱1 par value per share (i.e., 1,320,000,000 shares to 2,120,000,000 shares). The SEC approved the Parent Company's application to increase its authorized capital stock on December 17, 2015.

As discussed in Note 9, Velarde, Inc. subscribed to 200,000,000 shares of the Parent Company and this subscription was settled through the conversion of its advances to the Group amounting to ₱200,000,000.

On April 29, 2016, the Parent Company's BOD approved the increase in the authorized capital stock of the Parent Company from 2,120,000,000 shares at ₱1 par value per share to 3,000,000,000 shares at ₱1 par value per share. The BOD also approved the conversion into equity of the advances from Velarde, Inc. amounting to ₱264,000,000 at a conversion price of ₱1.22 per share computed based on the volume-weighted average price of the Parent Company's shares for a 30-day trading period ended April 14, 2016. On June 2, 2016, the stockholders of the Parent Company approved the said increase

in the Parent Company’s authorized capital stock. On July 22, 2016, the Parent Company filed with the SEC its application for the approval of the proposed increase in its authorized capital stock. On March 15, 2018, the stockholders of the Parent Company approved the change in the conversion price of the advances from ₱1.22 per share to a range of ₱1.50 to ₱1.70 per share. As of December 31, 2018, the Group presented the deposit for future stock subscription amounting to ₱264,000,000 as part of liability since the conversion rate has not been finalized as of December 31, 2018. On March 8, 2019, the stockholders of the Parent Company approved the setting aside of the proposed increase in the authorized capital stock.

On September 2, 2016, the Parent Company’s BOD approved the amendment in the Articles of Incorporation of the Parent Company to reclassify 60,000,000 unissued common shares to redeemable, convertible, non-participating and non-voting Peso-denominated preferred shares, with or without detachable warrants, with a par value of ₱1 per share. On November 8, 2016, the stockholders of the Parent Company representing two-thirds of its outstanding capital stock approved the amendment.

On January 6, 2017, the Parent Company filed an application with the SEC for the approval of the said amendment. This was approved by the SEC on January 10, 2017.

On May 21, 2018, the BOD approved and ratified the designation of the 5,000,000 redeemable convertible cumulative non-participating non-voting peso-denominated preferred shares as the Preferred “A” shares. On the same date, the BOD approved the offering of the 5,000,000 Preferred “A” shares with an oversubscription option of 5,000,000 Preferred “A” shares, with 25,000,000 underlying common shares and an additional 25,000,000 common shares upon the exercise of the oversubscription option, which common shares shall be issued upon conversion of the Preferred “A” shares, with detachable warrants.

On June 1, 2018, stockholders of the Group ratified and approved the features, terms, conditions and offering of the Preferred “A” shares. On June 22, 2018, the SEC issued the Certificate of Filing of Enabling Resolution for the Preferred “A” shares which approved the designation and offering of Preferred “A” shares. As of April 12, 2019, the PSE has yet to approve the offering of Preferred “A” shares in the exchange.

On December 28, 2018, the BOD approved the reduction of the par value of common shares of the Parent Company from ₱1.00 per share to ₱0.75 per share and the application of the resulting additional paid-in capital to eliminate the accumulated deficit of the Parent Company. As of April 12, 2019, the equity restructuring is yet to be filed to the SEC.

Information on the Group’s authorized capital stock is as follows:

	<b>Number of shares</b>		
	<b>2018</b>	2017	2016
Common stock, ₱1 par value	<b>2,060,000,000</b>	2,060,000,000	2,120,000,000
Preferred stock, ₱1 par value	<b>60,000,000</b>	60,000,000	–
Balance at end of the year	<b>2,120,000,000</b>	2,120,000,000	2,120,000,000

Issued and outstanding capital stock consist of 1,517,278,350 common stocks amounting to ₱1,517,278,350 as of December 31, 2018, 2017 and 2016.

#### 14. Revenue

Set out below is the disaggregation of the Group's revenue from contracts with customers for the year ended December 31, 2018:

Type of contracts	Service fee	Sales	Total
Broadband service contracts	₱44,927,731	₱2,283,321	₱47,211,052
Management service contracts	65,280,000	–	65,280,000
Sale and/or installation of software licenses	38,960,513	31,158,281	70,118,794
Manpower augmentation service contracts	35,251,680	–	35,251,680
	₱184,419,924	₱33,441,602	₱217,861,526

Set out below, is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information for the year ended December 31, 2018:

	IT Manpower and Resource Augmentation	Software Licenses and Management services	Broadband services	Total
Revenue from:				
Broadband service contracts	₱–	₱–	₱47,211,052	₱47,211,052
Management service contracts	–	65,280,000	–	65,280,000
Sale and/or installation of software licenses	–	70,118,794	–	70,118,794
Manpower augmentation service contracts	35,251,680	–	–	35,251,680
	₱35,251,680	₱135,398,794	₱47,211,052	₱217,861,526

##### *Broadband service contracts*

Parent Company entered into various broadband service contracts with commercial and residential customers with contracts ranging from one (1) year to two (2) years as of December 31, 2018. These contracts are either offered separately or bundled with software license. Under these contracts, the Parent Company will provide broadband services to its customers based on a fixed monthly fee, which may also include delivery of bundled software license.

##### *Sale and/or installation of software license*

Parent Company entered into various short-term contract of sale with commercial customers to transfer software licenses. The Group also entered into various service contracts to install software licenses.

##### *Management service contracts*

Parent Company entered into various management service contracts with related parties to provide management services with contracts ranging from year to three (3) years to five (5) years as of December 31, 2018. Under these contracts, the Parent Company will provide management services to the customers based on a fixed monthly fee.

*Manpower augmentation service contracts*

IRCII entered into various manpower augmentation service contracts with commercial customers to provide manpower specializing on IT with contracts ranging from six (6) months to one (1) year as of December 31, 2018. Under these contracts, the entity will provide manpower to customers based on a fixed monthly fee.

---

**15. Costs of Sales and Services**

	2018	2017	2016
Cost of service:			
Software collaboration services (Note 9)	₱77,496,806	₱46,436,396	₱43,226,619
Cost of data services (Note 9)	46,277,523	7,386,191	3,204,621
Cost of sales	24,549,264	31,980,891	10,215,702
	<b>₱148,323,593</b>	<b>₱85,803,478</b>	<b>₱56,646,942</b>

---

**16. General and Administrative Expenses**

	2018	2017	2016
Salaries and other employee benefits (Note 12)	₱12,639,969	₱13,772,096	₱1,301,160
Advertising and promotion	8,350,200	2,367,961	4,524,439
Depreciation and amortization* (Note 7)	7,309,611	4,411,001	2,214,569
Entertainment, amusement and recreation	5,822,950	6,227,299	4,706,499
Communication	5,244,439	4,496,294	4,109,582
Transportation and travel	4,612,457	5,026,897	1,702,362
Taxes and licenses	2,680,771	4,095,999	1,068,636
Outside services (Note 9)	2,436,996	6,988,982	7,489,693
Professional fees	1,776,658	2,495,621	2,918,643
Rental (Note 10)	1,389,075	1,739,036	1,728,730
Office supplies	1,359,932	793,637	2,441,318
Provision for impairment loss on:			
Trade and other receivables (Note 4)	724,729	1,940	685,685
Advances to affiliate (Note 6)	-	-	5,000,000
Insurance	309,151	199,904	258,661
Utilities	259,686	284,014	982,225
Repairs and maintenance	219,452	180,576	1,008,292
Others	2,692,701	996,603	1,260,642
	<b>₱57,828,777</b>	<b>₱54,077,860</b>	<b>₱43,401,136</b>

\*Includes amortization of software cost under "Other noncurrent asset" amounting to ₱725, ₱49,737 and ₱126,905 in 2018, 2017, and 2016, respectively

---

**17. Income Taxes**

The Group's provision for current income tax consists of the following:

	2018	2017	2016
RCIT with itemized deduction	₱1,594,744	₱1,590,187	₱2,193,264
MCIT	174,657	1,080,771	-
	<b>₱1,769,401</b>	<b>₱2,670,958</b>	<b>₱2,193,264</b>

The reconciliation of the Group's statutory income tax to provision for income tax follows:

	2018	2017	2016
Statutory income tax at 30%	<b>₱2,971,851</b>	₱2,688,352	₱1,407,532
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses	<b>253,950</b>	1,886,347	3,169,352
Interest income subjected to final tax	<b>(75,615)</b>	(1,468)	(1,157)
Movement of unrecognized deferred income tax assets	<b>(1,380,785)</b>	(1,902,273)	(2,382,463)
	<b>₱1,769,401</b>	₱2,670,958	₱2,193,264

The Group has temporary differences for which no deferred tax assets were recognized as it is probable that sufficient taxable income will not be available for those deferred tax assets to be utilized.

The temporary differences are as follows:

	2018	2017	2016
Allowance for impairment on trade and other receivables	<b>₱33,854,838</b>	₱13,832,892	₱13,836,447
NOLCO	<b>1,167,833</b>	2,761,602	14,677,498
Retirement benefits	<b>459,808</b>	—	—
MCIT	<b>77,151</b>	2,312,359	1,713,165
Others	<b>1,794,605</b>	131,065	—
	<b>₱37,354,235</b>	₱19,037,918	₱30,227,110

As of December 31, 2018, NOLCO and MCIT can be claimed as deduction from future taxable income and income tax liabilities, respectively, are as follows:

Year Incurred	Year of Expiration	NOLCO	MCIT
2018	2021	₱—	12,999
2017	2020	602,209	64,152
2016	2019	565,624	—
		<b>₱1,167,833</b>	<b>₱77,151</b>

The following are the movements in NOLCO and MCIT:

	2018	2017	2016
NOLCO:			
Balances at beginning of year	<b>₱2,761,602</b>	₱14,677,498	₱60,886,089
Additions	—	602,209	565,624
Application	—	(11,199,273)	(13,432,651)
Expirations	<b>(1,593,769)</b>	(1,318,832)	(33,341,564)
Balances at end of year	<b>₱1,167,833</b>	₱2,761,602	₱14,677,498

	2018	2017	2016
MCIT:			
Balances at beginning of year	<b>₱2,312,359</b>	₱1,713,165	₱812,692
Additions	<b>12,999</b>	727,806	903,836
Applications	<b>(2,248,207)</b>	—	—
Expirations	—	(128,612)	(3,363)
Balances at end of year	<b>₱77,151</b>	₱2,312,359	₱1,713,165



---

## 18. Basic/Diluted EPS

The following table presents information necessary to compute the basic/dilutive EPS:

	2018	2017	2016
Net income attributable to equity holders of the Parent (a)	<b>₱7,885,496</b>	₱6,792,056	₱2,500,433
Weighted average number of outstanding common shares for both basic and dilutive EPS (b)	<b>1,517,278,350</b>	1,517,278,350	1,517,278,350
Basic/dilutive earnings per share (a/b)	<b>₱0.0052</b>	₱0.0045	₱0.0016

As of December 31, 2018, 2017 and 2016, the Parent Company does not have any dilutive potential common shares.

---

## 19. Financial Risk Management Objectives and Policies

The Group's financial instruments are composed of cash, trade and other receivables, due from related parties, financial asset at FVOCI, accounts payable and accrued expenses, due to related parties, and loans payable.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk and interest rate risk. The Group is not exposed to cash flow interest rate risk since a significant portion of the Group's due from affiliates has fixed interest rates.

The BOD reviews and approves the policies for managing each of these risks and they are summarized below.

### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade receivables and amounts owed by related parties.

#### *Trade receivables*

The Group's management believes that there is no significant risk in the amounts due by related parties. The BOD continually monitors the Group's strategies for managing accounts with creditors, including related parties. Advances are monitored on an ongoing basis with the result that the Group's exposure to impairment and account discrepancies is not significant. In addition, the Group manages credit risk by monitoring its credit exposures and assessing the creditworthiness of counterparties.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix for the year ended December 31, 2018:

	Trade receivables					Total
	Current	<30 days	30-60 days	61-90 days	>91 days	
Expected credit loss rate	0.15%	0.74%	2.07%	4.51%	15.34%	14.14%
Estimated total gross carrying amount at default (Note 4)	₱2,057,893	₱27,164,416	₱2,803,405	₱63,186	₱207,351,065	₱239,439,965
Expected credit loss	₱3,008	₱201,468	₱58,102	₱2,847	₱33,589,413	₱33,854,838

The following tables show the aging analysis of the Group's financial assets as of December 31, 2018, 2017 and 2016.

	2018			Total
	Neither past due nor impaired	Past due but not impaired	Past due and impaired	
<i>Financial assets:</i>				
Cash	₱25,828,933	₱-	₱-	₱25,828,933
Trade and other receivables	2,057,893	203,527,234	33,854,838	239,439,965
Due from related parties	-	287,566,552	-	287,566,552
Advances to employees	1,828,959	-	-	1,828,959
	₱29,715,785	₱491,093,786	₱33,854,838	₱554,664,409

	2017			Total
	Neither past due nor impaired	Past due but not impaired	Past due and impaired	
<i>Financial assets:</i>				
Cash	₱10,694,196	₱-	₱-	₱10,694,196
Trade and other receivables	2,211,771	164,322,857	13,832,892	180,367,520
Due from related parties	27,497,744	95,955,268	-	123,453,012
Advances to employees	1,408,596	-	-	1,408,596
	₱41,812,307	₱260,278,125	₱13,832,892	₱315,923,324

	2016			Total
	Neither past due nor impaired	Past due but not impaired	Past due and impaired	
<i>Financial assets:</i>				
Cash	₱4,396,419	₱-	₱-	₱4,396,419
Trade and other receivables	2,211,771	111,965,479	13,836,447	128,013,697
Due from related parties	27,030,711	72,495,743	-	99,526,454
Advances to employees	1,355,118	-	-	1,355,118
	₱34,994,019	₱184,461,222	₱13,836,447	₱233,291,688

As at December 31, 2018, 2017 and 2016, the Group's maximum exposure to credit risk is equal to the carrying amount of its financial assets.

#### Credit Quality per Class of Financial Asset

Financial assets are classified as high grade if the counterparties are not expected to default in settling their obligations. Thus, the credit risk exposure is minimal. These counterparties normally include customers, banks and related parties who pay on or before due date. Financial assets are classified as a standard grade if the counterparties settle their obligation with the Group with tolerable delays. Low grade accounts are accounts, which have probability of impairment based on historical trend. These accounts show propensity of default in payment despite regular follow-up actions and extended payment terms.

The Group considers its financial assets that are neither past due nor impaired amounting to ₱29,715,785, ₱41,812,307 and ₱34,994,019 as of December 31, 2018, 2017 and 2016 as high grade financial assets.

The Group considers its financial assets that are past due but not impaired amounting to ₱491,093,786, ₱260,278,125 and ₱184,461,222 as of December 31, 2018, 2017 and 2016 as standard grade financial assets.

The Group has impaired trade and other receivables amounting to ₱33,854,838, ₱13,832,892 and ₱13,836,447 as of December 31, 2018, 2017 and 2016, respectively.

#### Concentration of Credit Risk

The Group's exposure to concentration of credit risk arises from the default of the counterparties, with a maximum exposure equal to the carrying amounts of the receivables from GHT Network, Inc., NOW Telecom, Newsnet (see Note 9).

The table below shows the risk exposure in respect to credit concentration of the Group as of December 31, 2018, 2017 and 2016:

Trade receivable from:	2018	2017	2016
GHT Network, Inc.	₱65,332,304	₱44,032,048	₱28,504,000
Newsnet	48,681,799	53,441,589	28,504,000
NOW Telecom	40,486,901	13,102,508	8,400,000
<b>Total credit concentration risk</b>	<b>₱154,501,004</b>	<b>₱110,576,145</b>	<b>₱65,408,000</b>
<b>Total receivables</b>	<b>₱207,414,086</b>	<b>₱167,943,224</b>	<b>₱115,532,368</b>
<b>Credit concentration percentage</b>	<b>74.49%</b>	<b>65.84%</b>	<b>56.61%</b>

#### Interest Rate Risk Table

The following tables provide for the effective interest rates and interest payments by period of maturity of the Group's long-term debts:

	Interest Rates	2018				Total
		Within 1 Year	More than 1 year but less than 4 years	More than 4 Years but less than 5 Years	More than 5 Years	
<b>Fixed Rate</b>						
PBS ₱50,000,000 Loan	12.23%	₱4,055,556	₱11,500,000	₱4,055,556	₱-	₱19,611,112
BDO ₱706,000 Loan	10.79%	29,081	23,939	-	-	53,020
Landbank ₱50,000,000 Loan	5.61%	2,805,000	-	-	-	2,805,000

#### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's objective to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its financial liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking adverse effect on the Group's credit standing.

The tables summarize the maturity profile of the Group's financial liabilities as of December 31, 2018, 2017 and 2016, based on contractual undiscounted cash flows. The tables also analyze the maturity profile of the Group's financial assets that can be used to finance maturing financial obligations. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity dates.

**2018**

	On demand	Within 1 year	More than 1 year	Total
<i>Financial assets:</i>				
Cash	₱25,828,933	₱-	₱-	₱25,828,933
Trade and other receivables	205,585,127	-	-	205,585,127
Due from related parties	195,064,169	92,502,383	-	287,566,552
Advances to employees	1,828,959	-	-	1,828,959
	<b>₱428,307,188</b>	<b>₱92,502,383</b>	<b>₱-</b>	<b>₱520,809,571</b>
<i>Financial liabilities:</i>				
Accounts payable and accrued expenses*	₱130,330,347	₱-	₱-	₱130,330,347
Due to related parties	265,667,135	-	-	265,667,135
Future interest on loans payable	-	4,084,637	15,579,495	19,664,132
Loans payable	-	52,064,583	45,878,924	97,943,507
	<b>₱395,997,482</b>	<b>₱56,149,220</b>	<b>₱61,458,419</b>	<b>₱513,605,121</b>

\*Excluding government payables

**2017**

	On demand	Within 1 year	More than 1 year	Total
<i>Financial assets:</i>				
Cash	₱10,694,196	₱-	₱-	₱10,694,196
Trade and other receivables	166,534,628	-	-	166,534,628
Due from related parties	95,955,268	-	27,497,744	123,453,012
Advances to employees	1,408,596	-	-	1,408,596
	<b>₱274,592,688</b>	<b>₱-</b>	<b>₱27,497,744</b>	<b>₱302,090,432</b>
<i>Financial liabilities:</i>				
Accounts payable and accrued expenses*	₱147,780,972	₱-	₱-	₱147,780,972
Due to related parties	151,454,345	-	-	151,454,345
Future interest on loans payable	-	39,134	53,021	92,155
Loans payable	-	97,337	351,614	448,951
	<b>₱299,235,317</b>	<b>₱136,471</b>	<b>₱404,635</b>	<b>₱299,776,423</b>

\*Excluding government payables

**2016**

	On demand	Within 1 year	More than 1 year	Total
<i>Financial assets:</i>				
Cash	₱4,396,419	₱-	₱-	₱4,396,419
Trade and other receivables	83,921,798	30,255,452	-	114,177,250
Due from related parties	72,495,743	-	27,030,711	99,526,454
Advances to employees	1,355,118	-	-	1,355,118
	<b>₱162,169,078</b>	<b>₱30,255,452</b>	<b>₱27,030,711</b>	<b>₱219,455,241</b>
<i>Financial liabilities:</i>				
Accounts payable and accrued expenses*	₱109,655,203	₱-	₱-	₱109,655,203
Due to related parties	77,520,582	-	-	77,520,582
Future interest on loans payable	-	52,015	103,487	155,502
Loans payable	-	87,426	449,107	536,533
	<b>₱187,175,785</b>	<b>₱139,441</b>	<b>₱552,594</b>	<b>₱187,867,820</b>

\*Excluding government payables

**Fair Value of Financial Instruments**

Set out in the following table is a comparison of carrying amounts and fair values of the Company's financial instruments as of December 31, 2018, 2017 and 2016 other than those with carrying amounts that are reasonable approximations of fair values.

	2018		2017		2016	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
<b>Financial Assets</b>						
Due from related parties - noncurrent	P-	P-	₱27,497,744	₱24,793,312	₱27,030,711	₱24,144,646
<b>Financial Liabilities:</b>						
Financial liabilities at amortized cost:						
Long-term debts	₱97,943,507	₱89,889,124	₱448,951	₱380,328	₱536,533	₱424,612

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

*Cash and Cash Equivalents, Trade and Other Receivables, Due from Related Parties, Trade and Other Payables, Loans Payable and Due to Related Parties*

The carrying amounts of cash, trade and other receivables, due from related parties, accounts payable and accrued expenses and due to related parties approximate their fair values due to the short-term maturity of these financial instruments.

*AFS Investment*

Unquoted equity security is carried at cost since fair value of this AFS investment cannot be reliably determined as this is not listed in active market and have no available bid price.

*Financial Asset at FVOCI*

Fair value of unquoted equity security was determined using discounted cash flow based on market observable rates.

*Due from Related Parties - Noncurrent*

The fair value of noncurrent amounts due from related party were based on discounted value of future flows using applicable credit-adjusted risk-free rates of 6.98%, 5.7% and 5.9% as of December 31, 2018, 2017 and 2016, respectively (Level 3).

*Long-term Debts*

The fair values for the Company's long-term debts are estimated using the discounted cash flow methodology with the applicable rates ranging from 6.98% to 7.04%, 5.70% and 5.90% as of December 31, 2018, 2017 and 2016.

The following tables show the fair value information of financial instruments classified under financial assets at FVOCI and financial liabilities at amortized cost and analyzed by sources of inputs on fair valuation as follows:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

	2018			
	Total	Level 1	Level 2	Level 3
<b>Financial Assets</b>				
Financial assets at FVOCI	₱1,337,638,090	P-	P-	₱1,337,638,090
<b>Financial Liabilities</b>				
Long-term at amortized cost	97,943,507	-	97,943,507	-

As of December 31, 2017 and 2016, fair value of long-term debts amounts to ₱380,328 and ₱424,612, respectively and falls under level 2 of the fair value hierarchy. As of December 31, 2017 and 2016, due from related parties - noncurrent amounts to ₱24,793,312 and ₱24,144,646, respectively, and falls under level 3 of the fair value hierarchy.

For the years ended December 31, 2018, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The following table demonstrates the sensitivity of a reasonably possible change in interest rates for the year ended December 31, 2018, with all other variables held constant, in the Group's comprehensive income before income tax:

	Increase (Decrease) in Basis points	Increase (Decrease) on Income Before Income Tax
<b>December 31, 2018</b>	<b>+100</b>	<b>(₱656,715,728)</b>
	<b>-100</b>	<b>859,431,515</b>
December 31, 2017	+100	(₱18,968)
	-100	18,968
December 31, 2016	+100	(₱673)
	-100	673

The Group classifies its financial instruments in the following categories.

	2018		Total
	Amortized Cost	Financial Asset at FVOCI	
<b>Financial Assets</b>			
Cash and cash equivalents	₱25,828,933	₱-	₱25,828,933
Trade and other receivables	205,585,127	-	205,585,127
Due from a related party	287,566,552	-	287,566,552
Advances to employees	1,828,959	-	1,828,959
Financial assets at FVOCI	-	1,337,638,090	1,337,638,090
<b>Total financial assets</b>	<b>₱520,809,571</b>	<b>₱1,337,638,090</b>	<b>₱1,858,447,661</b>
<b>Financial Liabilities</b>			
Accounts payable*	₱130,330,347	₱-	₱130,330,347
Accrued interest on long-term debts	19,664,132	-	19,664,132
Due to related parties	265,667,135	-	265,667,135
Long-term debts	97,943,507	-	97,943,507
<b>Total financial liabilities</b>	<b>₱513,605,121</b>	<b>₱-</b>	<b>₱513,605,121</b>

\*Excluding statutory liabilities to the Government

	2017		Total
	Amortized Cost	AFS	
<b>Financial Assets</b>			
Cash and cash equivalents	₱10,694,196	₱-	₱10,694,196
Trade and other receivables	166,534,628	-	166,534,628
Due from a related party	274,592,688	-	274,592,688
Advances to employees	1,408,596	-	1,408,596
AFS - equity investments	-	1,312,871,168	1,312,871,168
<b>Total financial assets</b>	<b>₱453,230,108</b>	<b>₱1,312,871,168</b>	<b>₱1,766,101,276</b>
<b>Financial Liabilities</b>			
Accounts payable*	₱147,780,972	₱-	₱147,780,972
Accrued interest on long-term debts	92,156	-	92,156
Due to related parties	151,454,345	-	151,454,345
Long-term debts	448,951	-	448,951
<b>Total financial liabilities</b>	<b>₱299,776,424</b>	<b>₱-</b>	<b>₱299,776,424</b>

\*Excluding statutory liabilities to the government

	2016		
	Amortized Cost	AFS	Total
<b>Financial Assets</b>			
Cash and cash equivalents	₱4,396,419	₱-	₱4,396,419
Trade receivables	114,177,250	-	114,177,250
Due from a related party	99,526,454	-	99,526,454
Advances to employees	1,355,118	-	1,355,118
AFS - equity investments	-	1,312,871,168	1,312,871,168
<b>Total financial assets</b>	<b>₱219,455,241</b>	<b>₱1,312,871,168</b>	<b>₱1,532,326,409</b>
<b>Financial Liabilities</b>			
Accounts payable*	₱109,655,203	₱-	₱109,655,203
Accrued interest on long-term debts	155,502	-	155,502
Due to related parties	77,520,582	-	77,520,582
Long-term debts	536,533	-	536,533
<b>Total financial liabilities</b>	<b>₱187,867,820</b>	<b>₱-</b>	<b>₱187,867,820</b>

\*Excluding statutory liabilities to the government

The table below demonstrates the income, expense, gains or losses of the Group's financial instruments for the years ended December 31, 2018, 2017 and 2016:

	2018		2017		2016	
	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)
<b>Amortized cost</b>						
Interest income on:						
Cash in banks (Note 6)	₱251,561	₱-	₱4,894	₱-	₱3,857	₱-
Provision for impairment losses (Note 16)	(724,729)	(19,297,217)	(1,940)	-	(685,685)	-
	<b>(₱473,168)</b>	<b>(₱19,297,217)</b>	<b>₱2,954</b>	<b>₱-</b>	<b>(₱681,828)</b>	<b>₱-</b>
<b>Financial assets at FVOCI</b>						
Equity investments:						
Unrealized gain on financial asset at FVOCI	₱-	₱48,359,740	₱-	₱-	₱-	₱-
<b>Financial liabilities at amortized cost</b>						
Interest expense on (Note 11):						
Long-term debts, including amortization of transaction costs	(₱3,324,724)	₱-	(₱52,015)	₱-	(₱572,962)	₱-

### Capital Management

The Group considers the equity presented in the consolidated statement of financial position as its core capital. The primary objective of the Group's capital management is to ensure that it maintains strong credit rating and stable capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

On October 28, 2010, PSE issued a memorandum regarding the rule for the minimum public ownership for all listed companies. Based on the memorandum, listed companies shall, at all times, maintain a minimum percentage of listed securities held by the public of ten percent (10%) of the listed companies' issued and outstanding shares, exclusive of any treasury shares or as such percentage that may be prescribed by the PSE. The Group has complied with the minimum public ownership as of December 31, 2018, 2017 and 2016.

The Group considers the equity attributable to the equity holders of the Parent Company as presented in the consolidated statement of financial position as its core capital.

As of December 31, 2018, 2017 and 2016, the Group was able to meet its capital management objectives.

## 20. Business Segment Information

The Group's operating segments are organized and managed separately according to the nature of the services offered as follows:

- IT Manpower and Resource Augmentation - provides deployment of IT professionals to clients.
- Software Licenses and Services - provides high value products and services to clients.
- Broadband Services - provides high-speed broadband service of up to 700 Mbps to clients.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Financial information on the operations of the various business segments are summarized as follows:

	2018			Total
	IT Manpower and Resource Augmentation	Software Licenses and Services	Broadband Services	
Service fees	₱35,251,680	₱104,240,513	₱44,927,731	₱184,419,924
Sales	–	31,158,281	2,283,321	33,441,602
<b>Total revenue</b>	<b>₱35,251,680</b>	<b>₱135,398,794</b>	<b>₱47,211,052</b>	<b>₱217,861,526</b>
<b>Segment expenses</b>	<b>₱26,231,183</b>	<b>₱75,814,887</b>	<b>₱46,277,523</b>	<b>₱148,323,593</b>
General and administrative expenses	7,011,168	–	–	7,011,168
Unallocated expenses	–	–	–	50,817,609
Unallocated other charges	–	–	–	1,802,986
Provision for income tax	622,238	1,129,935	17,228	1,769,401
Net income (loss)	1,387,091	58,453,972	916,301	8,136,769
<b>Other information</b>				
Capital expenditures	182,705	5,985,567	4,115,559	10,283,831
Segment assets	22,160,442	544,926,966	9,204,376	576,291,784
Unallocated Financial asset at FVOCI	–	–	–	1,337,638,090
Segment liabilities	27,315,708	757,923,086	–	785,238,794
Depreciation and amortization	118,098	2,293,928	4,897,585	7,309,611
	2017			Total
	IT Manpower and Resource Augmentation	Software Licenses and Services	Broadband services	
Service fees	₱42,274,212	₱59,878,920	₱24,513,069	₱126,666,201
Sales	–	21,698,063	–	21,698,063
<b>Total revenue</b>	<b>₱42,274,212</b>	<b>₱81,576,983</b>	<b>₱24,513,069</b>	<b>₱148,364,264</b>
<b>Segment expenses</b>	<b>₱31,568,240</b>	<b>₱46,849,047</b>	<b>₱7,386,191</b>	<b>₱85,803,478</b>
General and administrative expenses	6,524,463	–	–	6,524,463
Unallocated expenses	–	–	–	47,553,397
Provision for income tax	1,590,187	1,080,771	–	2,670,958
Net income (loss)	2,591,322	33,647,165	17,126,878	6,290,216
<b>Other information</b>				
Capital expenditures	83,572	1,285,658	5,088,817	6,458,047
Segment assets	18,318,317	335,499,397	5,088,817	358,906,531
Unallocated AFS financial asset	–	–	–	1,312,871,168
Segment liabilities	19,207,375	296,763,180	–	315,970,555
Depreciation and amortization	90,535	1,150,261	3,170,205	4,411,001
Unallocated other income	–	–	–	478,248



	2016				
	IT Manpower and Resource Augmentation	Software Licenses and Services	Broadband services		Total
Service fees	₱43,412,235	₱41,230,381	₱5,981,141		₱90,623,757
Sales	–	13,048,685	–		13,048,685
<b>Total revenue</b>	<b>₱43,412,235</b>	<b>₱54,279,066</b>	<b>₱5,981,141</b>		<b>₱103,672,442</b>
Segment expenses	₱36,610,332	₱16,831,989	₱3,204,621		₱56,646,942
General and administrative expenses	6,456,689	–	–		6,456,689
Unallocated expenses	–	–	–		636,944,447
Provision for income tax	1,289,428	903,836	–		2,193,264
Net income (loss)	(944,214)	36,543,241	2,776,520		2,498,509
Other information					
Capital expenditures	133,928	970,358	4,347,551		5,451,837
Segment assets	2,456,753	228,347,368	3,442,034		234,246,155
Unallocated AFS financial asset	–	–	–		1,312,871,168
Segment liabilities	32,070,469	162,269,220	–		194,339,689
Depreciation and amortization	39,062	1,269,990	905,517		2,214,569
Unallocated other income	–	–	–		1,067,409

## 21. Notes to Consolidated Statements of Cash Flows

In 2016, the noncash financing activity involves the conversion of ₱264,000,000 advances from Velarde, Inc. to the Parent Company's common shares. As of December 31, 2018, the Group presented the deposit for future stock subscription amounting to ₱264,000,000 as part of liability since the conversion rate has not been finalized as of December 31, 2018. (see Note 13).

Changes in liabilities arising from financing activities:

	January 1, 2018	Cash inflow	Cash outflows	Others	December 31, 2018
Due to related parties	₱151,454,345	₱133,442,010	(₱19,229,220)	₱–	₱265,667,135
Loans payable	448,951	97,287,870	(194,674)	401,360	97,943,507
<b>Total liabilities from financing activities</b>	<b>₱151,903,296</b>	<b>₱230,729,880</b>	<b>(₱19,423,894)</b>	<b>₱401,360</b>	<b>₱363,610,642</b>
	January 1, 2017	Cash inflow	Cash outflow		December 31, 2017
Due to related parties	₱77,520,582	₱73,933,763	–	–	₱151,454,345
Loans payable	536,533	–	(87,582)		448,951
<b>Total liabilities from financing activities</b>	<b>₱78,057,115</b>	<b>₱73,933,763</b>	<b>(₱87,582)</b>		<b>₱151,903,296</b>
	January 1, 2016	Cash inflow	Cash outflow	Others	December 31, 2016
Due to related parties	₱238,078,380	₱160,557,798	(₱57,115,596)	(₱264,000,000)	₱77,520,582
Loans payable	44,500,000	44,500,000	(43,963,467)	(44,500,000)	536,533
<b>Total liabilities from financing activities</b>	<b>₱282,578,380</b>	<b>₱160,557,798</b>	<b>(₱101,079,063)</b>	<b>(₱264,000,000)</b>	<b>₱78,057,115</b>

## 22. Other Matter

### Land Bank loan

On January 23, 2019, the Parent Company extended the loan agreement with Land Bank of the Philippines amounting to ₱50,000,000 with an interest rate of 4.80% per annum for another six (6) months with latest maturity date on July 23, 2019.

### Equity restructuring

On March 8, 2019, the stockholders of the Parent Company approved the reduction of par value of the common shares of the Parent Company from ₱1.00 per share to ₱0.75 per share and the

application of the resulting additional paid-in capital to eliminate the accumulated deficit of the Parent Company. For this purpose, the BOD and stockholders of the Parent Company approved the amendment of the Articles of Incorporation for the reduction of the par value. As of April 12, 2019, the equity restructuring is yet to be filed to the SEC.

Conversion of Velarde, Inc.

On March 8, 2019, the stockholders of the Parent Company approved the conversion into equity of the advances from Velarde, Inc. amounting to ₱209,000,000. As of April 12, 2019, the conversion is yet to be filed to the SEC.

Broadband Business Partnerships

In December 2018, the Parent Company entered into various business partnership agreements with third party businesses for a period of five years starting 2019

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders  
NOW Corporation  
Unit 5-I, 5<sup>th</sup> Floor, OPL Building  
100 C. Palanca Street, Legaspi Village  
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of NOW Corporation and Subsidiaries included in this Form 17-A and have issued our report thereon dated April 12, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and Securities and Exchange Commission Memorandum Circular No.11, Series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Jhoanna Feliza C. Go

Partner

CPA Certificate No. 0114122

SEC Accreditation No. 1414-AR-1 (Group A),

March 2, 2017, valid until March 1, 2020

Tax Identification No. 219-674-288

BIR Accreditation No. 08-001998-103-2017,

January 31, 2017, valid until January 30, 2020

PTR No. 7332556, January 3, 2019, Makati City

April 12, 2019



**NOW CORPORATION AND SUBSIDIARIES**  
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY SCHEDULES**  
**TABLE OF CONTENTS**  
**DECEMBER 31, 2018**

Independent Auditors' Report on Supplementary Schedules

Schedule I: Tabular Schedule of Effective Standards and Interpretations under PFRS

Schedule II: Supplementary Schedules Required by Securities Regulation Code (SRC) Rule 68,  
Part II, Annex 68-E:

- A. Financial Assets
- B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders
- C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
- D. Intangible Assets - Other Assets
- E. Long-Term Debt
- F. Indebtedness to Related Parties
- G. Guarantees of Securities of Other Issuers
- H. Capital Stock

**NOW CORPORATION AND SUBSIDIARIES**

**SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS  
AND INTERPRETATIONS  
DECEMBER 31, 2018**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Philippine Financial Reporting Standards</b>				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations			✓
PFRS 4	Insurance 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	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
<b>Philippine Accounting Standards</b>				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs			✓
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
<b>Philippine Interpretations</b>				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease			✓
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓



NOW Corporation and Subsidiaries  
 Schedule A - Financial Assets  
 December 31, 2018

Financial Assets	Name of Issuing entity and association of each issue	Amount shown in the Balance Sheet	Income received and accrued
Cash	N/A	25,828,933	-
Trade and other receivables	N/A	207,414,086	-
Due from related parties	N/A	287,566,552	1,314,211
<b>TOTAL</b>		<b>520,809,571</b>	<b>1,314,211</b>

**NOW Corporation and Subsidiaries**  
 Schedule B - Amounts Receivable from Directors, Officers, Employees and Principal Stockholders (Other than Related parties)  
 December 31, 2018

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Current	Not Current	Balance at End of Period
Officers and Personnel	1,408,596	907,275	486,912	1,828,959		1,828,959

**NOW Corporation and Subsidiaries**

Schedule C - Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements  
December 31, 2018

Name of Subsidiary	Balance at Beginning of Period	Additions	Amounts Collected/Offsetting	Current	Not Current	Balance at End of Period
<u>NOW Corporation</u>						
Porteon Sea, Inc.	3,443	-		3,443	-	3,443
i-Resource Consulting International, Inc.	1,761,651	-	(1,327,466)	434,185	-	434,185
Softfrigger	7,187,697	-	(209)	7,187,488	-	7,187,488
i-Professional Search Network, Inc.	5,071,094	1,076,204.00		6,147,298	-	6,147,298
J-Span IT Services, Inc.	4,700,917	-		4,700,917	-	4,700,917
<u>i-Professional Search Network, Inc.</u>						
NOW Corporation	450,000	-		450,000	-	450,000
<u>i-Resource Consulting International, Inc.</u>						
i-Professional Search Network, Inc.	723,525	20,149		743,674	-	743,674
<b>Total</b>	<b>19,898,327</b>	<b>1,096,353</b>	<b>(1,327,675)</b>	<b>19,667,005</b>	<b>-</b>	<b>19,667,005</b>

NOW Corporation and Subsidiaries  
 Schedule D - Intangible assets (Software)  
 December 31, 2018

Description	Balance at Beginning of Period	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes: Additions/(Deductions)	Balance at End of Period
Computer Software	9,965	1,615,095	725	-	-	1,624,335

**NOW Corporation and Subsidiaries**

Schedule F - Indebtedness to Related Parties (see Note 9 in the consolidated notes to FS)  
December 31, 2018

Name of related party	Balance at beginning of period	Balance at end of period
<b>Trade and Other Payables</b>		
Velarde Inc	59,903,586	59,903,586
KPSC	13,038,492	8,819,096
Paradiso Verde, Inc.	3,358,462	3,358,462
<b>Sub-Total</b>	<b>76,300,540</b>	<b>72,081,144</b>
<b>Due to Related Parties</b>		
Velarde Inc	141,326,866	254,613,559
EII	2,902,918	2,902,918
NOW Telecom	878,208	878,208
Paradiso Verde, Inc.	605,212	605,212
I-College	5,736,925	6,667,238
Softweb	4,216	-
<b>Sub-Total</b>	<b>151,454,345</b>	<b>265,667,135</b>
<b>Total</b>	<b>227,754,885</b>	<b>337,748,279</b>

NOW Corporation and Subsidiaries  
 Schedule G - Guarantees of Securities of Other Issuers  
 December 31, 2018

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
NOT APPLICABLE	NOT APPLICABLE	NOT APPLICABLE	NOT APPLICABLE	NOT APPLICABLE

NOV Corporation and Subsidiaries  
 Schedule H - Capital stock  
 December 31, 2018

Title of issue	Number of Shares Authorized	Number of Shares Issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of Shares held by related parties	Directors, Officers and Employees	Others
Common stock	2,060,000,000	1,517,278,350*	-	749,492,509 shares (49.40%)	37 shares	767,785,804 shares (50.60%)
Preferred stock	60,000,000	-	-	-	-	-







**SECRETARY'S CERTIFICATE**

I, **ANGELINE L. MACASAET**, Filipino, of legal age, with office address at Unit 5-I, 5<sup>th</sup> Floor OPL Building, 100 C. Palanca Street, Legaspi Village, Makati City, after having been duly sworn in accordance with law, do hereby state that:

1. I am the incumbent Corporate Secretary of NOW Corporation, a corporation duly organized and existing under and by virtue of the laws of the Philippines with principal address at Unit 5-I, 5<sup>th</sup> Floor OPL Building, 100 C. Palanca Street, Legaspi Village, Makati City (the "Corporation");

2. I am also a Director and the Secretary of the Management Committee, the body authorized by the Board of Directors of the Corporation to handle the normal and customary operations of the Corporation;

3. I hereby certify that at the 23 April 2019 meeting of the Executive Committee (ExeCom) held at the business office of the Corporation, in which meeting a quorum was present, the following resolutions were unanimously adopted:

**"RESOLVED FURTHER**, as it is hereby resolved, that the Chairman, of the Board, the President and the Chief Finance Officer be authorized to sign the Statement of Management Responsibility in connection with the Company's Audited Consolidated Financial Statements and the Audited Parent Company Financial Statements for the periods ending 2017, 2016 and 2015, as audited by its external auditor Sycip Gorres Velayo & Co."

4. I further certify that the foregoing resolutions have not been revoked, superseded, amended, and that these continue to be in force and effect as of this date.


5. This Certification is issued for whatever legal purpose it may serve.

**IN WITNESS WHEREOF**, I have hereunto set my hand this 23<sup>rd</sup> day of April 2019 in Makati City, Philippines.

  
**ANGELINE L. MACASAET**  
Corporate Secretary

**SUBSCRIBED AND SWORN TO** before me this 23<sup>rd</sup> day of April 2019, affiant personally appeared and exhibited to me her Phil. Passport No. P3600193A issued by DFA – Manila on 06 July 2017 and valid until 05 July 2022, bearing the affiant's photograph and signature.

Doc. No.: 397;  
Page No.: 81;  
Book No.: 88;  
Series of 2019.

  
**ATTY. HOEN**  
Notary Public  
Until [blank]  
Appt. No. [blank] Makati City  
PTR [blank] Makati City  
MGLC [blank] Makati City  
Unit 301 of The Business Plaza Bldg  
101 Urban Avenue, Brgy. Pio del Pilar  
Makati City

### CERTIFICATION

I, Angeline L. Macasaet, of legal age, Filipino and with office address at Unit 5-I, 5<sup>th</sup> Floor OPL Building, 100 C. Palanca Street, Legaspi Village, Makati City, after having been duly sworn in accordance with law, hereby certify that:

1. I am the duly appointed and incumbent Corporate Secretary of NOW Corporation, a corporation duly organized and existing under and by virtue of the laws of the Philippines with office address at Unit 5-I, 5<sup>th</sup> Floor OPL Building, 100 C. Palanca Street, Legaspi Village, Makati City (the "Corporation");

2. The following directors and officers of the Corporation do not work for and are not employed by any government office, tribunal, Body or agency:

- a. Thomas G. Aquino
- b. Jose S. Alejandro
- c. Mel V. Velarde
- d. Vicente Martin W. Araneta III
- e. Gerard Bnn R. Bautista
- f. Ramon Guillermo R. Tuazon
- g. Domingo B. Bonifacio
- h. Winnita V. Ysog
- i. Vicente I. Penanueva
- j. Angeline L. Macasaet


3. This Certification is being issued to attest to the truth of the foregoing facts and for purposes of complying with the requirements of the Securities and Exchange Commission in connection with the filing of the Corporation's Information Statement (SEC Form 20-IS) in relation to the Annual Stockholders' Meeting scheduled on 06 June 2019.

**IN WITNESS WHEREOF**, I have hereunto affixed my signature this 24<sup>th</sup> day of April 2019 at Makati City

  
**ANGELINE L. MACASAET**  
Corporate Secretary

**SUBSCRIBED AND SWORN TO** before me this 24<sup>th</sup> day of April 2019, affiant personally appeared and exhibited to me her Phil. Passport No. P3600193A issued by DFA – Manila on 06 July 2017 and valid until 05 July 2022, bearing the affiant's photograph and signature.

Doc. No.: 417;  
Page No.: 85;  
Book No.: 28;  
Series of 2019.

  
ATTY. **[Signature]**  
Notary Public  
Unit 5-I, 5<sup>th</sup> Floor OPL Building  
100 C. Palanca Street, Legaspi Village  
Makati City  
PTR of 2019  
MCL: Corp. Sec. No. 4207193A  
Unit 5-I, 5<sup>th</sup> Floor OPL Building  
100 C. Palanca Street, Legaspi Village  
Makati City





SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

- 1. For the quarterly period ended March 31, 2019
- 2. Commission identification number A1996-00179 3. BIR Tax Identification No. 004-668-224
- 4. Exact name of issuer as specified in its charter

NOW CORPORATION

- 5. Province, country or other jurisdiction of incorporation or organization

MAKATI CITY, PHILIPPINES

- 6. Industry Classification Code:  (SEC Use Only)

- 7. Address of issuer's principal office

Unit 5-I, 5<sup>th</sup> Floor, OPL Building, 100 C. Palanca Street, Legaspi Village, Makati City, Philippines



Postal Code

- 8. Issuer's telephone number, including area code (0632)750-0211
- 9. Former name, former address and former fiscal year, if changed since last report

N/A

- 10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
<u>COMMON STOCK</u>	<u>1,517,278,350</u>

- 11. Are any or all of the securities listed on a Stock Exchange?  
Yes [ / ] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE      COMMON STOCK

- 12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)  
Yes [ / ] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.  
Yes [ / ] No [ ]

**Part I. Financial Information**

**Item 1. Financial Statement**

**NOW CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL  
POSITION**

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	₱ 16,445,153	₱ 25,828,933
Trade and other receivables	208,183,869	207,414,086
Contract assets	1,520,541	1,520,541
Amount owed to related parties	311,119,802	287,566,552
Other current assets	45,225,263	39,809,721
<b>Total Current Assets</b>	<b>582,494,628</b>	<b>562,139,833</b>
<b>Noncurrent Assets</b>		
Investments in shares of stocks	1,337,638,090	1,337,638,090
Property and equipment – net	11,935,431	11,686,408
Other noncurrent assets	1,532,764	2,465,543
<b>Total Noncurrent Assets</b>	<b>1,351,106,285</b>	<b>1,351,790,041</b>
<b>TOTAL ASSETS</b>	<b>1,933,600,913</b>	<b>₱ 1,913,929,874</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	141,919,721	156,652,462
Due to related parties	278,080,116	265,667,135
Loans payable- current	62,064,583	52,064,583
Other current liabilities	2,419,255	-
<b>Total Current Liabilities</b>	<b>484,483,675</b>	<b>474,384,180</b>
<b>Noncurrent Liabilities</b>		
Loans Payable- net of current portion	46,077,738	45,878,924
Deposit for future subscription		264,000,000
Finance Lease Obligation- net of current portion	117,467	-
Retirement benefit obligation	975,690	975,690
Other noncurrent liabilities	3,427,673	-
<b>Total Noncurrent Liabilities</b>	<b>50,598,568</b>	<b>310,854,614</b>
<b>Total Liabilities</b>	<b>535,082,243</b>	<b>785,238,794</b>
<b>Equity</b>		
Equity attributable to equity holders of the Parent Company:		
Common stock	1,517,278,350	1,517,278,350
Deposit for future subscription	264,000,000	
Cumulative translation adjustment	1,126,608	1,126,608
Equity reserve	(1,978,794)	(1,978,794)
Net accumulated unrealized gain on financial assets at fair value through other comprehensive income	48,359,740	48,359,740
Accumulated unrealized loss on remeasurement of retirement benefits	(515,882)	(515,882)
Deficit	(426,589,561)	(432,343,009)
	1,401,680,461	1,131,927,013
Non-controlling interest	(3,161,791)	(3,235,933)
<b>Total Equity</b>	<b>1,398,518,670</b>	<b>1,128,691,080</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱ 1,933,600,913</b>	<b>₱ 1,913,929,874</b>

**NOW CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME**

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
<b>REVENUES</b>		
Service Revenue	₱ 42,276,263	184,419,924
Sales	7,602,984	33,441,602
Others	24,173	-
	49,903,420	217,861,526
<b>COST AND EXPENSES</b>		
Cost of services	16,921,045	123,774,329
Cost of sales	4,038,894	24,549,264
Salaries and other benefits	7,130,699	12,639,969
Capacity lease	1,901,875	-
Outside Services	276,738	2,436,996
Rental	348,653	1,389,075
Taxes and licenses	801,102	2,680,771
Professional fees	928,056	1,776,658
Light and water	82,698	259,686
Transportation and travel	1,077,139	4,612,457
Advertising and promotion	1,881,286	8,350,200
Depreciation and amortization	1,841,134	7,309,611
Repairs and maintenance	80,375	219,452
Communication	695,224	5,244,439
Representation	1,538,821	5,822,950
Office supplies	265,781	1,359,932
Others	79,650	2,692,701
Provision for impairment loss on trade receivables	-	724,729
Insurance	131,035	309,151
Interest	2,289,189	1,802,986
	42,309,394	207,955,356
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>7,594,024</b>	<b>9,906,170</b>
<b>PROVISION FOR INCOME TAX</b>		
Current	2,278,207	1,769,401
Deferred	-	-
<b>NET INCOME (LOSS)</b>	<b>5,315,817</b>	<b>8,136,769</b>
Currency Translation Adjustment – Gain (Loss)	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>5,315,817</b>	<b>8,136,769</b>
<b>Non-controlling interests</b>	<b>-</b>	<b>-</b>
	5,315,817	8,136,769
Basic /Diluted Earnings (Loss) Per Share	0.0035	0.005

**NOW CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>		
Equity holders of the Parent	5,241,673	8,136,769
Non-controlling interests	74,144	
	5,315,817	8,136,769
<b>Other comprehensive gain (losses) to be reclassified to profit or loss in subsequent periods:</b>		
Cumulative translation adjustment	-	(26,355)
<b>Other comprehensive losses not to be reclassified to profit or loss in subsequent periods:</b>		
Changes in fair value of equity investments designated at fair value through other comprehensive income		(136,498,637)
Remeasurement of retirement benefits	-	(515,882)
	-	(137,014,519)
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	-	(137,040,874)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	5,315,817	(128,904,105)
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the parent	5,241,673	(P129,155,378)
Non-controlling interest	74,144	251,273
	5,315,817	(P128,904,105)

**NOW CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
<b>CAPITAL STOCK</b>		
Authorized – 2,060,000,000 common shares 60,000,000 preferred shares		
Issued – 1,517,278,350 shares		
Balance at the beginning of the year	1,517,278,350	1,517,278,350
Issuance		
<b>Balance at end of the year</b>	1,517,278,350	1,517,278,350
<b>Deposit for future stock subscription</b>	264,000,000	
<b>RETAINED EARNINGS</b>		
Balance at beginning of the year	(432,343,009)	(421,158,169)
Prior period adjustment	511,775	(19,070,336)
Adjusted balance at beginning of the year	(431,831,234)	(440,228,505)
Net Income (loss)	5,241,673	7,885,496
<b>Deficit</b>	(426,589,561)	(432,343,009)
Equity Reserve	(1,978,794)	(1,978,794)
Cumulative Translation Adjustment	1,126,608	1,126,608
Accumulated Unrealized Gain on Fair Value Through OCI	48,359,740	48,359,740
Accumulated Unrealized Loss on Retirement Benefits	(515,882)	(515,882)
	(379,597,889)	(385,351,337)
Non-controlling equity	(3,161,791)	(3,235,933)
Balance at end of year	(382,759,680)	(388,587,270)
<b>Total Equity</b>	1,398,518,670	1,128,691,080

**NOW CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Income (Loss) before income tax	7,594,024	9,906,170
Adjustments for:		
Interest and Other charges	2,289,189	3,324,724
Depreciation and amortization	1,841,134	7,309,611
Provision on Impairment loss on receivables	-	724,729
Retirement benefits expense	-	459,808
Straight line adjustment on rent	-	18,300
Interest income	(24,173)	(1,566,262)
Operating income (loss) before working capital changes	11,700,174	20,177,080
Decrease (increase) in:		
Trade and other receivables	(769,783)	(59,492,808)
Contract asset	-	(1,293,660)
Other current assets	(5,350,155)	7,555,200
Increase (decrease)		
Accounts payable and accrued expenses	(14,732,741)	(7,433,097)
Other current liabilities	141,048	
Net cash generated from (used in) operations	(9,011,457)	(40,487,285)
Interest received	24,173	252,050
Income taxes paid	(593,526)	(1,769,401)
Interest paid	(2,289,189)	(2,923,364)
Net cash flows from (used in) operating activities	(11,869,997)	(44,928,000)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Increase in:		
Due to related parties	(23,553,250)	(139,232,865)
Other noncurrent assets	-	(1,726,553)
Acquisition of property and equipment	-	(10,283,831)
Net cash flows from (used in) investing activities	(23,553,250)	(151,243,249)
<b>CASH FLOWS FROM A FINANCING ACTIVITY</b>		
Increase in due to related parties	12,412,981	114,212,790
Proceeds from loan availment	10,198,814	97,287,870
Finance charges	-	(194,674)
Increase in Other Non-Current Liabilities	3,427,673	-
Net cash flows from financing activities	26,039,468	211,305,986
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	-	-
<b>NET INCREASE (DECREASE) IN CASH</b>	(9,383,780)	15,134,737
<b>CASH AT BEGINNING OF THE YEAR</b>	25,828,933	10,694,196
<b>CASH AT END OF THE YEAR</b>	16,445,153	25,828,933



**NOW CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

	YTD January to March	
	2019	2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	₱ 16,445,153	₱19,288,765
Trade and Other receivables	208,183,869	183,075,592
Contract assets	1,520,541	-
Amount owed to related parties	311,119,802	140,308,831
Other current assets	45,225,263	52,297,181
<b>Total Current Assets</b>	<b>582,494,628</b>	<b>394,970,369</b>
<b>Noncurrent Assets</b>		
Investments in shares of stocks	1,337,638,090	1,289,278,350
Advances from affiliates		23,592,818
Due from related parties – net of current		27,497,744
Property and equipment – net	11,935,431	12,673,379
Other noncurrent assets - net		
	1,532,764	860,774
<b>Total Noncurrent Assets</b>	<b>1,351,106,285</b>	<b>1,353,903,065</b>
<b>TOTAL ASSETS</b>	<b>1,933,600,913</b>	<b>1,748,873,434</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	141,919,721	130,320,180
Due to related parties	278,080,116	207,716,953
Loans Payable - current	62,064,583	50,000,000
Finance lease obligation- current	-	141,048
Other current liabilities	2,419,255	-
<b>Total Current Liabilities</b>	<b>484,483,675</b>	<b>388,178,181</b>
<b>Noncurrent Liabilities</b>		
Loans Payable- net of current portion	46,077,738	-
Deposit for future subscription	-	-
Finance Lease Obligation- net of current portion	117,467	284,541
Retirement benefit obligation	975,690	-
Other noncurrent liabilities	3,427,673	1,077,285
<b>Total Noncurrent Liabilities</b>	<b>50,598,568</b>	<b>1,361,826</b>
<b>Total Liabilities</b>	<b>535,082,243</b>	<b>389,540,007</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		
Common	1,517,278,350	1,517,278,350
Deposit for future stock subscription	264,000,000	264,000,000
Retained Earnings	(426,589,561)	(421,158,169)
Cumulative translation adjustment	1,126,608	1,152,963
Net Income		3,526,282
Net accumulated unrealized gain on financial assets at fair value through other comprehensive income	48,359,740	
Accumulated unrealized loss on remeasurement of retirement benefits	(515,882)	
Equity reserve	(1,978,794)	(1,978,794)
Non-controlling Interest	(3,161,791)	(3,487,206)
<b>Total Equity</b>	<b>1,398,518,670</b>	<b>1,359,333,426</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱ 1,933,600,913</b>	<b>1,748,873,433</b>

**NOW CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME**

	YTD January to March	
	2019	2018
<b>REVENUES</b>		
Service Revenue	₱ 42,276,263	7,888,378
Sales	7,602,984	23,864,670
Others	24,173	2,092,030
	<b>49,903,420</b>	<b>33,845,078</b>
<b>COST AND EXPENSES</b>		
Cost of services	16,921,045	5,549,081
Cost of sales	4,038,894	3,514,063
Salaries and other benefits	7,130,699	6,380,560
Capacity lease	1,901,875	
Outside Services	276,738	1,958,351
Rental	348,653	2,204,492
Taxes and licenses	801,102	692,476
Professional fees	928,056	110,000
Light and water	82,698	46,593
Transportation and travel	1,077,139	1,444,931
Advertising and promotion	1,881,286	67,448
Depreciation and amortization	1,841,134	1,501,737
Repairs and maintenance	80,375	67,358
Communication	695,224	1,149,004
Representation	1,538,821	2,045,168
Office supplies	265,781	719,531
Others	79,650	1,136,338
Insurance	131,035	43,124
Interest	2,289,189	222,416
Provision on impairment loss on receivables	-	-
	<b>42,309,396</b>	<b>28,852,671</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>7,594,024</b>	<b>4,992,409</b>
<b>PROVISION FOR INCOME TAX</b>		
Current	2,278,207	1,466,126
Deferred		-
<b>NET INCOME (LOSS)</b>	<b>5,315,817</b>	<b>3,526,282</b>
Currency Translation Adjustment – Gain (Loss)		-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>5,315,817</b>	<b>3,526,282</b>
<b>Non-controlling interests</b>		-
	<b>5,315,817</b>	<b>3,526,282</b>
Basic /Diluted Earnings (Loss) Per Share	0.0035	0.0023

**NOW CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE  
INCOME**

	YTD January to March	
	2019	2018
<b>NET LOSS ATTRIBUTABLE TO:</b>		
Equity holders of the Parent	5,241,673	3,526,282
Non-controlling interests	74,144	
	5,315,817	3,526,282
<b>OTHER COMPREHENSIVE INCOME</b>		
Cumulative translation adjustment	-	-
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>5,315,817</b>	<b>3,526,282</b>
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the parent	5,241,673	3,526,282
Non-controlling interest	74,144	
	5,315,817	3,526,282

**NOW CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	YTD January to March	
	2019	2018
<b>CAPITAL STOCK</b>		
Authorized - 2,060,000,000 common shares		
60,000,000 preferred shares		
Issued - 1,517,278,350 shares		
Balance at the beginning of the year	1,517,278,350	1,517,278,350
Issuance		
<b>Balance at end of the year</b>	<b>1,517,278,350</b>	<b>1,517,278,350</b>
<b>Deposit for Future Stock Subscription</b>	<b>264,000,000</b>	<b>264,000,000</b>
<b>RETAINED EARNINGS</b>		
Balance at beginning of the year	(431,831,234)	(421,158,169)
Net Income (loss)	5,241,673	3,526,282
Deficit	(426,589,561)	(417,631,887)
Equity Reserve	(1,978,794)	(1,978,794)
Cumulative Translation Adjustment	1,126,608	1,152,963
Accum Unrealized Gain on Fair Value Through OCI	48,359,740	
Accum Unrealized Loss on Retirement Benefits	(515,882)	
Non-controlling equity	(3,161,791)	(3,487,206)
Balance at end of year	(382,759,680)	(421,944,924)
<b>Total Equity</b>	<b>1,398,518,670</b>	<b>1,359,333,426</b>

**NOW CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>YTD January to March</b>	
	<b>2019</b>	<b>2018</b>
Income (Loss) before income tax	7,594,024	4,992,409
Adjustments for:		
Interest and Other charges	2,289,189	222,416
Depreciation and amortization	1,841,134	1,501,737
Provision on Impairment loss on receivable	-	-
Retirement benefits expense	-	-
Straight line adjustment on rent	-	-
Interest income	(24,173)	(4,946)
Operating income (loss) before working capital changes	11,700,175	6,711,615
Decrease (increase) in:		
Trade and other receivables	(769,783)	(66,475,695)
Other current assets	(5,350,155)	(19,890,698)
Increase (decrease)		
Accounts payable and accrued expenses	(14,732,741)	57,218,261
Other current liabilities	141,048	-
Net cash generated from (used in) operations	(9,011,456)	(22,436,517)
Interest received	24,173	4,946
Income taxes paid	(593,526)	(1,466,126)
Interest paid	(2,289,189)	(222,416)
Net cash flows from (used in) operating activities	(11,869,998)	(24,120,113)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Increase in:		
Due to related parties	(23,553,250)	(63,235,369)
Other noncurrent assets	-	(272,500)
Acquisition/Sale of property and equipment	-	(6,985,451)
Investments	-	-
Net cash flows from (used in) investing activities	(23,553,250)	(70,493,320)
<b>CASH FLOWS FROM A FINANCING ACTIVITY</b>		
Increase in due to related parties	12,412,981	108,487,654
Proceeds from loan availment	10,198,814	-
Finance charges	-	-
Increase in Other Non-Current Liabilities	3,427,673	-
Net cash flows from financing activities	26,039,468	108,487,654
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	-	-
<b>NET INCREASE (DECREASE) IN CASH</b>	(9,383,780)	13,874,221
<b>CASH AT BEGINNING OF THE YEAR</b>	25,828,933	5,414,544
<b>CASH AT END OF THE YEAR</b>	16,445,153	19,288,765

**NOW CORPORATION  
AND SUBSIDIARIES  
AGING OF RECEIVABLES**

	<b>31-Mar-19</b>	<b>31-Mar-18</b>
Current	996,851	3,099,302
1 -30 days past due	16,717,523	14,868,571
31 -60 days past due	1,609,590	11,160
61 -90 days past due	-	1,384,282
over 91 days past due	188,859,905	163,712,277
<b>Total</b>	<b>208,183,869</b>	<b>183,075,592</b>

**NOW CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. **Corporate Information**

Corporate Background

NOW Corporation (formerly Information Capital Technology Ventures, Inc;the Parent Company) started as a duly licensed investment house when it was incorporated on June 5, 1996 and registered in the Philippine Securities and Exchange Commission (SEC) as MF Shroder & Co., Inc. It was originally a wholly owned subsidiary of Amalgamated Investment Bancorporation (AIB) and was initially engaged in the purchase and sale of securities.

In 2000, AIB expanded the services of the Parent Company by establishing an information technology (IT) enabled facility geared towards servicing the private equity needs of small and medium enterprises by matching them online with direct equity investors. Hence, the Parent Company's Article of Incorporation (AOI) was changed to expand its primary purpose of engaging in the business of securities brokerage through the use of IT.

On July 23, 2002, the Parent Company's Board of Directors (BOD) and stockholders approved the offer of up to 28,000,000 shares from the Parent Company's unissued common stock through initial public offering (IPO). The application for the IPO of the Parent Company was approved by the Philippine Stock Exchange (PSE) and SEC on June 11, 2003 and July 30, 2003, respectively. The Parent Company was listed in the PSE on July 23, 2003 with an issue/share price of ₱1.00 per share.

In 2008, the PSE approved the application for the listing of the additional 1,289,278,350 common shares with an issue/share price of ₱1.00 per share to cover the share-for-share swap transactions with NOW Telecom, Inc. (NOW Telecom) shareholders (see Notes 6 and 13).

In July 2009, the SEC approved the amendment of the Parent Company's AOI which provides for the change in its primary purpose of engaging in the securities brokerage business to a technology, media and telecommunication (TMT) business.

In August 2010, the SEC approved further the amendment of the Parent Company's AOI, removing the pre-emptive rights of shareholders with respect to subscription to any class of the Parent Company's shares of stock.

On December 16, 2010, the Parent Company's BOD approved the amendment in its AOI to include secondary purpose. The inclusion of the secondary purpose was subsequently ratified by the Parent Company's stockholders on July 2, 2011 and was approved by the SEC on August 25, 2011. The additional secondary purposes include:

- a. Providing professional services and manpower in the field of TMT;
- b. Acting as commission agent, manufacturer's representative, or principal for the purpose, sale, distribution, manufacture, assembly, import or export of any and all classes of materials, merchandise, supplies and commodities of every kind and nature; and
- c. Engaging in the business of general and retail merchants, traders, factors, agents, manufacturers, processors, dealing in or with any and all classes of materials, merchandise, supplies and commodities of every kind and nature.

On March 17, 2011, the Company's Board of Directors confirmed/ratified the establishment of the Company's wholly-owned subsidiary named J-Span IT Services, Inc. in Tokyo, Japan. The Board likewise approved the establishment in the Philippines of a wholly-owned subsidiary to be named I-Resource Consulting International, Inc.

On May 25, 2011, the SEC approved the incorporation of I-Resource Consulting International, Inc. as a wholly owned subsidiary of the Company. The primary purpose of I-Resource Consulting International, Inc. is to provide consulting, technical advice and professional advisory services to persons, firms, association, corporations, partnerships and other entities.

On June 10, 2011, the SEC approved the incorporation of Porteon SEA, Inc., a wholly-owned subsidiary of the Company with the primary purpose of engaging in the business of manufacturing, marketing and selling of vehicles of all types, including but not limited to electric vehicles.

On August 25, 2012, the SEC approved the incorporation of I-Professional Search Network, Inc., a wholly-owned subsidiary of the Company. The primary purpose of I-Professional Search Network, Inc. is the recruitment and placement of workers domestically. This is aimed at broadening the Company's base in the area of service-related business as well as to complement the Company's other wholly-owned subsidiary, I-Resource Consulting International, Inc., which provides consulting, technical advice and professional advisory services to persons, firms, association, corporations, partnerships and other entities.

On 17 December 2015, the Securities and Exchange Commission approved the Company's increase in authorized capital from Php1,320,000,000.00 divided into 1,320,000,000 shares of the par value of Php1.00 each to Php2,120,000,000.00 divided into 2,120,000,000 shares of the par value of Php1.00 each.

In its 21 December 2016 Regular Meeting, the Board of Directors approved the filing of the Registration Statement, Listing Application and the terms and conditions and such other relevant acts in connection with the intended public offering of shares of the Company.

On 10 January 2017, the Securities and Exchange Commission issued to the Company a Certificate of Filing of Amended Articles of Incorporation (Amending Article VII reclassification of P60,000,000.00 Common Shares to Preferred Shares thereof).

At the 20 January 2017 Special Meeting of the Board, a resolution was passed approving the issuance of detachable warrants in connection with the public offering of the Company's preferred shares;

At the 07 August 2017 Regular Meeting of the Board of Directors, the following resolutions were approved: 1) Acceptance of disengagement of SB Capital Investment Corporation ("SB Capital") as one of the Joint Issue Managers, Joint Bookrunners and Joint Lead Underwriters. 2) Appointment of SB Capital as the Company's Financial Advisor; 3) Grant of authority to the Chairman and President and CEO to negotiate and engage the services of an Issue Manager, Bookrunner, Lead Underwriter for its proposed public offer of preferred shares; 4) Reduction of the Company's proposed public offering of its preferred shares from 15M preferred shares with 30M warrants to 5M preferred shares with 30M warrants thus resulting in the reduction of the offer size from Php 1.5B to Php 500M.

In its 20 December 2017 Regular Meeting, the Board approved, in relation to its conduct of Public Offering by way of a Follow-On Offering (“FOO”) of its Preferred Shares of stocks, the offer and sale of up to 10,000,000 out of the 60,000,000 redeemable, convertible, non-participating and non-voting preferred share with detachable warrants out of the unissued portion of the authorized capital stock of the Corporation (the “Offer Shares”) and up to 20,000,000 Detachable Subscription Warrants to be issued free of charge with 20,000,000 underlying common shares (collectively, the “Warrant”).

On 22 December 2017, NOW Corporation filed its Registration Statement and Prospectus with the Securities and Exchange Commission (“SEC”) pursuant to the Company’s application for the Follow-On Offering of 5,000,000 redeemable, convertible, cumulative, non-participating, non-voting, Peso-denominated, preferred shares with an Oversubscription Option of [5,000,000] with a par value of one peso (₱1.00) per share, with 10,000,000 detachable subscription warrants to be issued free of charge with 10,000,000 underlying common shares, with an Oversubscription Option of 10,000,000 Warrants and 10,000,000 underlying common shares of NOW Corporation.

In its 15 March 2018 Regular Meeting, the Board resolved to delegate to the Executive Committee the setting of the final conversion price related to the conversion into equity of the Php264,000,000.00 advances from a shareholder. Said conversion into equity was previously approved in 2017 by both the Board and the Stockholders, respectively, and was likewise promptly disclosed to the Philippine Stock Exchange.

The shareholders present by a unanimous vote likewise affirmed / confirmed their approval, made at the 02 June 2016 Annual Stockholders' Meeting, of the increase in authorized capital stock of the Company as well as the conversion into equity of the Php264M advances from a shareholder, Velarde, Inc., at the conversion price computed based on the daily average of the Volume-Weighted Average Price of NOW Corporation shares for a 30 day trading period ending 14 April 2016 as well as the listing of corresponding shares that will be issued out of the said conversion. The conversion price shall be set between Php1.50 per share to Php1.70 per share range. The Board of Directors is given the delegated authority to finalize the terms and other details pertaining to such increase and conversion price within the respective ranges herein set forth.

On 22 June 2018, the Securities and Exchange Commission issued the Certificate of Filing of Enabling Resolution in relation to the Company’s offer of 5,000,000 Redeemable Convertible Cumulative Non-Participating Non-Voting Peso-denominated Preferred Shares and designate the series as the Preferred “A” Shares with an Oversubscription Option of 5,000,000 Preferred A Shares, with 25,000,000 underlying Common Shares and an additional 25,000,000 Common Shares upon the exercise of the Oversubscription Option, which Common Shares shall be issued upon conversion of the Preferred Shares, with Detachable Warrants, under the terms and conditions thereof. (see Note 13).

On 27 June 2018, the Philippine Stock exchange approved the application of the Company to list an additional 200,000,000 common shares to cover its debt-to-equity conversion transaction with its shareholder.

At the Special Meeting of the Board of Directors of NOW Corporation held on 11 October 2018, the Board approved the conversion into equity by its shareholder Velarde, Inc. in the amount of Two Hundred Nine Million Pesos (Php209,000,000.00).

At the special meeting of the Board of Directors of NOW Corporation held on 28 December 2018, the Board approved the Company’s equity restructuring plan by reducing the par value of the common shares of stock of the Company and by applying the resulting additional paid-in capital to eliminate its accumulated deficit. For this purpose, the Board approved the amendment of Article Seventh of NOW’s Articles of Incorporation to reduce the par value of common shares from One Peso (Php1.00) per share to Seventy Centavos (Php0.70) per share, and the resulting decrease of NOW’s authorized capital stock from Php2,120,000,000.00 divided into 2,060,000,000 common shares with par value of One Peso (Php1.00) each to Php1,442,000,000 divided into 2,060,000,000 common shares with par value of Seventy Centavos (Php0.70) each.

#### Change in Corporate Name

The SEC approved the Parent Company's application to change its name from MF Shroder & Co., Inc. to Cashrounds, Inc. in January 2002 and Information Capital Technology Ventures, Inc. in September 2006.

Subsequently, on August 16, 2013, the SEC approved the change in the Parent Company's name to its current corporate name, NOW Corporation.

#### Certificates and Memorandum of Understanding and Agreements

On March 22, 2005, a Memorandum of Agreement (MOA) was executed by AIB and Gamboa Holdings, Inc. (GHI), whereby AIB agreed to sell and GHI agreed to purchase 18,171,286 shares of the Parent Company at an aggregate purchase price of ₱74,395,000. The sale of the Parent Company's shares became effective on August 20, 2005 resulting to a 66.67% ownership interest of GHI in the Parent Company.

On March 10, 2006, the National Telecommunication Commission (NTC), through the efforts of IMX Broadband Inc. (IBI), issued a Certificate of Registration (CoR) to the Parent Company to allow it to operate and maintain value added services (VAS) and voice over internet protocol (VOIP) services in all cities and municipalities nationwide.

On November 27, 2015, NTC issued CoR to the Parent Company that will authorized it as a VAS provider for services such as cloud hosting services, virtual private network, multimedia content and program services, online game services, cloud-based multimedia conferencing services, web hosting and cloud-based mail and messaging services. The CoR is valid for a period of five (5) years which will expire on November 26, 2020.

In 2015, the Parent Company entered into three (3) separate agreements with NOW Telecom, GHT Network, Inc. (GHT) and News and Entertainment Network Corporation (Newsnet) (the Parties), wherein the Parties mutually agreed to collaborate and interconnect their respective networks in order for the Parent Company to provide VAS to the public such as cloud hosting services, virtual private network, multimedia content and program services, online game services, cloud-based multimedia conferencing services, web hosting and cloud-based mail and messaging services (VAS contracts) (see Note 9).

#### Registered Address

The Parent Company's registered address is Unit 5-I, 5<sup>th</sup> Floor OPL Building, 100 Carlos Palanca St., Legaspi Village, Makati City.

#### Authorization for Issuance

In the March 8, 2019 Regular BOD Meeting, the BOD delegated to the Chairman, the President, and the Chief Finance Officer the authority to approve the issuance of the consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to herein as the Group) as of December 31, 2018, 2017 and 2016 and for the years then ended.

The consolidated financial statements of the Group as of December 31, 2018, 2017 and 2016 and for the years then ended were authorized for issue by the Chairman, the President and the Chief Finance Officer on April 12, 2019.

---

## 2. **Basis of Preparation, Statement of Compliance, Basis of Consolidation and Summary of Significant Accounting Policies**

#### Basis of Preparation

The consolidated financial statements of the Group have been prepared under the historical cost basis, except for the financial asset at fair value through other comprehensive income that is measured at fair value. The consolidated financial statements are presented in Philippine peso (₱), which is the Parent Company's functional currency. Amounts are rounded to the nearest Philippine peso, except when otherwise indicated.

#### Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

#### Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries as of December 31, 2018, 2017 and 2016 and for the years then ended:

Year of	Nature of	Percentage of Ownership
---------	-----------	-------------------------



Incorporation		Business	2018	2017	2016
J-Span IT Services, Inc. (JSIT)	2011	Service	100%	100%	100%
Porteon SEA, Inc. (Porteon)	2011	Manufacturing	100%	100%	100%
I-Resource Consulting International, Inc. (IRCII)	2011	Service	100%	100%	100%
I-Professional Search Network, Inc. (I-Professional)	2012	Service	75%	100%	100%
SoftrIGGER Interactive, Inc. (SII)	2000	Service	67%	67%	67%

All the subsidiaries were incorporated in the Philippines except for JSIT, which was incorporated in Japan.

On January 25, 2017, Velarde, Inc. entered into a subscription agreement with i-Professional for the subscription of 6,750 common shares of the latter, representing 25% interest, thereby reducing the ownership of the Company in i-Professional from 100% to 75%. This resulted to an equity reserve amounting to ₱1,978,794.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and,
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Non-controlling interest represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the profit or loss and within equity in the consolidated financial position, separately, from the equity attributable to equity holders of the parent of the Group. Transactions with non-controlling interests are accounted for as equity holders' transactions. Any excess or deficit of consideration paid over the carrying amount of non-controlling interest acquired is recognized in equity of the Group as "Equity reserve".

The acquisition of an additional ownership interest in subsidiary without a change in control is accounted for as an equity transaction in accordance with PAS 27. In transactions where the non-controlling interest is acquired or sold without loss of control, any excess or deficit of consideration paid over the carrying amount of the non-controlling interest is recognized as part of "Equity reserve" account in the equity attributable to the equity holders of the Parent Company.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2018:

- *Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

The amendments do not have any impact on the Group's consolidated financial statements as the Group has no share-based payment transactions.

- *PFRS 9, Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group has adopted this new standard without restating comparative information, which continues to be reported under PAS 39.

The effect of adopting PFRS 9 as at January 1, 2018 is as follows:

<b>Increase (decrease) in consolidated statements of financial position:</b>	<b>Adjustments</b>	<b>As at January 1, 2018</b>
<b>Assets</b>		
Trade and other receivables	(b)	(P19,297,217)
Available-for-sale investments	(a)	(1,312,871,168)
Financial assets at FVOCI	(a)	1,497,729,545
<b>Total assets</b>		<b>P165,561,160</b>
<b>Equity</b>		
Net accumulated unrealized gain on financial assets at fair value through other comprehensive income	(a)	P184,858,377
Retained earnings	(b)	(19,297,217)
<b>Total equity</b>		<b>P165,561,160</b>

The nature of these adjustments is described below:

(a) *Classification and measurement*

Under PFRS 9 which is effective beginning January 1, 2018, there is a change in the classification and measurement requirements relating to financial assets. Previously, there were four (4) categories of financial assets: loans and receivables, fair value through profit or loss, held to maturity and available for sale (AFS). Under PFRS 9, financial assets are either classified as amortized cost, FVTPL or FVOCI.

PFRS 9 requires that the Group classifies debt instruments based on the contractual cash flow characteristics of the assets and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost, FVTPL or FVOCI.

The Group's debt financial assets consist of cash, trade and other receivables and due from related parties. The Group assessed that the contractual cash flows of its debt financial assets are solely payments of principal and interest (SPPI) and are expected to be held to collect all contractual cash flows

until their maturity. As a result, the Company concluded these debt financial assets to be measured at amortized cost.

The Group elected to classify irrevocably its unquoted equity investment previously classified as AFS financial assets under financial asset at FVOCI as it intends to hold these investments for the foreseeable future. There were no impairment losses recognized in profit or loss for these investments in prior periods. Upon transition, the AFS financial asset which was previously carried at cost under PAS 39 was classified as financial asset at FVOCI which resulted to the recognition of an adjustment for unrealized gain on changes in fair value of financial asset at FVOCI amounting to ₱184,858,377 as at January 1, 2018.

There were no changes to the classification and measurement of financial liabilities. As of December 31, 2018, 2017 and 2016, the Group does not hold financial liabilities designated at fair value through profit or loss.

The table below illustrates the classification and measurement of financial instruments under PFRS 9 and PAS 39 at the date of initial application.

<b>Financial assets</b>	<b>Original Measurement Category under PAS 39</b>	<b>Original Carrying Amount Under PAS 39</b>	<b>New Measurement Category under PFRS 9</b>	<b>New Carrying Amount Under PFRS 9</b>
Cash	Loans receivables	and ₱10,694,196	Financial assets at amortized cost	₱10,694,196
Trade and other receivables*	Loans receivables	and 166,534,628	Financial assets at amortized cost	147,237,411
Due from related parties	Loans receivables	and 123,453,012	Financial assets at amortized cost	123,453,012
Advances to employees	Loans receivables	and 1,408,596	Financial assets at amortized cost	1,408,596
Equity investments**	AFS investments	1,312,871,168	Equity instruments at FVOCI	1,497,729,545

\*The change in the carrying amount is a result of the new impairment requirements of PFRS 9. See discussion below.

\*\*The change in the carrying amount is a result of new valuation requirements of PFRS 9.

(b) *Impairment*

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon adoption of PFRS 9, the Group recognized an additional impairment loss amounting to ₱19,297,217 on its trade and other receivables which resulted in a decrease in retained earnings of ₱19,297,217 as at January 1, 2018. As a result, the ending impairment allowance as at December 31, 2017 determined in accordance with PAS 39 amounting to ₱13,832,892 was adjusted, which resulted to an impairment allowance as at January 1, 2018 determined in accordance with PFRS 9 amounting to ₱33,130,109.

The Group has applied its existing governance framework to ensure that appropriate controls and validations are in place over key processes and judgments in implementing PFRS 9. The Group continues to refine its internal controls and processes which are relevant in the proper implementation of PFRS 9.

(c) *Hedge accounting*

The changes introduced by PFRS 9 relating to hedge accounting currently have no impact as the Group does not apply hedge accounting

- *Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two (2) options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach

retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies to all revenues arising from contracts with customers, unless those contracts are in the scope of other standards. PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers which are as follows:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with the customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted PFRS 15 using the modified retrospective method, effective January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the method only to contracts with customers that are not yet completed as at January 1, 2018.

The Group's revenue from contracts with customers include (i) broadband service contracts which are either offered separately or bundled with software licenses, (ii) contracts on sale and/or installation of software licenses, (iii) management service contracts and (iv) manpower augmentation service contracts.

The Group undertook a comprehensive analysis of the impact of the new revenue standard based on a review of the contractual terms of its principal revenue streams with the primary focus being to understand whether the timing and amount of revenue recognized could differ under PFRS 15.

The effect of adopting PFRS 15 as at January 1, 2018 is as follows:

<b>Increase in consolidated statements of financial position:</b>	<b>Adjustments</b>	<b>As at January 1, 2018</b>
<b>Assets</b>		
Contract asset	(a)	₱226,881
<b>Total assets</b>		<b>₱226,881</b>
<b>Equity</b>		
Retained earnings	(a)	₱226,881
<b>Total equity</b>		<b>₱226,881</b>

For most of the Group's revenue streams, the nature and timing of satisfaction of the performance obligations, and, hence, the amount and timing of revenue recognized under PFRS 15, is the same as that under PAS 18. The adoption of PFRS 15 however, modified the way the Group recognized its revenue from contracts with customers for broadband service contracts bundled with software licenses beginning January 1, 2018 as described below:

(a) *Broadband service contracts*

Prior to adoption of PFRS 15, the Group recognizes revenue from the broadband service contracts bundled with software licenses based on monthly fixed invoice amounts. Under PFRS 15, the Group assessed that broadband services are separate performance obligation from the bundled software

licenses and are capable of being distinct and separately identifiable. The Group performed a re-allocation of contract consideration based on the relative stand-alone selling prices of each performance obligation which decreased the amount allocated to broadband service.

Also, previously under PAS 18, revenue from the bundled software licenses were deferred and amortized over the contract period. Under PFRS 15, the customer obtains control when the licenses have been delivered to and accepted by them. As such, revenue should be recognized upon delivery. The impact of this change on items other than revenue is an increase in contract asset and retained earnings.

Except for the effect of the above changes, the adoption of PFRS 15 has no other impact to the consolidated statements of financial position, statements of income, statements of comprehensive income and statements of cash flows.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required. These amendments do not have any impact on the Group's consolidated financial statements.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

These amendments do not have any impact on the Group's consolidated financial statements since the Group does not have investment property.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

This interpretation does not have any impact on the consolidated financial statement since the Group's current practice is in line with the clarifications issued.

## Summary of Significant Accounting Policies

### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification. An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or

- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

#### Foreign Currency Translations

Transactions in foreign currencies are recorded using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange prevailing at the reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or financial statement date are credited to or charged against current operations.

The Group determines the functional currency for each entity within the Group and items included in the financial statements of each entity are measured using that functional currency. For subsidiary whose functional currency is different from the presentation currency, the Group translates the results of their operations and financial position into the presentation currency. As at the financial reporting date, the assets and liabilities presented (including comparatives) are translated into the presentation currency at the closing rate of exchange prevailing at the financial reporting date while the capital stock and other equity balances are translated at historical rates of exchange. The income and expenses for the profit or loss presented (including comparatives) are translated at the exchange rates at the dates of the transactions, where determinable, or at the weighted average rate of exchange during the reporting period. The exchange differences arising on the translation to the presentation currency are recognized as a separate component of equity under the "Cumulative translation adjustment" account in the consolidated statement of financial position.

The functional currency of the Group's subsidiaries is Philippine Peso, except for JSIT which is US dollar.

#### Cash

Cash includes cash on hand and with banks.

#### Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### *Financial Assets*

##### *Initial Recognition and Measurement*

Prior to January 1, 2018, financial assets within the scope of PAS 39 are classified, at initial recognition, as financial assets at FVTPL, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The Group determines the classification of its financial instruments on initial recognition and, where allowed and appropriate, re-evaluates this designation of each financial reporting date.

Beginning January 1, 2018 upon adoption of PFRS 9, financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI; FVOCI), and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are “solely payments of principal and interest (SPPI)” on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### *Subsequent Measurement*

Beginning January 1, 2018 under PFRS 9, for purposes of subsequent measurement, financial assets are classified in four (4) categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

#### *Financial Assets at Amortized Cost (Debt Instruments)*

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group’s financial assets at amortized cost includes cash, trade and other receivables and due from related parties. Prior to adoption of PFRS 9 on January 1, 2018, these financial assets were classified as loans and receivables.

#### *Financial Assets at FVOCI (Debt Instrument)*

The Group measures debt instruments at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group has no debt instruments at FVOCI as of December 31, 2018, 2017 and 2016.

#### *Financial Assets Designated at FVOCI (Equity Instruments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group elected to classify irrevocably its unquoted equity investment under this category. Prior to adoption of PFRS 9 on January 1, 2018, these unquoted equity investments were classified as AFS investments measured at cost.

*Loans and Receivables (Policy applicable prior to adoption of PFRS 9)*

Prior to January 1, 2018, loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as or designated as AFS financial assets or financial assets at FVTPL.

After initial measurement, loans and receivables are carried at amortized cost using the EIR method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are not integral part of the EIR. The amortization is included in "Interest income" account in the consolidated statement of income.

The losses arising from impairment of loans and receivables are recognized in the statement of income. The level of allowance for impairment losses is evaluated by management on the basis of the factors that affect the collectability of accounts. Loans and receivables are classified as current assets when it is expected to be realized within 12 months after the financial reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets. Classified under loans and receivables are cash, trade and other receivables, and due from related parties.

*AFS Investments (Policy applicable prior to adoption of PFRS 9)*

Prior to January 1, 2018, AFS investments are those non-derivative financial assets that are designated as such or are not classified as financial assets designated at FVTPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value with unrealized gains and losses being recognized as other comprehensive income (OCI) in the "Net accumulated unrealized gain on available-for-sale investments" account until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity are recognized in the profit or loss. The Group uses the specific identification method in determining the cost of securities sold. Interest earned on the investments is reported as interest income using the effective interest rate method. Dividends earned on investment are recognized in the profit or loss when the right to receive payment has been established.

AFS investments are classified as current if they are expected to be realized within 12 months from the financial reporting date. Otherwise, these are classified as noncurrent assets.

AFS investments include investment in unquoted equity investment.

*HTM Investments (Policy applicable prior to adoption of PFRS 9)*

Prior to January 1, 2018, HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Furthermore, the Group would be prohibited to classify any financial assets as HTM investments for the following two years. After initial measurement, HTM investments are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. Gains and losses are recognized in the profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process. The effect of restatement of foreign currency-denominated HTM investments are also recognized in profit or loss.

The Group has no HTM investments as of December 31, 2017, and 2016.

*Impairment of financial assets*

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions Note 3
- Trade and other receivables, and contract assets Notes 4 and 19
- Due from related parties Notes 9 and 19

Beginning January 1, 2018 upon adoption of PFRS 9, the Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a



significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Prior to adoption of PFRS 9, the Group assesses at each reporting date whether there is an objective evidence that a financial or group of financial asset is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Objective evidences of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group triggers its assessment whether its financial asset is in default when contractual payments are past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that does not have quoted price in an active market and that is not carried at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the unquoted equity instrument and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset such impairment loss shall not be reversed.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Other income" in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and that increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

#### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Write-offs*

The Group's write-off policy under PFRS 9 remained the same as it was under PAS 39. A financial asset together with the associated allowance is written off either partially or in their entirety when there is no realistic prospect of future recovery.

#### *Financial liabilities*

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities which include trade and other payables, due to related parties and long-term liabilities are classified as loans and borrowings.

##### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

##### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

##### *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of income.

This category is applied for those issued financial liabilities or their components where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares, which are not designated as financial liabilities at FVTPL.

##### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss.

##### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

##### Fair Value of Financial Instruments

The Group measures financial instruments, such as derivatives, financial assets through profit or loss, financial assets through other comprehensive income and AFS investments, at fair value at each reporting date.

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### "Day 1" Differences

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

#### Creditable Withholding Taxes (CWTs)

CWTs, included under "Other current assets" account in the consolidated statement of financial position, are amount withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve months are classified as current asset. CWTs are stated at NRV.

#### Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

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

#### Investment in Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate or is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax. When the Group's share of losses exceeds the Group's interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group have an obligation or have made payments on behalf of the investee. The consolidated financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as "Equity in net earnings of an associate" in profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

#### Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. The initial cost of property and equipment consists of purchase price, including import duties, nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment if the recognition criteria are met.

Depreciation is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Years
Transportation equipment	5
Office and IT equipment	5
Furniture and fixtures	2

Leasehold improvements are depreciated over their useful lives of five (5) years or the term of the lease, whichever is shorter.

The residual values, useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are maintained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, the cost, related accumulated depreciation and any allowance for impairment losses are removed from the accounts and any resulting gain or loss (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is credited to or charged against current operations.

#### Computer Software

Computer software is initially recognized at cost. Following initial recognition, the computer software is carried at cost less accumulated amortization and any accumulated impairment in value.

The computer software is amortized on a straight-line basis over its estimated useful economic life of three (3) years and is assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the computer software is available for use. The amortization period and the amortization method for the computer software are reviewed at each financial year end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treated a changes

in accounting estimates.

The net book value of Computer software is recognized as part of "Other noncurrent assets" account in the consolidated statement of financial position.

#### Impairment of Nonfinancial Assets

##### *Property and Equipment and Other Nonfinancial Assets*

The Group assesses at each reporting date whether there is an indication that its property and equipment and other nonfinancial assets may be impaired when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. Where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their estimated recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired nonfinancial asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss.

##### *Investment in Associate*

After the application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's investment in associate. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the investment in associate and the carrying cost and recognizes the amount as a reduction of the "Equity in net earnings of an associate" account in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds the Group's interest in an associate, the carrying amount of the investment, including long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group have an obligation or have made payments on behalf of the investee.

#### Capital Stock

The Group has issued capital stocks that are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction from proceeds. The excess of proceeds from issuance of share over the par value are credited to share premium.

#### Deficit

The amount included in deficit includes profits and losses attributable to the Group's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Group's stockholders. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Deficit may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

#### Deposit for Future Stock Subscription

Deposit for future stock subscription represents the amount received that will be applied as payment in exchange for a fixed number of the Group's own equity instruments. It is classified as an equity item if there is sufficient unissued authorized capital stock, or if in case the unissued authorized capital stock is insufficient to cover the amount of deposit, (a) the BOD and stockholders have approved a proposed increase in authorized capital stock

for which a deposit was received, and (b) the proposed increase was filed with the SEC as of financial reporting date; otherwise, the deposit is classified as a liability.

### Revenue Recognition

Beginning January 1, 2018, upon adoption of PFRS 15, the Group's revenue recognition is as follows:

#### *Revenue from Contracts with Customers*

The Group's revenue from contracts with customers generally include broadband service contracts which are either offered separately or bundled with software licenses, contracts on sale and/or installation of software licenses, management service contracts and manpower augmentation service contracts.

Revenue from contracts with customers is recognized when control of the services or goods are transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services or goods.

Revenue from broadband service contracts offered separately, management service contracts and manpower augmentation service contracts are based on a fixed sales price and are recognized over time because the customer simultaneously receives and consumes the benefits provided by the Group.

Meanwhile, revenue from contracts on sale and/or installation of software licenses are recognized at the point in time when substantial control on the goods or service is transferred to the customer. The revenue from these contracts are based on a fixed sales price.

Contracts from broadband service contracts bundled with software licenses are comprised of two performance obligations because the promise to provide broadband service and transfer software licenses are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the broadband services and software license. The Group recognizes revenue from broadband services over time because the customer simultaneously receives and consumes the benefits provided by the Group. Revenue from the transfer of software licenses are recognized at a point in time, generally upon the delivery of the software licenses when the control of the goods is transferred to the customers.

The revenues are presented as "Service fees" and "Sales" respectively, in the consolidated statement of income for the year ended December 31, 2018, 2017 and 2016.

The Group has concluded that it is acting as a principal in all its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

#### *Interest*

Interest income is recognized as interest accrues using the EIR.

Prior to adoption of PFRS 15, the Group's revenue recognition is as follows:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of Goods*

Sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyers and the amount of revenue can be measured reliably. Net sales is measured at the fair value of the consideration received, excluding sales taxes, discounts, returns and rebates, if any. Revenues that falls in this category includes sales of software licenses. Sales of goods are included under "Sales" in the consolidated statement of comprehensive income.

#### *Service, Marketing, Management and Consultancy Fees*

Fees are recognized when the related services have been rendered. Revenues that falls in this category include IT Manpower and Resource Augmentation, and Broadband services. Services, marketing, management and consultancy fees are included under "Service fees" in the consolidated statement of comprehensive income.

#### Contract Assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

#### Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

#### Cost and Expenses

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are recognized when the services are used or the expenses are incurred.

#### *Cost of Sales*

Beginning January 1, 2018, upon adoption of PFRS 15, cost of sales is recognized when the significant control of the goods have passed to the buyer upon delivery. Before adoption of PFRS 15, the cost of sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer upon delivery. This pertains to the cost of software licenses sold.

#### *Cost of Services*

Cost of services are direct costs incurred in relation to service revenues. This mainly consists of bandwidth and personnel costs.

#### *General and Administrative Expenses*

General and administrative expenses consist of expenses incurred in the direction and general administration of day-to-day operation of the Group and are generally recognized when the services are used or the expenses arise.

#### Retirement Benefit Plan

The Group operates a defined retirement benefit plan in the Philippines. These benefits are unfunded.

The defined benefit obligation is the aggregate of the present value of the defined benefit obligation at the end of the reporting period. The cost of providing benefits under the defined benefit plan is actuarially determined by an independent qualified actuary using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Interest expense on the defined benefit obligation
- Remeasurements of defined benefit obligation

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment occurs.

Interest expense on the defined benefit obligation is the change during the period in the defined benefit obligation that arises from the passage of time which is determined by applying the discount rate based on government bonds to the defined benefit obligation. Interest expense on the defined benefit obligation is recognized as expense in profit or loss.

Remeasurements comprising actuarial gains and losses (excluding interest expense on defined benefit obligation) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

### Taxes

#### *Current Tax*

Current tax liabilities for the current and prior periods are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

#### *Deferred Tax*

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carry forward benefits of unused tax credits in the form of net operating loss carryover (NOLCO) and minimum corporate income tax (MCIT) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted as of the reporting date.

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

### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and involves an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

#### *Operating Leases*

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessor. Lease payments under an operating lease are recognized as an expense on straight-line bases over the terms of the lease.

#### *Finance Lease Commitments - Group as Lessee*

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in the consolidated statement of comprehensive income.

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

### Provisions

Provisions, if any, are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.



Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements when an inflow of economic benefit is probable.

#### Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to common stockholders by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares.

#### Segment Reporting

For management purposes, the Group's operating segments are organized and managed separately according to the nature of the services offered.

The Group's identified operating segments are consistent with the segments reported to the BOD, which is the Group's chief operating decision maker. Financial information on the operating segments are presented in Note 20.

#### Events After the Financial Reporting Date

Events after the financial reporting date that provide additional information about the Group's financial position at the financial reporting date (adjusting events) are reflected in the consolidated financial statements. Events after the financial reporting date that are not adjusting events are disclosed in the notes to the consolidated financial statements.

#### Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

##### *Effective beginning on or after January 1, 2019*

- *Amendments to PFRS 9, **Prepayment Features with Negative Compensation***

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

These amendments have no impact on the consolidated financial statements of the Group.

- *PFRS 16, **Leases***

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two (2) recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two (2) types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16 in the Group's consolidated financial statements.

- *Amendments to PAS 19, Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

The Group is currently assessing the impact of adopting these amendments in the Group's consolidated financial statements.

- *Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

- *Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

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

The Group is currently assessing the impact of adopting this interpretation in the Group's consolidated financial statements.

#### *Annual Improvements to PFRSs 2015-2017 Cycle*

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Group current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

#### *Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

The amendments are not expected to have any impact on the Group's consolidated financial statements.

#### *Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

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

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

The core of PFRS 17 is the general model, supplemented by:

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

The amendments are not expected to have any impact on the Group's consolidated financial statements.

#### *Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

### 3. Significant Accounting Judgments and Estimates

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. The judgments and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates.

#### Judgments

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

#### *Determination of Significant Influence over an Associate*

The Group considers its 50% equity interest in Softweb Consulting, Inc. (Softweb) as investment in an associate. Critical judgment was exercised to assess the facts and circumstances indicating the elements of control or level of influence of the Group over Softweb. The Group has two (2) representatives out of the five (5) members of the board. Thus, the Group has determined that it has significant influence, but no control nor joint control, over the financial and operating policy decisions over Softweb.

#### *Revenue from Contracts with Customers (Applicable upon adoption of PFRS 15)*

Beginning January 1, 2018, the Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

##### *a) Identifying Performance Obligations*

The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

The Group assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if:

1. each distinct good or services in the series are transferred over time; and
2. the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation

The Group provides broadband services that are either sold separately or bundled with software licenses. The software licenses are a promise to transfer goods and are part of the negotiated exchange between the Group and the customer.

The Group determined that both the broadband services and transfer of software licenses are capable of being distinct. The fact that the Group regularly sells both broadband services and software licenses on a stand-alone basis indicates that the customer can benefit from both products on their own. The Group determined that the promise to provide broadband services and to transfer software licenses are distinct within the context of the contract. Consequently, the Group allocated a portion of the transaction price to the broadband services and the software licenses based on relative stand-alone selling prices.

##### *b) Revenue Recognition*

The Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Group concluded that revenue from broadband services, management services and manpower augmentation services are to be recognized over time, since customers simultaneously receive and consume the benefits as the Group provided the services. Other revenue sources are recognized at a point in time.

##### *c) Identifying Methods for Measuring Progress of Revenue Recognized Over Time*

The Group determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

Revenue from broadband services is recognized through the use of input method wherein recognition is over time based on the customer subscription period since the customer simultaneously receives and consumes the benefits as the seller renders the services.

#### *Operating Leases - Group as Lessee*

The Group has entered into commercial property leases on its offices. Based on an evaluation of the terms and conditions of the lease agreements, there will be no transfer of ownership of assets to the Group at the end of the lease term. The Group has determined that all significant risks and rewards of ownership are retained by the lessors. Thus, the leases are classified as operating leases.

#### *Finance Lease Commitments - Group as Lessee*

The Group has entered into leases of transportation equipment. The Group has determined that these lease arrangements (i.e. lease term is for the major part of the economic useful life of the asset) are finance leases since the significant risks and rewards of ownership related to these properties are transferred to the Group from the date of the lease agreement.

#### Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk causing material adjustments to the carrying amounts of the assets and liabilities within the next financial years are discussed below:

#### *Fair Value Measurement of Financial Instruments*

The fair values of financial instruments that are not quoted in active markets are determined using valuation techniques including discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. To the extent practicable, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments (see Note 19 to the consolidated financial statements for the fair values of financial instruments).

For the fair valuation of the investment in NOW Telecom, the key assumptions used by the Group in determining the present value of estimated future cash flows generated by frequencies with no comparable market value are as follows:

- *Discount rate*  
The discount rate is based on NOW Corporation's weighted average cost of capital. This rate is further adjusted to reflect the market assessment of any risk for which future estimates of cash flows have not been adjusted.
- *Long-term growth rate*  
Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at the terminal value.
- *Revenue growth rate*  
Revenue for the five-year period are forecasted using a growth rate which is within the industry outlook.

#### *Provision for Expected Credit Losses on Trade Receivables and Other Receivables and Contract Assets (Applicable upon adoption of PFRS 9)*

Beginning January 1, 2018, the Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns such as by product type and customer type and rating.

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

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

The information about the ECLs on the Group's trade and other receivables is disclosed in Note 4.

#### *Provision for Expected Credit Losses on Due from Related Parties (Applicable upon adoption of PFRS 9)*

Beginning January 1, 2018, ECL on due from related parties is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The Group considers the probability of its counterparty to default its obligation and the expected loss at default after considering the effects of collateral, any potential value when realized and time value of money. The assumptions underlying the ECL calculation are monitored and reviewed at every reporting period.

The Group incorporates a forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. To do this, management considered a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs.

No provision for ECL on due from related parties was recognized in 2018. Due from related parties amounted to ₱287,566,552 as of December 31, 2018 (see Note 9).

*Impairment of Trade and Other Receivables and Due from Related Parties (Applicable prior to adoption of PFRS 9)*

Prior to January 1, 2018, the Group maintains an allowance for impairment of receivables at a level that management considers adequate to provide for potential uncollectibility of its trade and other receivables. The Group evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Group uses judgment, based on available facts and circumstances, and based on a review of the factors that affect the collectibility of the accounts including, but not limited to, the age and status of the receivables, collection experience and past loss experience. The review is made by management on a continuing basis to identify accounts to be provided with allowance. The specific allowance is re-evaluated and adjusted as additional information received affects the amount estimated.

In addition to specific allowance against individually significant receivables, the Group also provides a collective impairment allowance against exposures, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on historical default experience.

The aggregate carrying amount of trade and other receivables amounted to ₱207,414,086, ₱167,943,224 and ₱115,532,368 as of December 31, 2018, 2017 and 2016, respectively (see Notes 4 and 19). The aggregate carrying amount of due from related parties amounted to ₱287,566,552, ₱123,453,012 and ₱99,526,454 as of December 31, 2018, 2017 and 2016 (see Notes 9 and 19). The total amount of provision for impairment recognized amounted to ₱724,729, ₱1,940 and ₱685,685 in 2018, 2017 and 2016, respectively (see Notes 4 and 16).

*Recoverability of Investment in NOW Telecom, Inc. (Applicable prior to the adoption of PFRS 9)*

The Group assesses at each reporting date whether there is any objective evidence that the investment in NOW Telecom is impaired. The Group has determined that NOW Telecom's continuing losses over the past several years is an objective evidence that the investment may no longer be recoverable.

When there is objective evidence of impairment, the Group is required to determine the recoverable amount of the investment, which is the sum of the (i) market value of comparable radio frequencies, and the (ii) present value of estimated future cash flows that can be generated by frequencies with no comparable market value.

i. *Market value of comparable radio frequencies*

Market value of comparable frequencies is the estimated market value of the radio frequencies owned by NOW Telecom based on the implied price per MHzPop of the most recent comparable market transaction involving buy-outs of entities with radio frequencies.

ii. *Present value of estimated future cash flows generated by radio frequencies with no comparable market value*

The key assumptions used by the Group in determining the present value of estimated future cash flows generated by frequencies with no comparable market value are as follows:

- *Discount rate*

The discount rate is based on NOW Corporation's weighted average cost of capital. This rate is further adjusted to reflect the market assessment of any risk for which future estimates of cash flows have not been adjusted.

- *Long-term growth rate*  
Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at the terminal value.
- *Revenue growth rate*  
Revenue for the five-year period are forecasted using a growth rate which is within the industry outlook.

No impairment loss on the investment in NOW Telecom was recognized in 2017 and 2016. The carrying amount of the investment in NOW Telecom amounted to ₱1,289,278,350 as of December 31, 2017 and 2016 (see Notes 6 and 19).

*Estimating Useful Lives of Property and Equipment, and Computer Software*

The Group estimates the useful lives of significant parts 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. In addition, the Group's estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. Depreciation and amortization charged to operations amounted to ₱7,309,611, ₱4,411,001 and ₱2,214,569 for the years ended December 31, 2018, 2017 and 2016, respectively (see Notes 7 and 16). The aggregate net book value of property and equipment amounted to ₱11,686,408, ₱8,711,463 and ₱6,614,680 as of December 31, 2018, 2017 and 2016, respectively (see Note 7). The net book value of computer software as of December 31, 2018, 2017, and 2016 amounted to ₱1,624,335, ₱9,965 and ₱59,702, respectively.

*Estimating Realizability of Deferred Income Tax Assets*

The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its deferred income tax assets to be utilized.

The Group did not recognize deferred income tax assets on temporary differences and carry forward benefits of unused NOLCO, unused tax credits from excess MCIT, allowance for impairment on trade and other receivables and others amounting to ₱37,354,235, ₱19,037,918 and ₱30,227,110 as of December 31, 2018, 2017 and 2016, respectively (see Note 17). The Group believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.



*Estimating Retirement Benefits*

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Future salary increases are based on expected inflation rates.

Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

Further details about assumptions used are provided in Note 12.

In 2018, the Group recognized retirement benefit expense amounting to ₱459,808. The Group has recognized retirement benefit obligation amounting to ₱975,690 as of December 31, 2018 (see Note 12). No retirement benefit expense was recognized in 2017 and 2016.

4. **Trade and Other Receivables**

	2018	2017	2016
Trade receivables:			
Related parties (Notes 9 and 19)	₱156,844,438	₱146,752,260	₱101,220,311
Third parties	82,595,527	31,403,489	24,581,615
Others (Notes 9 and 19)	1,828,959	3,620,367	3,566,889
	<b>241,268,924</b>	181,776,116	129,368,815
Less allowance for impairment losses	33,854,838	13,832,892	13,836,447
	<b>₱207,414,086</b>	₱167,943,224	₱115,532,368

Trade and nontrade receivables from third parties are noninterest-bearing and are generally on 30 to 60 days term.

Trade receivables from related parties are unsecured, noninterest-bearing and are to be settled upon demand.

Others include advances to officers and personnel, and outstanding loan receivable from Holy Cow Animation, Inc. (Holy Cow) (see Note 9).

Movement in allowance for impairment losses on trade receivables are as follows:

	2018	2017	2016
Balance at beginning of year	₱13,832,892	₱13,836,447	₱13,150,762
Impact of adoption of PFRS 9 (Note 2)	19,297,217	-	-
Balance at beginning of year, as adjusted	33,130,109	13,836,447	13,150,762
Provisions for the year (Note 16)	724,729	1,940	685,685
Recovery of previously recognized doubtful accounts	-	(5,495)	-
Balance at end of year	<b>₱33,854,838</b>	₱13,832,892	₱13,836,447

5. **Other Current Assets**

	2018	2017	2016
Prepayments	₱19,207,442	₱36,284,267	₱3,417,471
CWT – net	16,124,593	5,687,696	3,810,966
Deferred input VAT	1,893,143	1,735,627	–
Input VAT – net	1,621,803	2,882,411	285,426
Others	962,740	774,920	145,350
	<b>₱39,809,721</b>	<b>₱47,364,921</b>	<b>₱7,659,213</b>

Prepayments includes deferred transaction costs amounting to ₱13,379,420, ₱10,763,277 and nil as of December 31, 2018, 2017 and 2016, respectively, in connection with the Group’s planned offering of redeemable, convertible, non-participating and non-voting Peso-denominated preferred shares. As of April 12, 2019, the Group is in the process of securing the approval of the PSE of the said transaction (see Note 13). This also includes the prepayments made by the Parent Company in purchasing IBM Licenses related to installation of email system for the Supreme Court of the Philippines amounting to nil as of December 31, 2018, 2016 and ₱23,638,466 as of December 31, 2017.

Deferred input VAT is recognized for the unpaid services rendered to the Parent Company.

The Group has written-off CWT amounting to ₱706,270. No impairment loss on CWT is recognized in 2018, 2017 and 2016.

6. **Investments and Advances**

	2018	2017	2016
Financial assets at FVOCI	₱1,337,638,090	₱–	₱–
AFS investments	–	1,312,871,168	1,312,871,168
	<b>₱1,337,638,090</b>	<b>₱1,312,871,168</b>	<b>₱1,312,871,168</b>

*Financial assets at FVOCI/AFS Investments*

a. *NOW Telecom*

On April 28, 2006, the Group entered into a MOA with NOW Telecom and five (5) controlling stockholders of NOW Telecom namely, Top Mega Enterprise, Ltd, Joycelink Holdings, Ltd (Joyce Link), GHI, Emerald Investment, Inc., Food Camp Industries and Marketing, Inc. (the five companies are collectively referred to hereafter as NOW Telecom stockholders) to swap or exchange shares of stock.

Under the MOA, the Parent Company shall issue its shares in exchange for interest in NOW Telecom. The agreed upon swap of shares was subject to certain conditions, including necessary corporate and regulatory approvals. The MOA was approved by the Parent Company’s stockholders on June 2, 2006.

However, certain amendments were subsequently made to the MOA in view of the fact that upon further consultation with the PSE, it was determined that the Parent Company could not revise its primary purpose at that time. Hence, the stockholders approved the amendment in the MOA that there will be no change in the Parent Company’s primary purpose. Moreover, the Parent Company’s stockholders also approved the proposal that the Parent Company shall only acquire 19% equity interest in NOW Telecom and not 97% as originally intended. As a result, the Parent Company acquired 2,656,580 NOW Telecom shares constituting 19% equity interest in NOW Telecom, in exchange for new shares of the Parent Company, with par value of ₱1 with an aggregate value of ₱1,289,278,350, or effectively, at a price of ₱485.32 per NOW Telecom share.

The Parent Company applied for an increase in its authorized capital stock to accommodate the foregoing transaction (see Note 13).

In September 2006, the SEC issued Certificate of Approval of Valuation of Shares of Stock of NOW Telecom and Certificate of Increase in Capital Stock of the Parent Company.

In 2008, the PSE approved the application for the listing of the additional 1,289,278,350 common shares to cover the share-for-share swap transactions with the NOW Telecom shareholders.

On February 22, 2018, the franchise granted to NOW Telecom has been extended for another 25 years or until year 2043 under Republic Act No. 10972 which was signed for approval into law by the President of the Republic of the Philippines. With the said law, NOW Telecom, as a telecommunications company, now has privileges similar to those granted to existing dominant players in the industry.

*b. Thumbmob Philippines, Inc. and Holy Cow Animation, Inc.*

The Group entered into agreements with Thumbmob and Holy Cow for the subscription of Thumbmob and Holy Cow shares. Holy Cow is a full service animation studio that produces 2D, 3D, Flash and HTML5 animation and special effect animation for the media and entertainment business. Thumbmob develops, publishes, and distributes games and applications for social networking and mobile environments. It serves brands, businesses, and institutions.

On September 27, 2018, the advances made for the subscription are sold to Joyce Link (see Note 9).

Set out below is the reconciliation between the carrying amounts of AFS investment reported under PAS 39 to the balances reported under PFRS 9 as at January 1, 2018:

AFS investment as at December 31, 2017	₱1,312,871,168
Impact of adoption of PFRS 9	
Reclassifications to financial asset at FVOCI (Note 2)	(1,312,871,168)
<u>AFS investment as at January 1, 2018</u>	<u>₱-</u>

As at December 31, 2018, the movements in the financial asset at FVOCI is as follow:

Reclassification to financial asset at FVOCI (Note 2)	₱1,312,871,168
Adjustment on FVOCI as at January 1, 2018	184,858,377
<u>Financial assets at FVOCI as at January 1, 2018</u>	<u>1,497,729,545</u>
Changes in fair value of equity instrument at FVOCI	(136,498,637)
Sale of equity instruments at FVOCI (Note 9)	(23,592,818)
<u>Financial assets at FVOCI as at December 31, 2018</u>	<u>₱1,337,638,090</u>

In 2018, the Group sold its equity interest in Thumbmob and Holy Cow as these investments no longer coincides with the Group's investment strategy. The fair value on the date of sale is ₱23,592,818 which is equal to the carrying value of the investments. No gain or loss was recognized in the sale. No accumulated gain or loss recognized in OCI was transferred to retained earnings.

The movements of the net accumulated unrealized gain related to financial asset at FVOCI in 2018 are presented in the 2018 consolidated statement of comprehensive income with details as follows:

Impact of adoption of PFRS 9 as at January 1, 2018 (Note 2)	₱184,858,377
<u>Changes in fair value of equity instrument at FVOCI during the year</u>	<u>(136,498,637)</u>
<u>Net accumulated unrealized gain on financial asset at FVOCI as at December 31, 2018</u>	<u>₱48,359,740</u>

*AFS financial assets*

Prior to adoption of PFRS 9, the Group's investment in NOW Telecom, Thumbmob and Holycow amounting to ₱1,312,871,168 was previously classified as AFS investment measured at cost. No impairment loss was recognized in 2017 and 2016.

*Investment in an Associate*

*a. Softweb Consulting, Inc.*

On December 20, 2010, the Group entered into a subscription agreement with Softweb for an investment amounting to ₱6,000,000, representing a 50% interest in Softweb.

Softweb specializes in Lotus consulting and training services as well as comprehensive Domino working solutions. As an IBM partner, Softweb offers the full range of IBM services and licensed products integrated in its own list of business solutions, software development and training.

As of December 31, 2018, 2017 and 2016, the Group's share in losses of Softweb have already exceeded the cost of investment. The Group only recognizes the loss to the extent of the cost of investment. Accordingly,

the carrying amount of investment in Softweb as of December 31, 2018, 2017 and 2016 is nil. The Group does not have any legal or constructive obligation to make payments on behalf of Softweb.

The unrecognized share in net loss amounted to ₱7,077,304 as of December 31, 2018, 2017 and 2016.

The Group has advances to Softweb amounting to ₱5,000,000. This pertains to deposit for future stock subscription in Softweb pending the increase in its authorized capital stock. In 2016, the Group recognized provision for impairment loss on its advances to Softweb amounting to ₱5,000,000 (see Notes 9 and 16).

## 7. Property and Equipment

### 2018

	Leasehold Improvements	Transportation Equipment	Office and IT Equipment	Furniture and Fixtures	Total
<b>Cost:</b>					
Balances at beginning of year	₱4,937,446	₱15,989,027	₱22,531,141	₱1,393,888	₱44,851,502
Additions	–	3,835,981	6,391,875	55,975	10,283,831
Balances at end of year	4,937,446	19,825,008	28,923,016	1,449,863	55,135,333
<b>Accumulated depreciation and amortization:</b>					
Balances at beginning of year	4,880,447	15,337,824	14,656,989	1,264,779	36,140,039
Depreciation and amortization for the year (Note 16)	56,999	735,537	6,477,059	39,291	7,308,886
Balances at end of year	4,937,446	16,073,361	21,134,048	1,304,070	43,448,925
Net book value	₱–	₱3,751,647	₱7,788,968	₱145,793	₱11,686,408

### 2017

	Leasehold Improvements	Transportation Equipment	Office and IT Equipment	Furniture and Fixtures	Total
<b>Cost:</b>					
Balances at beginning of year	₱4,937,446	₱15,860,277	₱16,201,844	₱1,393,888	₱38,393,455
Additions	–	128,750	6,329,297	–	6,458,047
Balances at end of year	4,937,446	15,989,027	22,531,141	1,393,888	44,851,502
<b>Accumulated depreciation and amortization:</b>					
Balances at beginning of year	4,445,217	15,191,753	10,945,948	1,195,857	31,778,775
Depreciation and amortization for the year (Note 16)	435,230	146,071	3,711,041	68,922	4,361,264
Balances at end of year	4,880,447	15,337,824	14,656,989	1,264,779	36,140,039
Net book value	₱56,999	₱651,203	₱7,874,152	₱129,109	₱8,711,463

### 2016

	Leasehold Improvements	Transportation Equipment	Office and IT Equipment	Furniture and Fixtures	Total
<b>Cost:</b>					
Balances at beginning of year	₱4,937,446	₱15,169,919	₱11,440,365	₱1,393,888	₱32,941,618
Additions	–	690,358	4,761,479	–	5,451,837
Balances at end of year	4,937,446	15,860,277	16,201,844	1,393,888	38,393,455
<b>Accumulated depreciation and amortization:</b>					
Balances at beginning of year	3,944,495	14,795,001	9,863,876	1,087,739	29,691,111

Depreciation and amortization for the year (Note 16)	500,722	396,752	1,082,072	108,118	2,087,664
Balances at end of year	4,445,217	15,191,753	10,945,948	1,195,857	31,778,775
Net book value	<b>₱492,229</b>	<b>₱668,524</b>	<b>₱5,255,896</b>	<b>₱198,031</b>	<b>₱6,614,680</b>

Cost of fully depreciated assets still in use amounted to ₱23,332,218, ₱17,836,276 and ₱17,134,057 as of December 31, 2018, 2017 and 2016, respectively.

#### 8. Accounts Payable and Accrued Expenses

	2018	2017	2016
Trade payables:			
Third parties	<b>₱35,794,933</b>	₱59,917,133	₱22,510,846
Related parties (Notes 9 and 19)	<b>12,177,558</b>	16,396,954	18,808,706
Accrued expenses:			
Interest (Notes 9 and 19)	<b>59,903,586</b>	59,903,586	59,903,586
Others	<b>22,454,270</b>	11,563,299	8,432,065
Deferred output VAT	<b>25,320,246</b>	14,954,494	9,265,728
Withholding tax payable	<b>1,001,869</b>	1,331,793	721,643
	<b>₱156,652,462</b>	₱164,067,259	₱119,642,574

Trade payables from third parties are noninterest-bearing and are generally on 30 to 60 days' term. Trade and nontrade payables from related parties are unsecured, noninterest-bearing and are to be settled upon demand.

#### 9. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form. Unless otherwise indicated, settlement of outstanding balances of related party transactions at year-end are expected to be settled with cash.

The Group entered into transactions with related parties, principally consisting of the following:

- a. In 2018, the Group Company entered into a deed of sale with Joyce Link to sell the following advances and receivables to the latter in exchange for a one-year 8% convertible promissory note at the option of the holder amounting to ₱91,521,581 which corresponds to the total carrying amount of the advances and receivables. Accordingly, no gain or loss was recognized on the transaction.

Related Party	Category	Amount
Thumbmob	Advances	₱14,344,369
Holycow	Advances, Loans and Interest	11,616,220
Softweb	Trade receivables	34,372,311
	Loans and Interest	714,000
	Advances - net	483,228
IBI	Advances	15,567,752
	Interest	12,263,401
Porteon	Loans	2,160,300

Interest income earned from the promissory note amounted to ₱980,802 in 2018 and is recognized as part of the advances to Joyce Link.

- b. On August 30, 2005, the Parent Company entered into a Loan Agreement with IBI for research and development purposes in connection with IBI's plan to expand its IT platform and introduce IT-related products and services. The loan is subject to 9.0% interest per annum and is payable no later than August 30, 2010. Partial pre-payments on the principal may be made prior to this date. The interest is due and demandable only on maturity date. Interest was reduced by the parties to 5.5% per annum in 2007 and shall be subject to annual repricing subsequent to 2007.

On June 25, 2010, both parties agreed to extend the maturity of the loan from August 30, 2010 to August 30, 2012. On August 31, 2012, both parties agreed to further extend the maturity of the loan up to August 30, 2015, with the interest rate further reduced to 3% per annum starting January 1, 2013. On August 31, 2015, both parties agreed to extend the maturity of the loan to five (5) years ending August 30, 2020. Interest was retained at 3% per annum.

On September 27, 2018, the loan and the corresponding interest was transferred to Joyce Link which effectively terminated the loan agreement between the parties.

Interest income amounted to ₱333,409, ₱467,033 and ₱467,033 in 2018, 2017 and 2016, respectively, and is reflected as part of "Others Income". As of December 31, 2018, 2017 and 2016, amounts owed by IBI, including interest, amounted to nil, ₱27,497,744 and ₱27,030,711, respectively. IBI is an entity under common control.

- c. As of December 31, 2018, 2017 and 2016 the Group has outstanding liabilities to Emerald Investment, Inc. (EII) amounting to ₱2,902,918 which arose from the Group's sub-lease agreement with EII that ended in 2011.
- d. On January 1, 2013, the Parent Company renewed its service agreement with KPSC for a period of four (4) years beginning January 1, 2013 to December 31, 2016. On January 3, 2017, the Parent Company renewed its service agreement with KPSC for a period of five (5) years beginning January 3, 2017 up to January 2, 2022.

Under the service agreement, KPSC shall provide consultancy and manpower services depending on the services specifically required by the Group. Amounts owed to KPSC, in relation to the service agreement, amounted to ₱8,819,096, ₱13,038,492 and ₱15,450,244 as of December 31, 2018, 2017 and 2016, respectively.

Previously, the Group's administrative and management functions, including key management personnel, are being handled by personnel of KPSC. Outside services incurred by the Group for the provision of key management personnel services that are provided by the KPSC amounted to nil, ₱2,863,646, and ₱6,176,177 in 2018, 2017 and 2016, respectively. In February 2017, the administrative and management functions, including key management personnel, were transferred from KPSC to the Parent Company.

Compensation of identified key management personnel both from the Group and under KPSC, classified as short-term and post-employment benefits, amounted to ₱10,916,783, ₱9,124,721, ₱6,176,177 in 2018, 2017 and 2016, respectively.

- e. Due to related parties include interest bearing advances from Velarde, Inc. for working capital and investment requirements.

On January 22, 2015, Velarde, Inc. agreed to convert its advances amounting to ₱200,000,000 into equity interest in the Parent Company for 200,000,000 common shares with a par value of ₱1. It was further agreed that the remaining balances and subsequent advances from Velarde, Inc. shall no longer be subject to interest and shall be due on demand (see Note 13).

On April 29, 2016, the Parent Company's BOD approved the conversion into equity of the advances from Velarde, Inc. amounting to ₱264,000,000 at a conversion price of ₱1.22 per share computed on the volume-weighted average price of the Parent Company's shares for a 30-day trading period ended April 14, 2016. On June 2, 2016, the stockholders of the Parent Company approved the said increase in the Parent Company's authorized capital stock.

On June 20, 2016, additional advances were incurred from Velarde Inc., through the latter's payment of the loans payable to bank on behalf of the Parent Company amounting to ₱44,500,000 (see Notes 11 and 19). On October 11, 2018, the Parent Company's BOD approved the conversion into equity of the advances from Velarde, Inc. amounting to ₱209,000,000 at a conversion price of ₱6.50 per share computed on the volume-weighted average price of the Parent Company's shares for a 30-day trading period ended October 11, 2018. The conversion is approved by the shareholders on March 8, 2019 and is yet to be filed in SEC as of April 12, 2019.

Outstanding accrued interest presented as part of the "Accounts payable and accrued expenses" amounted to ₱59,903,586 as of December 31, 2018, 2017 and 2016 (see Notes 8 and 19).

Due to Velarde, Inc. presented as part of "Due to related parties" amounted to ₱254,613,559, ₱141,326,966 and ₱68,322,816 as of December 31, 2018, 2017 and 2016, respectively.

- f. On January 1, 2011, the Group entered into a sublease contract with I-College Philippines, Inc. (I-College) for the period November 1, 2011 to May 31, 2012 with a monthly rental fee of ₱77,526. The term of the lease can be renewed upon mutual consent of both parties. The most recent renewal of this sublease agreement is for a period of three (3) years from November 1, 2017 to October 31, 2020. All other terms and conditions of the sublease agreement dated January 1, 2011 remain in full force.

Rent expense incurred by the Group amounted to ₱930,313 in 2018, 2017 and 2016. In connection with this, the related due to I-College amounted to ₱6,667,238, ₱5,736,925 and ₱4,806,612 as of December 31, 2018, 2017 and 2016, respectively.

- g. The Group sells IBM licenses to Softweb, an associate. Sales of IBM license to Softweb amounted to nil in 2018 and 2017 and ₱5,412,232 in 2016.

Trade receivables from Softweb totalling to ₱34,372,311 was transferred to Joyce Link in 2018. The Group has outstanding receivables from Softweb amounting to nil as of December 31, 2018 and ₱34,372,311 as of December 31, 2017 and 2016. The Group also transferred to Joyce Link its loans and net advances to Softweb amounting to ₱714,000 and ₱483,228, respectively.

- h. *Infrastructure build-up*

In January 2015, the Parent Company entered into two (2) separate one-year service agreements with GHT Network, Inc. (GHT) and News and Entertainment Network, Inc. (Newsnet) to provide bandwidth services to its customers. The Parent Company provided the infrastructure build-up and technology design and consultancy.

In 2016, the Parent Company amended its contracts with GHT and Newsnet, and includes NOW Telecom whereas the Parent Company will provide project management services, design and planning services and installation services covering up to 10 major network hubs for a contract price of ₱45,000,000 each. Right to receive payments arise upon acceptance of GHT, Newsnet and NOW Telecom of completed hubs. Payments are due upon receipt of invoice.

In 2018, the contracts were amended to include an additional one (1) and two (2) network hubs for Newsnet and GHT, respectively, with the same terms and conditions as the contracts entered in 2016.

A total of four (4), nine (9) and 10 network hubs were completed in 2018, 2017 and 2016, respectively. Service revenue recognized related to infrastructure build-up amounted to ₱10,000,000 each for GHT and Newsnet in 2018, ₱20,000,000 for GHT and ₱25,000,000 for Newsnet in 2017 and ₱15,000,000 each for GHT and Newsnet in 2016.

- i. *Technical services*

Included in the contract entered in 2016, the Parent Company will provide technology consultancy services for a period of ten (10) years with a monthly fee of ₱50,000 each for GHT and Newsnet. The parties mutually agreed to defer this arrangement in 2018 since no technical services related to the project was provided to GHT and Newsnet during the year. Service revenue recognized amounted to ₱600,000 and ₱450,000 each for GHT and Newsnet in 2017 and 2016, respectively. No such revenue was recognized in 2018.

In 2016, the Parent Company provided technical service related to NOW Telecom for a service revenue amounting to ₱7,500,000.

- j. *Value-added services (VAS)*

In 2015, the Parent Company entered into three (3) separate agreements with NOW Telecom, GHT and Newsnet (the Parties), wherein the Parties mutually agreed to collaborate and interconnect their respective networks in order for the Parent Company to provide VAS to the public such as cloud hosting services, virtual private network, multimedia content and program services, online game services, cloud-based multimedia conferencing services, web hosting and cloud-based mail and messaging services (VAS contracts).

On December 5, 2016, the Parties agreed to amend Chapter 5 of their VAS contracts to add provision on revenue sharing from the broadband revenue.

On December 23, 2016, the Parties further agreed to amend their VAS contracts to include additional fees from actual usage of bandwidth and other provision on charging to the Parent Company on a cost-plus margin arrangement.

In January 2018, the Parties further agreed to amend their VAS contracts to include additional fees for the use of the network equipment of NOW telecom, GHT and Newsnet.

Total cost of data services charged to cost of services amounted to ₱15,664,294, ₱3,121,774 and ₱1,696,912 in 2018, 2017 and 2016, respectively.

k. *Management fees*

The Parent Company entered into a contract with Asian Institute of Journalism and Communication (AIJC) to provide management services commencing from January 1, 2018 to December 31, 2020 with an agreed monthly fee of ₱20,000. Service revenue related to management consultancy services to AIJC amounted to ₱240,000 in 2018.

The Parent Company also entered into a contract with GHT for the management of the latter's renewal of franchise in 2018 in exchange for an amount totalling to ₱12,000,000 in 2018. The contract was finalized in September 2018 after the approval of renewal of franchise of GHT.

In March 2018, Parent Company also entered into a contract with NOW Tel for the services rendered in relation to the latter's renewal of franchise in 2018 amounting to ₱10,000,000. The contract was finalized in March 2018 after the approval of renewal of franchise of NOW Tel.

Another management service contract was entered into by the parties in January 2018 for NOW Tel's bidding on the selection of new major player (NMP) in the public telecommunications market as spearheaded by NTC. Revenue recognized in 2018 from the contract amounted to ₱15,000,000 after the completion of the selection of NMP in October 2018.

Parent Company also entered into a contract with NOW Telecom to provide management consultancy services commencing from January 2017 to January 2020 with an agreed monthly fee of ₱650,000. Service revenue related to management consultancy services to NOW Telecom amounted to ₱7,800,000 each in 2018 and 2017.

The Group charges Velarde, Inc. management fees for the administration and operations of the companies. Payments are due within five (5) days upon receipt of invoice. Management fees charged to Velarde, Inc. amounted to ₱240,000 in 2018, 2017 and 2016. Outstanding trade receivables from Velarde, Inc. amounting to ₱1,920,000, ₱1,680,000 and ₱1,440,000 as of December 31, 2018, 2017 and 2016, respectively.

l. The Group has various advances to and from its related parties which pertain to working capital and administrative requirements.

The Group entered into a non-interest bearing loan agreement with Porteon Electric Vehicles, Inc. (Porteon). The loan was sold to Joyce Link during the year which effectively terminated the loan agreement between the two (2) parties. Outstanding amount due from Porteon Electric Vehicles, Inc. amounted to nil as of December 31, 2018 and ₱2,160,300 as of December 31, 2017 and 2016 which is due on demand.

The Group made various advances to NOW Telecom, Paradiso Verde, GHT, Newsnet, AIJC, KPSC and EII for working capital requirements. The Group also has outstanding liabilities to NOW Telecom and Paradiso Verde.



<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Transaction amount</b>	<b>Due from related parties</b>	<b>Trade and other receivables</b> (Notes 4 and 19)	<b>Due to related parties</b>	<b>Trade and other payables</b> (Note 8 and 19)	<b>Advances to affiliates</b> (Note 6)	<b>Terms</b>	<b>Conditions</b>
<i>Shareholders</i>										
Velarde, Inc.	<b>Advances</b>	<b>2018</b>	<b>₱113,286,593</b>	<b>₱-</b>	<b>₱-</b>	<b>₱254,613,559</b>	<b>₱-</b>	<b>₱-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2017</b>	<b>₱73,004,050</b>	<b>₱-</b>	<b>₱-</b>	<b>₱141,326,966</b>	<b>₱-</b>	<b>₱-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2016</b>	<b>₱73,626,954</b>	<b>₱-</b>	<b>₱-</b>	<b>₱68,322,816</b>	<b>₱-</b>	<b>₱-</b>	<b>On demand</b>	<b>Unsecured</b>
	<b>Management fee</b>	<b>2018</b>	<b>240,000</b>	<b>-</b>	<b>1,920,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>240,000</b>	<b>-</b>	<b>1,680,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	<b>240,000</b>	<b>-</b>	<b>1,440,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
	<b>Interest</b>	<b>2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,903,586</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,903,586</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,903,586</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
GHI	<b>Advances</b>	<b>2018</b>	<b>-</b>	<b>2,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2017</b>	<b>2,000</b>	<b>2,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
EII	<b>Advances</b>	<b>2018</b>	<b>-</b>	<b>40,848</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>-</b>	<b>40,848</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	<b>-</b>	<b>40,848</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
	<b>Leases</b>	<b>2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,902,918</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,902,918</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,902,918</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>

(Forward)

<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Transaction amount</b>	<b>Due from related parties</b>	<b>Trade and other receivables</b> (Notes 4 and 19)	<b>Due to related parties</b>	<b>Trade and other payables</b> (Note 8 and 19)	<b>Advances to affiliates</b> (Note 6)	<b>Terms</b>	<b>Conditions</b>
Joyce Link	<b>Advances</b>	<b>2018</b>	<b>₱91,521,581</b>	<b>₱91,521,581</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>Due within 1 year</b>	<b>Secured</b>
		<b>2017</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>-</b>	<b>-</b>
		<b>2016</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>-</b>	<b>-</b>
	<b>Interest</b>	<b>2018</b>	<b>980,802</b>	<b>980,802</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>Due within 1 year</b>	<b>Secured</b>
		<b>2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
		<b>2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Affiliates</i>										
NOW Telecom	<b>Advances</b>	<b>2018</b>	<b>91,008,956</b>	<b>154,754,395</b>	<b>-</b>	<b>878,208</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>12,398,938</b>	<b>63,745,439</b>	<b>-</b>	<b>878,208</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	<b>2,704,687</b>	<b>51,346,501</b>	<b>-</b>	<b>878,208</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
	<b>Services</b>	<b>2018</b>	<b>32,800,000</b>	<b>-</b>	<b>40,486,900</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	<b>7,800,000</b>	<b>-</b>	<b>13,102,508</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2016</b>	<b>7,500,000</b>	<b>-</b>	<b>8,400,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured, no impairment</b>
KPSC	<b>Advances</b>	<b>2018</b>	<b>-</b>	<b>209,708</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2017</b>	<b>5,000</b>	<b>209,708</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2016</b>	<b>-</b>	<b>204,708</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
	<b>Outside services</b>	<b>2018</b>	<b>26,650,140</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,819,096</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2017</b>	<b>41,998,319</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,038,492</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>
		<b>2016</b>	<b>50,716,312</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,450,244</b>	<b>-</b>	<b>On demand</b>	<b>Unsecured</b>

Related parties (Forward)	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Notes 4 and 19)	Due to related parties	Trade and other payables (Note 8 and 19)	Advances to affiliates (Note 6)	Terms	Conditions	
IBI	Advances	2018	P-	P-	P-	P-	P-	P-	Due within 5 years	Unsecured, no impairment	
		2017	P-	P15,567,752	P-	P-	P-	P-	- Due within 5 years	Unsecured, no impairment	
		2016	P-	P15,567,752	P-	P-	P-	P-	- Due within 5 years	Unsecured, no impairment	
	Interest	2018	333,409	-	-	-	-	-	-	Due within 5 years	Unsecured, no impairment
		2017	467,033	11,929,992	-	-	-	-	-	- Due within 5 years	Unsecured, no impairment
		2016	467,033	11,462,959	-	-	-	-	-	- Due within 5 years	Unsecured, no impairment
	Asian Institute of Journalism and Communication	Advances	2018	81,087	570,196	-	-	-	-	- On demand	Unsecured, no impairment
			2017	18,048	489,109	-	-	-	-	- On demand	Unsecured, no impairment
			2016	1,039	471,061	-	-	-	-	- On demand	Unsecured, no impairment
	Management fee	2018	240,000	-	240,000	-	-	-	- On demand	Unsecured, no impairment	
		2017	-	-	-	-	-	-	-	-	
		2016	-	-	-	-	-	-	-	-	
Paradiso Verde, Inc.	Advances	2018	-	-	-	-	3,358,462	-	- On demand	Unsecured	
		2017	-	-	-	-	3,358,462	-	- On demand	Unsecured	
		2016	-	-	-	-	3,358,462	-	-	Unsecured	
	Services	2018	-	-	-	P605,212	-	-	- On demand	Unsecured, no impairment	
		2017	-	-	-	605,212	-	-	- On demand	Unsecured, no impairment	
		2016	-	-	-	605,212	-	-	- On demand	Unsecured, no impairment	



Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Notes 4 and 19)	Due to related parties	Trade and other payables (Note 8 and 19)	Advances to affiliates (Note 6)	Terms	Conditions	
	Services	2018	22,000,000	–	65,332,304	–	–	–	On-demand	Unsecured, impairment	no
		2017	20,600,000	–	44,032,048	–	–	–	–	Unsecured, no impairment	
		2016	15,450,000	–	28,504,000	–	–	–	–	–	
(Forward)											
Holycow	Loans	2018	₱–	₱–	₱–	₱–	₱–	₱–	On demand	Unsecured, impairment	no
		2017	₱–	₱–	₱2,211,771	₱–	₱–	₱–	On demand	Unsecured, no impairment	
		2016	₱–	₱–	₱2,211,771	₱–	₱–	₱–	On demand	Unsecured, no impairment	
	Interest	2018	–	–	–	–	–	–	On demand	Unsecured, impairment	no
		2017	–	156,000	–	–	–	–	On demand	Unsecured, no impairment	
		2016	–	156,000	–	–	–	–	On demand	Unsecured, no impairment	
	Advances	2018	–	–	–	–	–	–	On demand	Unsecured, impairment	no
		2017	–	–	–	–	–	9,248,449	On demand	Unsecured, no impairment	
		2016	–	–	–	–	–	9,248,449	On demand	Unsecured, no impairment	
Thumbmob	Advances	2018	–	–	–	–	–	–	On demand	Unsecured, impairment	no
		2017	–	–	–	–	–	14,344,369	On demand	Unsecured, no impairment	
		2016	–	–	–	–	–	14,344,369	On demand	Unsecured, no impairment	

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Notes 4 and 19)	Due to related parties	Trade and other payables (Note 8 and 19)	Advances to affiliates (Note 6)	Terms	Conditions	
I-College	Advances	2018	11,241	11,961	–	–	–	–	On demand	Unsecured, impairment	no
		2017	–	720	–	–	–	–	On demand	Unsecured, no impairment	
		2016	–	720	–	–	–	–	–	–	–
	Lease	2018	930,313	–	–	6,667,238	–	–	On demand	Unsecured	
		2017	930,313	–	–	5,736,925	–	–	On demand	Unsecured	
		2016	930,313	–	–	4,806,612	–	–	On demand	Unsecured	
(Forward)	Loans	2018	P59,631	P–	P183,435	P–	P–	On demand	Unsecured, impairment	no	
2017		P44,837	P–	123,804	P–	P–	On demand	Unsecured, no impairment			
Associate	Softweb	Advances	2018	–	–	–	–	–	On demand	Unsecured	
2017			–	487,344	2,380,860	4,116	–	–	On demand	Unsecured	
2016			–	487,344	2,380,860	4,816	–	–	On demand	Unsecured	
	Loans	2018	–	–	–	–	–	–	On demand	Unsecured, impairment	no
		2017	–	714,000	–	–	–	–	On demand	Unsecured, no impairment	
		2016	–	714,000	–	–	–	–	On demand	Unsecured, no impairment	
	Sales	2018	–	–	–	–	–	–	On demand	Unsecured, impairment	no

<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Transaction amount</b>	<b>Due from related parties</b>	<b>Trade and other receivables (Notes 4 and 19)</b>	<b>Due to related parties</b>	<b>Trade and other payables (Note 8 and 19)</b>	<b>Advances to affiliates (Note 6)</b>	<b>Terms</b>	<b>Conditions</b>
		<b>2017</b>	–	–	16,401,451	–	–	–	On demand	Unsecured, no impairment
		<b>2016</b>	5,412,232	–	16,401,451	–	–	–	On demand	Unsecured, no impairment
	<b>Management fee</b>	<b>2018</b>	–	–	–	–	–	–	<b>On demand</b>	<b>Unsecured, no impairment</b>
		<b>2017</b>	–	–	15,590,000	–	–	–	On demand	Unsecured, no impairment
		<b>2016</b>	–	–	15,590,000	–	–	–	On demand	Unsecured, no impairment
			<b>2018</b>	<b>₱287,566,552</b>	<b>₱156,844,438</b>	<b>₱265,667,135</b>	<b>₱72,081,144</b>	<b>₱–</b>		
			<b>2017</b>	<b>₱123,453,012</b>	<b>₱148,964,031</b>	<b>₱151,454,345</b>	<b>₱76,300,540</b>	<b>₱23,592,818</b>		
			<b>2016</b>	<b>₱99,526,454</b>	<b>₱103,432,082</b>	<b>₱77,520,582</b>	<b>₱78,712,292</b>	<b>₱23,592,818</b>		

Summary of related party transactions affecting consolidated statements of income:

Related parties	Category	Year	General and		
			Revenues	Cost of sales and services	administrative expenses
Velarde Inc.	Management fee	2018	<b>₱240,000</b>	₱-	₱-
		2017	₱240,000	₱-	₱-
		2016	₱240,000	₱-	₱-
NOW Telecom	Management fee	2018	<b>32,800,000</b>	-	-
		2017	7,800,000	-	-
		2016	-	-	-
	Services	2018	-	-	-
		2017	-	-	-
		2016	7,500,000	-	-
	Cost of data services	2018	-	<b>3,922,957</b>	-
		2017	-	1,757,720	-
		2016	-	779,715	-
	Lease	2018	-	-	<b>120,000</b>
		2017	-	-	120,000
	Newsnet	Services	2018	<b>10,000,000</b>	-
2017			25,600,000	-	-
2016			15,450,000	-	-
Cost of data services		2018	-	<b>10,041,776</b>	-
		2017	-	1,364,054	-
		2016	-	1,696,912	-
GHT	Services	2018	<b>10,000,000</b>	-	-
		2017	20,600,000	-	-
		2016	15,450,000	-	-
	Management fee	2018	<b>12,000,000</b>	-	-
		2017	-	-	-
		2016	-	-	-
	Cost of data services	2018	-	<b>1,699,561</b>	-
		2017	-	-	-
		2016	-	-	-
IBI	Interest	2018	<b>333,409</b>	-	-
		2017	467,033	-	-
		2016	467,033	-	-
KPSC	Outside services	2018	-	<b>24,343,211</b>	<b>2,306,929</b>
		2017	-	39,355,462	2,642,857
		2016	-	43,226,619	7,489,693
Softweb	Sales	2018	-	-	-
		2017	-	-	-
		2016	5,412,232	-	-
Asian Institute of Journalism and Communication	Management fee	2018	<b>240,000</b>	-	-
		2017	-	-	-
		2016	-	-	-



<b>Related parties</b>	<b>Category</b>	<b>Year</b>	<b>Revenues</b>	<b>Cost of sales and services</b>	<b>General and administrative expenses</b>
Joyce Link	<b>Interest</b>	<b>2018</b>	<b>980,802</b>	—	—
		<b>2017</b>	—	—	—
		<b>2016</b>	—	—	—
(Forward)					
Paradiso Verde	<b>Revenue</b>	<b>2018</b>	<b>₱11,700,000</b>	<b>₱—</b>	<b>₱—</b>
		<b>2017</b>	—	—	—
		<b>2016</b>	—	—	—
I-College	<b>Lease</b>	<b>2018</b>	—	—	<b>930,313</b>
		<b>2017</b>	—	—	930,313
		<b>2016</b>	—	—	930,313
		<b>2018</b>	<b>₱78,294,211</b>	<b>₱40,007,505</b>	<b>₱3,357,242</b>
		<b>2017</b>	<b>₱54,707,033</b>	<b>₱42,477,236</b>	<b>₱3,693,170</b>
		<b>2016</b>	<b>₱44,519,265</b>	<b>₱45,703,246</b>	<b>₱8,420,006</b>

#### 10. Lease Commitments

The Group has entered into operating lease agreements in respect of its office premises. There are no restrictions placed upon the Group by entering into these leases. Operating lease payments recognized in the statement of comprehensive income are as follows:

- a. On January 1, 2011, the Group entered into a sublease contract with I-College Philippines, Inc. (I-College) for the period from November 1, 2011 to May 31, 2012 with a monthly rental fee of ₱77,526. The term of the lease can be renewed upon mutual consent of both parties. The Group renewed its sublease agreement for the periods of three (3) years from November 1, 2017 to October 31, 2020. All other terms and conditions of the sublease agreement dated January 1, 2011 remain in full force.
- b. On April 16, 2013, the Group entered into a contract of lease with Robert C. Lantin with a monthly rental fee of ₱40,000 and security deposit amounting to ₱120,000 equivalent to three (3) months rental fee. The term of the lease can be renewed upon mutual consent of both parties. In April 2016, the Group entered into a new lease contract commencing on April 1, 2016 to March 31, 2017 renewable upon mutual agreement of the parties. Based on the lease agreement, monthly rental payment was set at ₱47,368. In March 2017, the parties did not renew the contract.
- c. On April 1, 2017, the Group entered into a contract of lease with monthly rental fee of ₱23,067 for its principal office for one (1) year and may be renewed upon mutual agreement of both parties. On April 1, 2018, the lease agreement was renewed for another one (1) year. On April 1, 2019, the lease agreement was renewed for another one (1) year.
- d. On January 1, 2017, the Group entered into a contract of lease with NOW Telecom with monthly rental fee of ₱10,000 for an office for five (5) years ending December 31, 2020.
- e. The Group entered into contract of lease with various building owners for the common areas and facilities of the latter for the Group's fiber optic cable facilities and its value-added services for the period ranging from November 11, 2016 to December 31, 2022. The monthly rental payment ranges from ₱5,000 to ₱15,000 with annual escalation rate of 5% after the first and second year. Accrued rent amounting to ₱18,300 as of December 31, 2018 represents straight-line adjustment on rent.

Future minimum lease payment related to the lease as of December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Within one (1) year	<b>₱1,762,266</b>	₱1,179,514	₱917,365
After one (1) year but not more than five (5) years	<b>3,798,207</b>	1,900,572	—
	<b>₱5,560,473</b>	₱3,080,086	₱917,365

Total rent expense recognized in 2018, 2017 and 2016 amounted to ₱1,389,075, ₱1,739,036 and ₱1,728,730, respectively (see Note 16).

## 11. Loans Payable

	2018	2017	2016
Land Bank	<b>₱50,000,000</b>	₱—	₱—
PSBC	<b>47,591,893</b>	—	—
BDO	<b>351,614</b>	448,951	536,533
	<b>97,943,507</b>	448,951	536,533
Less current portion	<b>52,064,583</b>	97,337	87,426
<b>Loans payable</b>	<b>₱45,878,924</b>	₱351,614	₱449,107

### Land Bank loan

On January 30, 2018, the Parent Company secured a short-term loan agreement with Land Bank of the Philippines amounting to ₱50,000,000 with an interest rate of 4.80% per annum. The loan, including the interests incurred, will mature on July 27, 2018. On the maturity date, the loan was renewed for six (6) months with the same terms and conditions with maturity date of January 23, 2019. On the maturity date, the loan was renewed for another six (6) months with the same terms and conditions with latest maturity date of July 23, 2019.

Interest expense recognized on this loan amounted to ₱2,299,212 in 2018.

### Producers Savings Bank Corporation (PSBC) loan

On October 31, 2018, the Parent Company signed a five-year ₱50,000,000 loan agreement with PSBC maturing on October 31, 2023. The loan is secured by a real estate and carries an interest rate of 12.23% per annum.

Interest expense recognized including amortization of transaction cost on this loan amounted to ₱981,801 in 2018.

### BDO loan

On December 22, 2016, the Parent Company availed a chattel mortgage loan amounting to ₱564,800 from BDO Unibank, Inc. for the purchase of a vehicle, which serves as the property mortgaged. The new loan requires 60 monthly payments until November 23, 2021, has a term of five (5) years and bears an interest rate of 9.44% per annum.

Interest expense recognized on this loan amounted to ₱43,711, ₱52,015 and ₱1,607 in 2018, 2017 and 2016, respectively.

### Metropolitan Bank and Trust Company and Bank of Makati loan

In September 2012, the Parent Company availed of short term loan bearing 2.40% interest per annum from Metropolitan Bank and Trust Company (MBTC) amounting to ₱44,500,000. In December 2013, the said loan was extended for another two (2) years with a maturity date of January 2016. Interest is payable every 30 days.

On March 1, 2016, the Parent Company availed of a ₱44,500,000 loan from the Bank of Makati to settle the loan from MBTC. The new loan, which will mature on March 1, 2018, has a term of 2.03 years and bears a fixed interest rate of 1.75% per annum.

On June 20, 2016, the loan from Bank of Makati was paid by Velarde, Inc. on behalf of the Parent Company (see Note 9).

Interest expense on the said loan amounted to ₱571,355 in 2016.

## 12. Retirement Benefits Obligation

The Company has an unfunded non-contributory defined benefit plan covering substantially all of its qualified employees. The defined benefit obligation is determined using the projected unit credit method.

The amounts recognized in the statement of financial position and the components of retirement benefit expense recognized in the statement of comprehensive income are based on the latest actuarial valuation as of December 31, 2018.

The Group recognized retirement benefit in the statements of financial position amounting to ₱975,690 as of December 31, 2018.

Retirement benefit expense recognized in profit or loss consists of current service cost amounting to ₱459,808 in 2018 (see Note 16).

The component of the present value of the defined benefit obligation includes current service cost recognized in profit or loss amounting to ₱459,808 and actuarial loss arising from change in financial assumptions recognized in OCI amounting to ₱515,882 in 2018. As of December 31, 2018, the balance of defined benefit obligation amounts to ₱975,690.

The principal actuarial assumptions used in determining the projected benefit obligation for the Group in 2018 are as follows:

	<b>2018</b>
Discount rate	<b>7.38-7.46%</b>
Salary increase rate	<b>5.00%</b>

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2018, assuming if all other assumptions were held constant:

The maturity analysis of the undiscounted benefit payments as of December 31, 2018 are as follows:

	Increase/Decrease in Percentage Point	Increase (Decrease) in Define Benefit Obligation
Discount rate	+1%	(₱123,317)
	-1%	147,512
Salary increase rate assumption	+1%	₱148,898
	-1%	(127,711)
Less than 1 year		<b>₱-</b>
More than 1 to 10 years		<b>3,518,213</b>
More than 10 to 15 years		<b>11,087,065</b>
More than 15 years		<b>36,212,345</b>
<b>Total</b>		<b>₱50,817,623</b>

The average duration of the defined benefit payment as of December 31, 2018 is 18 years.

## 13. Capital Stock

In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Parent Company's track record of registration of securities.

	Number of shares registered	Issue/offer price	Date of approval
Common shares	28,000,000	₱1.00	July 30, 2003
Common shares	1,289,278,350	₱1.00	December 10, 2008

On April 28, 2006, the BOD and stockholders approved the increase in the authorized capital stock from 40,000,000 shares to 1,320,000,000 shares at ₱1 par value per share. This was subsequently approved by the SEC on September 19, 2006.

On May 12, 2010, the BOD and stockholders of the Parent Company approved proposal to increase its authorized capital stock from 1,320,000,000 shares to 5,320,000,000 shares at ₱1 par value per shares. On November 7, 2014, the BOD and stockholders of the Parent Company approved the amendment in the proposal to increase the authorized capital stock up to 2,700,000,000 shares. On January 22, 2015, the Parent Company's BOD approved a new proposal to supersede previous increase in authorized capital stock plans. It was decided for the Parent Company to apply for an increase of 800,000,000 shares at ₱1 par value per share (i.e., 1,320,000,000 shares to 2,120,000,000 shares). The SEC approved the Parent Company's application to increase its authorized capital stock on December 17, 2015.

As discussed in Note 9, Velarde, Inc. subscribed to 200,000,000 shares of the Parent Company and this subscription was settled through the conversion of its advances to the Group amounting to ₱200,000,000.

On April 29, 2016, the Parent Company's BOD approved the increase in the authorized capital stock of the Parent Company from 2,120,000,000 shares at ₱1 par value per share to 3,000,000,000 shares at ₱1 par value per share. The BOD also approved the conversion into equity of the advances from Velarde, Inc. amounting to ₱264,000,000 at a conversion price of ₱1.22 per share computed based on the volume-weighted average price of the Parent Company's shares for a 30-day trading period ended April 14, 2016. On June 2, 2016, the stockholders of the Parent Company approved the said increase in the Parent Company's authorized capital stock. On July 22, 2016, the Parent Company filed with the SEC its application for the approval of the proposed increase in its authorized capital stock.

On March 15, 2018, the stockholders of the Parent Company approved the change in the conversion price of the advances from ₱1.22 per share to a range of ₱1.50 to ₱1.70 per share. As of December 31, 2018, the Group presented the deposit for future stock subscription amounting to ₱264,000,000 as part of liability since the conversion rate has not been finalized as of December 31, 2018. On March 8, 2019, the stockholders of the Parent Company approved the setting aside of the proposed increase in the authorized capital stock.

On September 2, 2016, the Parent Company's BOD approved the amendment in the Articles of Incorporation of the Parent Company to reclassify 60,000,000 unissued common shares to redeemable, convertible, non-participating and non-voting Peso-denominated preferred shares, with or without detachable warrants, with a par value of ₱1 per share. On November 8, 2016, the stockholders of the Parent Company representing two-thirds of its outstanding capital stock approved the amendment.

On January 6, 2017, the Parent Company filed an application with the SEC for the approval of the said amendment. This was approved by the SEC on January 10, 2017.

On May 21, 2018, the BOD approved and ratified the designation of the 5,000,000 redeemable convertible cumulative non-participating non-voting peso-denominated preferred shares as the Preferred "A" shares. On the same date, the BOD approved the offering of the 5,000,000 Preferred "A" shares with an oversubscription option of 5,000,000 Preferred "A" shares, with 25,000,000 underlying common shares and an additional 25,000,000 common shares upon the exercise of the oversubscription option, which common shares shall be issued upon conversion of the Preferred "A" shares, with detachable warrants.

On June 1, 2018, stockholders of the Group ratified and approved the features, terms, conditions and offering of the Preferred "A" shares. On June 22, 2018, the SEC issued the Certificate of Filing of Enabling Resolution for the Preferred "A" shares which approved the designation and offering of Preferred "A" shares. As of April 12, 2019, the PSE has yet to approve the offering of Preferred "A" shares in the exchange.

On December 28, 2018, the BOD approved the reduction of the par value of common shares of the Parent Company from ₱1.00 per share to ₱0.75 per share and the application of the resulting additional paid-in capital to eliminate the accumulated deficit of the Parent Company. As of April 12, 2019, the equity restructuring is yet to be filed to the SEC.

Information on the Group's authorized capital stock is as follows:

	Number of shares		
	2018	2017	2016
Common stock, ₱1 par value	2,060,000,000	2,060,000,000	2,120,000,000
Preferred stock, ₱1 par value	60,000,000	60,000,000	—
Balance at end of the year	2,120,000,000	2,120,000,000	2,120,000,000

Issued and outstanding capital stock consist of 1,517,278,350 common stocks amounting to ₱1,517,278,350 as of December 31, 2018, 2017 and 2016.

#### 14. Revenue

Set out below is the disaggregation of the Group's revenue from contracts with customers for the year ended December 31, 2018:

Type of contracts	Service fee	Sales	Total
Broadband service contracts	₱44,927,731	₱2,283,321	₱47,211,052
Management service contracts	65,280,000	–	65,280,000
Sale and/or installation of software licenses	38,960,513	31,158,281	70,118,794
Manpower augmentation service contracts	35,251,680	–	35,251,680
	₱184,419,924	₱33,441,602	₱217,861,526

Set out below, is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information for the year ended December 31, 2018:

	IT Manpower and Resource Augmentatio n	Software Licenses and Management services	Broadband services	Total
Revenue from:				
Broadband service contracts	₱–	₱–	₱47,211,052	₱47,211,052
Management service contracts	–	65,280,000	–	65,280,000
Sale and/or installation of software licenses	–	70,118,794	–	70,118,794
Manpower augmentation service contracts	35,251,680	–	–	35,251,680
	₱35,251,680	₱135,398,794	₱47,211,052	₱217,861,526

##### *Broadband service contracts*

Parent Company entered into various broadband service contracts with commercial and residential customers with contracts ranging from one (1) year to two (2) years as of December 31, 2018. These contracts are either offered separately or bundled with software license. Under these contracts, the Parent Company will provide broadband services to its customers based on a fixed monthly fee, which may also include delivery of bundled software license.

##### *Sale and/or installation of software license*

Parent Company entered into various short-term contract of sale with commercial customers to transfer software licenses. The Group also entered into various service contracts to install software licenses.

##### *Management service contracts*

Parent Company entered into various management service contracts with related parties to provide management services with contracts ranging from year to three (3) years to five (5) years as of December 31, 2018. Under these contracts, the Parent Company will provide management services to the customers based on a fixed monthly fee.

##### *Manpower augmentation service contracts*

IRCII entered into various manpower augmentation service contracts with commercial customers to provide manpower specializing on IT with contracts ranging from six (6) months to one (1) year as of December 31, 2018. Under these contracts, the entity will provide manpower to customers based on a fixed monthly fee.

### 15. Costs of Sales and Services

	2018	2017	2016
Cost of service:			
Software collaboration services (Note 9)	<b>₱77,496,806</b>	₱46,436,396	₱43,226,619
Cost of data services (Note 9)	<b>46,277,523</b>	7,386,191	3,204,621
Cost of sales	<b>24,549,264</b>	31,980,891	10,215,702
	<b>₱148,323,593</b>	₱85,803,478	₱56,646,942

### 16. General and Administrative Expenses

	2018	2017	2016
Salaries and other employee benefits (Note 12)	<b>₱12,639,969</b>	₱13,772,096	₱1,301,160
Advertising and promotion	<b>8,350,200</b>	2,367,961	4,524,439
Depreciation and amortization* (Note 7)	<b>7,309,611</b>	4,411,001	2,214,569
Entertainment, amusement and recreation	<b>5,822,950</b>	6,227,299	4,706,499
Communication	<b>5,244,439</b>	4,496,294	4,109,582
Transportation and travel	<b>4,612,457</b>	5,026,897	1,702,362
Taxes and licenses	<b>2,680,771</b>	4,095,999	1,068,636
Outside services (Note 9)	<b>2,436,996</b>	6,988,982	7,489,693
Professional fees	<b>1,776,658</b>	2,495,621	2,918,643
Rental (Note 10)	<b>1,389,075</b>	1,739,036	1,728,730
Office supplies	<b>1,359,932</b>	793,637	2,441,318
Provision for impairment loss on:			
Trade and other receivables (Note 4)	<b>724,729</b>	1,940	685,685
Advances to affiliate (Note 6)	–	–	5,000,000
Insurance	<b>309,151</b>	199,904	258,661
Utilities	<b>259,686</b>	284,014	982,225
Repairs and maintenance	<b>219,452</b>	180,576	1,008,292
Others	<b>2,692,701</b>	996,603	1,260,642
	<b>₱57,828,777</b>	₱54,077,860	₱43,401,136

\*Includes amortization of software cost under "Other noncurrent asset" amounting to ₱725, ₱49,737 and ₱126,905 in 2018, 2017, and 2016, respectively

### 17. Income Taxes

The Group's provision for current income tax consists of the following:

	2018	2017	2016
RCIT with itemized deduction	<b>₱1,594,744</b>	₱1,590,187	₱2,193,264
MCIT	<b>174,657</b>	1,080,771	–
	<b>₱1,769,401</b>	₱2,670,958	₱2,193,264

The reconciliation of the Group's statutory income tax to provision for income tax follows:

	2018	2017	2016
Statutory income tax at 30%	<b>₱2,971,851</b>	₱2,688,352	₱1,407,532
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses	<b>253,950</b>	1,886,347	3,169,352
Interest income subjected to final tax	<b>(75,615)</b>	(1,468)	(1,157)
Movement of unrecognized deferred income tax assets	<b>(1,380,785)</b>	(1,902,273)	(2,382,463)
	<b>₱1,769,401</b>	₱2,670,958	₱2,193,264

The Group has temporary differences for which no deferred tax assets were recognized as it is probable that sufficient taxable income will not be available for those deferred tax assets to be utilized.

The temporary differences are as follows:

	2018	2017	2016
Allowance for impairment on trade and other receivables	<b>₱33,854,838</b>	₱13,832,892	₱13,836,447
NOLCO	<b>1,167,833</b>	2,761,602	14,677,498
Retirement benefits	<b>459,808</b>	–	–
MCIT	<b>77,151</b>	2,312,359	1,713,165
Others	<b>1,794,605</b>	131,065	–
	<b>₱37,354,235</b>	₱19,037,918	₱30,227,110

As of December 31, 2018, NOLCO and MCIT can be claimed as deduction from future taxable income and income tax liabilities, respectively, are as follows:

Year Incurred	Year of Expiration	NOLCO	MCIT
2018	2021	₱–	12,999
2017	2020	602,209	64,152
2016	2019	565,624	–
		<b>₱1,167,833</b>	<b>₱77,151</b>

The following are the movements in NOLCO and MCIT:

	2018	2017	2016
<b>NOLCO:</b>			
Balances at beginning of year	<b>₱2,761,602</b>	₱14,677,498	₱60,886,089
Additions	–	602,209	565,624
Application	–	(11,199,273)	(13,432,651)
Expirations	<b>(1,593,769)</b>	(1,318,832)	(33,341,564)
Balances at end of year	<b>₱1,167,833</b>	₱2,761,602	₱14,677,498
<b>MCIT:</b>			
Balances at beginning of year	<b>₱2,312,359</b>	₱1,713,165	₱812,692
Additions	<b>12,999</b>	727,806	903,836
Applications	<b>(2,248,207)</b>	–	–
Expirations	–	(128,612)	(3,363)
Balances at end of year	<b>₱77,151</b>	₱2,312,359	₱1,713,165

#### 18. Basic/Diluted EPS

The following table presents information necessary to compute the basic/dilutive EPS:

	2018	2017	2016
Net income attributable to equity holders of the Parent (a)	<b>₱7,885,496</b>	₱6,792,056	₱2,500,433
Weighted average number of outstanding common shares for both basic and dilutive EPS (b)	<b>1,517,278,350</b>	1,517,278,350	1,517,278,350
Basic/dilutive earnings per share (a/b)	<b>₱0.0052</b>	₱0.0045	₱0.0016

As of December 31, 2018, 2017 and 2016, the Parent Company does not have any dilutive potential common shares.

#### 19. Financial Risk Management Objectives and Policies

The Group's financial instruments are composed of cash, trade and other receivables, due from related parties, financial asset at FVOCI, accounts payable and accrued expenses, due to related parties, and loans payable.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk and interest rate risk. The Group is not exposed to cash flow interest rate risk since a significant portion of the Group's due from affiliates has fixed interest rates.

The BOD reviews and approves the policies for managing each of these risks and they are summarized below.

**Credit Risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade receivables and amounts owed by related parties.

**Trade receivables**

The Group's management believes that there is no significant risk in the amounts due by related parties. The BOD continually monitors the Group's strategies for managing accounts with creditors, including related parties. Advances are monitored on an ongoing basis with the result that the Group's exposure to impairment and account discrepancies is not significant. In addition, the Group manages credit risk by monitoring its credit exposures and assessing the creditworthiness of counterparties.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix for the year ended December 31, 2018:

	Trade receivables					Total
	Current	Days past due				
		<30 days	30-60 days	61-90 days	>91 days	
Expected credit loss rate	0.15%	0.74%	2.07%	4.51%	15.34%	14.14%
Estimated total gross carrying amount at default (Note 4)	₱2,057,893	₱27,164,416	₱2,803,405	₱63,186	₱207,351,065	₱239,439,965
Expected credit loss	₱3,008	₱201,468	₱58,102	₱2,847	₱33,589,413	₱33,854,838

The following tables show the aging analysis of the Group's financial assets as of December 31, 2018, 2017 and 2016.

	2018				Total
	Neither due nor impaired	past due but not impaired	Past due but not impaired	Past due and impaired	
<b>Financial assets:</b>					
Cash	₱25,828,933	₱-	₱-	₱-	₱25,828,933
Trade and other receivables	2,057,893	203,527,234	33,854,838		239,439,965
Due from related parties	-	287,566,552	-	-	287,566,552
Advances to employees	1,828,959	-	-	-	1,828,959
	₱29,715,785	₱491,093,786	₱33,854,838	₱554,664,409	

	2017				Total
	Neither due nor impaired	past due but not impaired	Past due but not impaired	Past due and impaired	
<b>Financial assets:</b>					
Cash	₱10,694,196	₱-	₱-	₱-	₱10,694,196
Trade and other receivables	2,211,771	164,322,857	13,832,892		180,367,520
Due from related parties	27,497,744	95,955,268	-	-	123,453,012
Advances to employees	1,408,596	-	-	-	1,408,596
	₱41,812,307	₱260,278,125	₱13,832,892	₱315,923,324	



	2016			Total
	Neither past due nor impaired	Past due but not impaired	Past due and impaired	
<i>Financial assets:</i>				
Cash	₱4,396,419	₱-	₱-	₱4,396,419
Trade and other receivables	2,211,771	111,965,479	13,836,447	128,013,697
Due from related parties	27,030,711	72,495,743	-	99,526,454
Advances to employees	1,355,118	-	-	1,355,118
	<b>₱34,994,019</b>	<b>₱184,461,222</b>	<b>₱13,836,447</b>	<b>₱233,291,688</b>

As at December 31, 2018, 2017 and 2016, the Group's maximum exposure to credit risk is equal to the carrying amount of its financial assets.

#### Credit Quality per Class of Financial Asset

Financial assets are classified as high grade if the counterparties are not expected to default in settling their obligations. Thus, the credit risk exposure is minimal. These counterparties normally include customers, banks and related parties who pay on or before due date. Financial assets are classified as a standard grade if the counterparties settle their obligation with the Group with tolerable delays. Low grade accounts are accounts, which have probability of impairment based on historical trend. These accounts show propensity of default in payment despite regular follow-up actions and extended payment terms.

The Group considers its financial assets that are neither past due nor impaired amounting to ₱29,715,785, ₱41,812,307 and ₱34,994,019 as of December 31, 2018, 2017 and 2016 as high grade financial assets.

The Group considers its financial assets that are past due but not impaired amounting to ₱491,093,786, ₱260,278,125 and ₱184,461,222 as of December 31, 2018, 2017 and 2016 as standard grade financial assets.

The Group has impaired trade and other receivables amounting to ₱33,854,838, ₱13,832,892 and ₱13,836,447 as of December 31, 2018, 2017 and 2016, respectively.

#### Concentration of Credit Risk

The Group's exposure to concentration of credit risk arises from the default of the counterparties, with a maximum exposure equal to the carrying amounts of the receivables from GHT Network, Inc., NOW Telecom, Newsnet (see Note 9).

The table below shows the risk exposure in respect to credit concentration of the Group as of December 31, 2018, 2017 and 2016:

Trade receivable from:	2018	2017	2016
GHT Network, Inc.	<b>₱65,332,304</b>	₱44,032,048	₱28,504,000
Newsnet	<b>48,681,799</b>	53,441,589	28,504,000
NOW Telecom	<b>40,486,901</b>	13,102,508	8,400,000
Total credit concentration risk	<b>₱154,501,004</b>	₱110,576,145	₱65,408,000
Total receivables	<b>₱207,414,086</b>	₱167,943,224	₱115,532,368
Credit concentration percentage	<b>74.49%</b>	65.84%	56.61%

#### Interest Rate Risk Table

The following tables provide for the effective interest rates and interest payments by period of maturity of the Group's long-term debts:

2018						
	Interest Rates	Within 1 Year	More than 1 year less than 4 years	More than 4 Years but less than 5 Years	More than 5 Years	Total
<b>Fixed Rate</b>						
PBS ₱50,000,000 Loan	12.23%	₱4,055,556	₱11,500,000	₱4,055,556	₱-	₱19,611,112
BDO ₱706,000 Loan	10.79%	29,081	23,939	-	-	53,020
Landbank ₱50,000,000 Loan	5.61%	2,805,000	-	-	-	2,805,000

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's objective to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its financial liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking adverse effect on the Group's credit standing.

The tables summarize the maturity profile of the Group's financial liabilities as of December 31, 2018, 2017 and 2016, based on contractual undiscounted cash flows. The tables also analyze the maturity profile of the Group's financial assets that can be used to finance maturing financial obligations. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity dates.

**2018**

	On demand	Within 1 year	More than 1 year	Total
<b>Financial assets:</b>				
Cash	₱25,828,933	₱-	₱-	₱25,828,933
Trade and other receivables	205,585,127	-	-	205,585,127
Due from related parties	195,064,169	92,502,383	-	287,566,552
Advances to employees	1,828,959	-	-	1,828,959
	<b>₱428,307,188</b>	<b>₱92,502,383</b>	<b>₱-</b>	<b>₱520,809,571</b>
<b>Financial liabilities:</b>				
Accounts payable and accrued expenses*	₱130,330,347	₱-	₱-	₱130,330,347
Due to related parties	265,667,135	-	-	265,667,135
Future interest on loans payable	-	4,084,637	15,579,495	19,664,132
Loans payable	-	52,064,583	45,878,924	97,943,507
	<b>₱395,997,482</b>	<b>₱56,149,220</b>	<b>₱61,458,419</b>	<b>₱513,605,121</b>

\*Excluding government payables

2017

	On demand	Within 1 year	More than 1 year	Total
<b>Financial assets:</b>				
Cash	₱10,694,196	₱-	₱-	₱10,694,196
Trade and other receivables	166,534,628	-	-	166,534,628
Due from related parties	95,955,268	-	27,497,744	123,453,012
Advances to employees	1,408,596	-	-	1,408,596
	<b>₱274,592,688</b>	<b>₱-</b>	<b>₱27,497,744</b>	<b>₱302,090,432</b>
<b>Financial liabilities:</b>				
Accounts payable and accrued expenses*	₱147,780,972	₱-	₱-	₱147,780,972
Due to related parties	151,454,345	-	-	151,454,345
Future interest on loans payable	-	39,134	53,021	92,155

	On demand	Within 1 year	More than 1 year	Total
Loans payable	-	97,337	351,614	448,951
	<b>₱299,235,317</b>	<b>₱136,471</b>	<b>₱404,635</b>	<b>₱299,776,423</b>

\*Excluding government payables

2016

	On demand	Within 1 year	More than 1 year	Total
<i>Financial assets:</i>				
Cash	₱4,396,419	₱-	₱-	₱4,396,419
Trade and other receivables	83,921,798	30,255,452	-	114,177,250
Due from related parties	72,495,743	-	27,030,711	99,526,454
Advances to employees	1,355,118	-	-	1,355,118
	<b>₱162,169,078</b>	<b>₱30,255,452</b>	<b>₱27,030,711</b>	<b>₱219,455,241</b>

<i>Financial liabilities:</i>				
Accounts payable and accrued expenses*	₱109,655,203	₱-	₱-	₱109,655,203
Due to related parties	77,520,582	-	-	77,520,582
Future interest on loans payable	-	52,015	103,487	155,502
Loans payable	-	87,426	449,107	536,533
	<b>₱187,175,785</b>	<b>₱139,441</b>	<b>₱552,594</b>	<b>₱187,867,820</b>

\*Excluding government payables

#### Fair Value of Financial Instruments

Set out in the following table is a comparison of carrying amounts and fair values of the Company's financial instruments as of December 31, 2018, 2017 and 2016 other than those with carrying amounts that are reasonable approximations of fair values.

	2018		2017		2016	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
<b>Financial Assets</b>						
Due from related parties - noncurrent	₱-	₱-	₱27,497,744	₱24,793,312	₱27,030,711	₱24,144,646
<b>Financial Liabilities:</b>						
Financial liabilities at amortized cost:						
Long-term debts	<b>₱97,943,507</b>	<b>₱89,889,124</b>	₱448,951	₱380,328	₱536,533	₱424,612

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

#### *Cash and Cash Equivalents, Trade and Other Receivables, Due from Related Parties, Trade and Other Payables, Loans Payable and Due to Related Parties*

The carrying amounts of cash, trade and other receivables, due from related parties, accounts payable and accrued expenses and due to related parties approximate their fair values due to the short-term maturity of these financial instruments.

#### *AFS Investment*

Unquoted equity security is carried at cost since fair value of this AFS investment cannot be reliably determined as this is not listed in active market and have no available bid price.

#### *Financial Asset at FVOCI*

Fair value of unquoted equity security was determined using discounted cash flow based on market observable rates.

*Due from Related Parties - Noncurrent*

The fair value of noncurrent amounts due from related party were based on discounted value of future flows using applicable credit-adjusted risk-free rates of 6.98%, 5.7% and 5.9% as of December 31, 2018, 2017 and 2016, respectively (Level 3).

*Long-term Debts*

The fair values for the Company's long-term debts are estimated using the discounted cash flow methodology with the applicable rates ranging from 6.98% to 7.04%, 5.70% and 5.90% as of December 31, 2018, 2017 and 2016.

The following tables show the fair value information of financial instruments classified under financial assets at FVOCI and financial liabilities at amortized cost and analyzed by sources of inputs on fair valuation as follows:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

	<b>2018</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial Assets</b>				
Financial assets at FVOCI	<b>₱1,337,638,090</b>	<b>₱-</b>	<b>₱-</b>	<b>₱1,337,638,090</b>
<b>Financial Liabilities</b>				
Long-term at amortized cost	<b>97,943,507</b>	<b>-</b>	<b>97,943,507</b>	<b>-</b>

As of December 31, 2017 and 2016, fair value of long-term debts amounts to ₱380,328 and ₱424,612, respectively and falls under level 2 of the fair value hierarchy. As of December 31, 2017 and 2016, due from related parties - noncurrent amounts to ₱24,793,312 and ₱24,144,646, respectively, and falls under level 3 of the fair value hierarchy.

For the years ended December 31, 2018, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The following table demonstrates the sensitivity of a reasonably possible change in interest rates for the year ended December 31, 2018, with all other variables held constant, in the Group's comprehensive income before income tax:

	Increase (Decrease) in Basis points	Increase (Decrease) on Income Before Income Tax
<b>December 31, 2018</b>	<b>+100</b>	<b>(₱656,715,728)</b>
	<b>-100</b>	<b>859,431,515</b>
December 31, 2017	+100	(₱18,968)
	-100	18,968
December 31, 2016	+100	(₱673)
	-100	673

The Group classifies its financial instruments in the following categories.

	<b>2018</b>		
	<b>Amortized Cost</b>	<b>Financial Asset at FVOCI</b>	<b>Total</b>
<b>Financial Assets</b>			
Cash and cash equivalents	<b>₱25,828,933</b>	<b>₱-</b>	<b>₱25,828,933</b>
Trade and other receivables	<b>205,585,127</b>	<b>-</b>	<b>205,585,127</b>
Due from a related party	<b>287,566,552</b>	<b>-</b>	<b>287,566,552</b>
Advances to employees	<b>1,828,959</b>	<b>-</b>	<b>1,828,959</b>
Financial assets at FVOCI	<b>-</b>	<b>1,337,638,090</b>	<b>1,337,638,090</b>
<b>Total financial assets</b>	<b>₱520,809,571</b>	<b>₱1,337,638,090</b>	<b>₱1,858,447,661</b>

<b>2018</b>			
	<b>Amortized Cost</b>	<b>Financial Asset at FVOCI</b>	<b>Total</b>
<b>Financial Liabilities</b>			
Accounts payable*	P130,330,347	P-	P130,330,347
Accrued interest on long-term debts	19,664,132	-	19,664,132
Due to related parties	265,667,135	-	265,667,135
Long-term debts	97,943,507	-	97,943,507
<b>Total financial liabilities</b>	<b>P513,605,121</b>	<b>P-</b>	<b>P513,605,121</b>

\*Excluding statutory liabilities to the Government

<b>2017</b>			
	<b>Amortized Cost</b>	<b>AFS</b>	<b>Total</b>
<b>Financial Assets</b>			
Cash and cash equivalents	P10,694,196	P-	P10,694,196
Trade and other receivables	166,534,628	-	166,534,628
Due from a related party	274,592,688	-	274,592,688
Advances to employees	1,408,596	-	1,408,596
AFS - equity investments	-	1,312,871,168	1,312,871,168
<b>Total financial assets</b>	<b>P453,230,108</b>	<b>P1,312,871,168</b>	<b>P1,766,101,276</b>

<b>Financial Liabilities</b>			
Accounts payable*	P147,780,972	P-	P147,780,972
Accrued interest on long-term debts	92,156	-	92,156
Due to related parties	151,454,345	-	151,454,345
Long-term debts	448,951	-	448,951
<b>Total financial liabilities</b>	<b>P299,776,424</b>	<b>P-</b>	<b>P299,776,424</b>

\*Excluding statutory liabilities to the government

<b>2016</b>			
	<b>Amortized Cost</b>	<b>AFS</b>	<b>Total</b>
<b>Financial Assets</b>			
Cash and cash equivalents	P4,396,419	P-	P4,396,419
Trade receivables	114,177,250	-	114,177,250
Due from a related party	99,526,454	-	99,526,454
Advances to employees	1,355,118	-	1,355,118
AFS - equity investments	-	1,312,871,168	1,312,871,168
<b>Total financial assets</b>	<b>P219,455,241</b>	<b>P1,312,871,168</b>	<b>P1,532,326,409</b>

<b>Financial Liabilities</b>			
Accounts payable*	P109,655,203	P-	P109,655,203
Accrued interest on long-term debts	155,502	-	155,502
Due to related parties	77,520,582	-	77,520,582
Long-term debts	536,533	-	536,533
<b>Total financial liabilities</b>	<b>P187,867,820</b>	<b>P-</b>	<b>P187,867,820</b>

\*Excluding statutory liabilities to the government

The table below demonstrates the income, expense, gains or losses of the Group's financial instruments for the years ended December 31, 2018, 2017 and 2016:

	2018		2017		2016	
	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)
<b>Amortized cost</b>						
Interest income on:						
Cash in banks (Note 6)	₱251,561	₱-	₱4,894	₱-	₱3,857	₱-
Provision for impairment losses (Note 16)	(724,729)	(19,297,217)	(1,940)	-	(685,685)	-
	(₱473,168)	(₱19,297,217)	₱2,954	₱-	(₱681,828)	₱-
<b>Financial assets at FVOCI</b>						
Equity investments:						
Unrealized gain on financial asset at FVOCI	₱-	₱48,359,740	₱-	₱-	₱-	₱-
<b>Financial liabilities at amortized cost</b>						
Interest expense on (Note 11):						
Long-term debts, including amortization of transaction costs	(₱3,324,724)	₱-	(₱52,015)	₱-	(₱572,962)	₱-

#### Capital Management

The Group considers the equity presented in the consolidated statement of financial position as its core capital. The primary objective of the Group's capital management is to ensure that it maintains strong credit rating and stable capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

On October 28, 2010, PSE issued a memorandum regarding the rule for the minimum public ownership for all listed companies. Based on the memorandum, listed companies shall, at all times, maintain a minimum percentage of listed securities held by the public of ten percent (10%) of the listed companies' issued and outstanding shares, exclusive of any treasury shares or as such percentage that may be prescribed by the PSE. The Group has complied with the minimum public ownership as of December 31, 2018, 2017 and 2016.

The Group considers the equity attributable to the equity holders of the Parent Company as presented in the consolidated statement of financial position as its core capital.

As of December 31, 2018, 2017 and 2016, the Group was able to meet its capital management objectives.

## 20. Business Segment Information

The Group's operating segments are organized and managed separately according to the nature of the services offered as follows:

- IT Manpower and Resource Augmentation - provides deployment of IT professionals to clients.
- Software Licenses and Services - provides high value products and services to clients.
- Broadband Services - provides high-speed broadband service of up to 700 Mbps to clients.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Financial information on the operations of the various business segments are summarized as follows:

2018				
	IT Manpower and			
	Resource	Software Licenses	Broadband	
	Augmentation	and Services	Services	Total
Service fees	₱35,251,680	₱104,240,513	₱44,927,731	₱184,419,924
Sales	–	31,158,281	2,283,321	33,441,602
<b>Total revenue</b>	<b>₱35,251,680</b>	<b>₱135,398,794</b>	<b>₱47,211,052</b>	<b>₱217,861,526</b>

Segment expenses	₱26,231,183	₱75,814,887	₱46,277,523	₱148,323,593
General and administrative expenses	7,011,168	–	–	7,011,168
Unallocated expenses	–	–	–	50,817,609
Unallocated other charges	–	–	–	1,802,986
Provision for income tax	622,238	1,129,935	17,228	1,769,401
Net income (loss)	1,387,091	58,453,972	916,301	8,136,769
Other information				
Capital expenditures	182,705	5,985,567	4,115,559	10,283,831
Segment assets	22,160,442	544,926,966	9,204,376	576,291,784
Unallocated financial asset at FVOCI	–	–	–	1,337,638,090
Segment liabilities	27,315,708	757,923,086	–	785,238,794
Depreciation and amortization	118,098	2,293,928	4,897,585	7,309,611

2017				
	IT Manpower and			
	Resource	Software Licenses	Broadband services	
	Augmentation	and Services		Total
Service fees	₱42,274,212	₱59,878,920	₱24,513,069	₱126,666,201
Sales	–	21,698,063	–	21,698,063
<b>Total revenue</b>	<b>₱42,274,212</b>	<b>₱81,576,983</b>	<b>₱24,513,069</b>	<b>₱148,364,264</b>

Segment expenses	₱31,568,240	₱46,849,047	₱7,386,191	₱85,803,478
General and administrative expenses	6,524,463	–	–	6,524,463
Unallocated expenses	–	–	–	47,553,397
Provision for income tax	1,590,187	1,080,771	–	2,670,958
Net income (loss)	2,591,322	33,647,165	17,126,878	6,290,216
Other information				
Capital expenditures	83,572	1,285,658	5,088,817	6,458,047
Segment assets	18,318,317	335,499,397	5,088,817	358,906,531
Unallocated AFS financial asset	–	–	–	1,312,871,168
Segment liabilities	19,207,375	296,763,180	–	315,970,555
Depreciation and amortization	90,535	1,150,261	3,170,205	4,411,001
Unallocated other income	–	–	–	478,248

2016				
	IT Manpower and			
	Resource	Software Licenses	Broadband services	
	Augmentation	and Services		Total
Service fees	₱43,412,235	₱41,230,381	₱5,981,141	₱90,623,757
Sales	–	13,048,685	–	13,048,685
<b>Total revenue</b>	<b>₱43,412,235</b>	<b>₱54,279,066</b>	<b>₱5,981,141</b>	<b>₱103,672,442</b>

Segment expenses	₱36,610,332	₱16,831,989	₱3,204,621	₱56,646,942
General and administrative expenses	6,456,689	–	–	6,456,689
Unallocated expenses	–	–	–	636,944,447

	2016				
	IT	Manpower and	Resource Software Licenses	Broadband services	Total
	Augmentation	and	and Services		
Provision for income tax	1,289,428		903,836	–	2,193,264
Net income (loss)	(944,214)		36,543,241	2,776,520	2,498,509
Other information					
Capital expenditures	133,928		970,358	4,347,551	5,451,837
Segment assets	2,456,753		228,347,368	3,442,034	234,246,155
Unallocated AFS financial asset	–		–	–	1,312,871,168
Segment liabilities	32,070,469		162,269,220	–	194,339,689
Depreciation and amortization	39,062		1,269,990	905,517	2,214,569
Unallocated other income	–		–	–	1,067,409

## 21. Notes to Consolidated Statements of Cash Flows

In 2016, the noncash financing activity involves the conversion of ₱264,000,000 advances from Velarde, Inc. to the Parent Company's common shares. As of December 31, 2018, the Group presented the deposit for future stock subscription amounting to ₱264,000,000 as part of liability since the conversion rate has not been finalized as of December 31, 2018. (see Note 13).

Changes in liabilities arising from financing activities:

	January 1, 2018	Cash inflow	Cash outflows	Others	December 31, 2018
Due to related parties	₱151,454,345	₱133,442,010	(₱19,229,220)	₱–	₱265,667,135
Loans payable	448,951	97,287,870	(194,674)	401,360	97,943,507
<b>Total liabilities from financing activities</b>	<b>₱151,903,296</b>	<b>₱230,729,880</b>	<b>(₱19,423,894)</b>	<b>₱401,360</b>	<b>₱363,610,642</b>

	January 1, 2017	Cash inflow	Cash outflow		December 31, 2017
Due to related parties	₱77,520,582	₱73,933,763	₱–		₱151,454,345
Loans payable	536,533	–	(87,582)		448,951
<b>Total liabilities from financing activities</b>	<b>₱78,057,115</b>	<b>₱73,933,763</b>	<b>(₱87,582)</b>		<b>₱151,903,296</b>

	January 1, 2016	Cash inflow	Cash outflow	Others	December 31, 2016
Due to related parties	₱238,078,380	₱160,557,798	(₱57,115,596)	(₱264,000,000)	₱77,520,582
Loans payable	44,500,000	44,500,000	(43,963,467)	(44,500,000)	536,533
<b>Total liabilities from financing activities</b>	<b>₱282,578,380</b>	<b>₱160,557,798</b>	<b>(₱101,079,063)</b>	<b>(₱264,000,000)</b>	<b>₱78,057,115</b>

## 22. Other Matter

### Land Bank loan

On January 23, 2019, the Parent Company extended the loan agreement with Land Bank of the Philippines amounting to ₱50,000,000 with an interest rate of 4.80% per annum for another six (6) months with latest maturity date on July 23, 2019.

### Equity restructuring

On March 8, 2019, the stockholders of the Parent Company approved the reduction of par value of the common shares of the Parent Company from ₱1.00 per share to ₱0.75 per share and the application of the resulting additional paid-in capital to eliminate the accumulated deficit of the Parent Company. For this purpose, the BOD and stockholders of the Parent Company approved the amendment of the Articles of Incorporation for the reduction of the par value. As of April 12, 2019, the equity restructuring is yet to be filed to the SEC.

### Conversion of Velarde, Inc.

On March 8, 2019, the stockholders of the Parent Company approved the conversion into equity of the advances



from Velarde, Inc. amounting to ₱209,000,000. As of April 12, 2019, the conversion is yet to be filed to the SEC.

Broadband Business Partnerships

In December 2018, the Parent Company entered into various business partnership agreements with third party businesses for a period of five years starting 2019.

**NOW CORPORATION AND SUBSIDIARIES**

---

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION  
FOR THE YEAR ENDED DECEMBER 31, 2019**

Deficit, as adjusted to available for dividend distribution, beginning	(₱431,831,234)
Net income during the period	5,241,673
<b>Deficit</b>	<b>(₱426,589,561)</b>

---

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation.

- Total consolidated revenues in the first quarter of 2019 is Php49.903 Million, increased by 47% or Php16.058 Million from last year's first quarter revenue of Php33.845 Million. Service Revenue increase by Php22.317 million from last year figure of Php19.958 million to Php42.276 million in 2019 first quarter. Service revenues mainly pertains to Broadband Services and fees or income earned from the deployment by the Company of professionals to its clients to render IT-related solutions and services. The increase of Service Revenues was due to an increase in Broadband Revenue from Php9.599 Million last year, it goes up to Php17.078 Million this year.
- Cost and Expenses for the first quarter of 2018 is Php42.309 Million, which is an increase from last year's cost and expense of Php28.852 Million. This was brought about by an increase in cost of sales and services of Php11.897 Million from Php9.063 Million in 2018 to Php20.960 in 2019. Other expenses which has a significant increase are Interest and Other Charges which has a Php2.067 Million increase and Advertising and Promotion which has an increase of Php1.814 Million.
- As of March 31, 2019, the total consolidated assets of the Company stood at Php1.934 Billion compared with last year's Php1.749 Billion or an increase of Php184.727 Million. Current Assets increased by Php187.524 Million or 47% from Php394.970 Million in 2018 to Php582.495 Million in 2019. This was due to the increase in Trade and other receivables by Php25.108 Million, from last year's Php183.076 Million to this year's Php208.184 Million, Due from related parties increased by Php170.811 Million from last year's Php140.309 increased to this year's Php311.120 Million. Other current assets decreased by Php7.072 Million. Non-Current Assets decreased to Php1.351 Billion from last year's Php 1.354 Billion.
- Current liabilities increased by Php96.305 Million or 25% from Php388.179 Million in 2018 to Php484.484 Million in 2019. Accounts Payable and accrued expenses increased by Php11.560 Million or 9%, from Php130.320 Million in 2018, it increased to Php141.920 Million in 2019. Loans payable – current portion increased by Php12.065 Million due to a short term loan with a private investor amounting to Php10.000 million received during March, 2019.
- Non-current Liabilities increased from Php1.362 million to Php50.598 million which was due to Php50.000 million term loan availed from a local bank. Deposit for future subscription amounting to Php264.000 million was classified as part of equity since as at the Special Meeting of the Board of Directors held on April 23, 2019, the Board finalized and approved the conversion price at Php1.70 per share of the conversion of advances into equity of the amount of Php264.000 million.
- On December 22, 2016, the Company availed a chattel mortgage amounting to Php564K from a local universal bank for the purchase of a vehicle, which serves as the property mortgage. The new loan requires 60 monthly repayments until November 23, 2021.
- On January 2018, the Company availed a short term loan amounting to Php50 million with an interest rate of 4.80% from a local universal bank to be used in operations. The loan was last renewed on April 24, 2019 with maturity for both interest and principal payments on October 18, 2019.
- On October 2018, the Company obtained a term loan of Php50 Million with 8% fixed interest rate from a local universal bank for use in acquisition of capital assets. The loan requires monthly repayments of principal and interest until October 2023.
- As of March 31, 2019, the total Assets stood at Php1.934 Billion, Liabilities at Php535.082 Million and Equity at Php1.399 Billion.
- Current assets and Current Liabilities Increased by 47% and 25% respectively resulting to an increase of the Company's Liquidity Ratio wherein Current Ratio stood at 1.2023:1 and 1.0175:1, while Acid Test Ratio stood at 1.1058 and 0.8828 for the First Quarter of 2018 and 2017 respectively.
- The Company's Return on Equity for the first quarter, 2018 and 2017 was at 0.38% and 0.26% respectively.
- A further analysis indicates that NOW Corp.'s Asset to Debt Ratio stood at 3.6137x and 4.4896x; while its Debt to Asset Ratio stood at 0.2767x and 0.2227x for the first quarter of 2018 and 2017 respectively.

## Part II. Other Information

### Item 1. Financial Soundness Indicators

See **Annex "A"**.

There are no known trends, demand, commitments, events or uncertainties that will have a material impact on the Company's liquidity, nor any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations. There are no significant elements of income or loss that did not arise from the Company's continuing operations.

There are no material changes from period to period of the financial statements which include vertical and horizontal analyses of any material item.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

As the business volume builds up progressively, the Company also plans to beef up its organization by engaging the right talents particularly to join the telecommunications, media, information technology and product development and marketing teams. The Company plans to spend around PhP30 million to PhP40 million in the next two (2) years for capital expenditures in connection with the launch of its new products and services.

There is no seasonality or cyclicity of the interim operations of the Company.

**SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer  **MR. MEL V. VELARDE**


Signature and Title **President**  
Date **25 April 2019**

Principal Financial/Accounting Officer/Controller **MR. VICENTE I. PENANUEVA**

Signature and Title  **Chief Financial Officer**  
Date **25 April 2019**

SUBSCRIBED AND SWORN TO ME BEFORE THIS 25 DAY OF APRIL 2019 IN CITY OF MAKATI METRO MNL, PHILIPPINES  
AFFIANT EXHIBITING HIS/HER COMPETENT ID \_\_\_\_\_  
SIGNED IN \_\_\_\_\_ ON \_\_\_\_\_

REG. NO. 479  
PAGE NO. 97  
BOOK NO. 08  
FILING DATE 2019

  
**ATTY. HENRY M. LUIZ**  
Notary Public  
Until December 31, 2019  
Appt. No. M-102, Makati City  
IBF #058192 for 2019 - RSM  
PTR #7326870 Jan. 03, 2019-Makati  
S.C. Roll No. 9987  
MCLE Compliance No. 170015649 9 March 2016  
Unit 301 3<sup>rd</sup> Flr. Concepcion Freuda Bldg.  
101 Urban Avenue, Brgy. Pio del Pilar  
Makati City

**ANNEX "A"**

**Schedule of Financial Indicators  
For the Quarter Ending 31 March 2019 and 2018**

Category	Financial Ratio	YTD JAN TO MAR	
		2019	2018
Liquidity	Current Ratio	1.2023	1.0175
	Acid Test Ratio	1.1058	0.8828
Solvency	Debt to Equity Ratio	0.3826	0.2866
	Asset to Debt Ratio	3.6137	4.4896
	Debt to Asset Ratio	0.2767	0.2227
Equity	Asset to Equity Ratio	1.3826	1.2866
Interest	Interest Rate Coverage Ratio	4.3173	23.4463
Profitability	Profit Margin	58.00%	73.22%
	Return on Assets	0.27%	0.20%
	Return on Equity	0.38%	0.26%
	Book Value per share	0.9217	0.8959
	Earnings per share	0.0035	0.0023

The Financial Indicators are computed as follows:

Liquidity:            Current Ratio = Current Assets/Current Liabilities  
                           Acid Test= (Current Assets- Inventory- Prepayments) / Current Liabilities

Solvency:            Debt to Equity Ratio = Total Liabilities/Total Stockholders' Equity  
                           Asset to Debt Ratio= Total Assets / Total Liabilities  
                           Debt to Asset Ratio = Total Liabilities/Total Assets

Equity:                Asset to Equity Ratio = Total Assets/Total Stockholders' Equity

Interest:             Interest Rate Coverage Ratio = Earnings Before Interest and Taxes/Interest Expense

Profitability:        Profit Margin %: Profit margin = Gross Profit/Total Revenue x 100  
                           Return on Assets %: Return on assets = Net Income/Total Assets x 100  
                           Return on Equity % = Net Income/Total Stockholders' Equity x 100  
                           Book Value per share = Total Stockholders' Equity/Average Outstanding Shares  
                           Earning per share = Net Income/Average Outstanding Shares