C O V E R   S H E E T

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COMPANY NAME

NOW CORPORATION

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

UNIT 5-I, 5TH FLOOR, OPL BUILDING, 100 C. PALANCA ST., LEGASPI VILLAGE, MAKATI CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A	SEC	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
	(632) 750-0461 / (632) 750-0211 / (632) 750-0224	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
68	N/A	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
Atty. Angeline L. Macasaet	angeline.macasaet@now-corp.com	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.*

SEC FORM 17-A

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2017**

2. SEC Identification Number **A199600179** 3. BIR Tax Identification No. **004-668-224**

4. Exact name of issuer as specified in its charter **NOW CORPORATION**

5. **METRO MANILA, PHILIPPINES** (SEC Use Only)
Province, Country or other jurisdiction of incorporation or organization
Industry Classification Code:

7. **Unit 5-I, 5th Floor, OPL Building, 100 C. Palanca Street, Legaspi Village, Makati City, Philippines**
Address of principal office Postal Code **1229**

8. **+632 750-0211**
Issuer's telephone number, including area code

9. **N/A**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	**1,517,278,350**

11. Are any or all of these securities listed on a Stock Exchange.

Yes [/] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange **Common Stock**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 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 that 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 [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [ ] No [ ]

PART I - BUSINESS AND GENERAL INFORMATION

Item1. Business

A. Description of Business

(1) Business Development.

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. Viloria, 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 December 9, 2011, the Company executed a Memorandum of Agreement with the Filipino American Chamber of Commerce of Orange County, a non-profit organization in the State of California, for the use of a digital media portal through the Company's latest technology platform NowPlanet.TV.

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;

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.

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.

On 15 March 2018, Atty. Lucas C. Carpio, Jr. tendered his resignation as an Independent Director of the Board of Directors of the Corporation effective on the same date.

(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 three key operating business segments, namely: (i) Software Licenses and Services; (ii) IT Manpower and Resource Augmentation; and (iii) Broadband and Wireless Cable TV Services. 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 auxilary 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.

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.

Competition

With the continuous growth of the IT industry, both locally and globally, the competitive landscape has become fierce with the rise of new and innovative technology services in the market. The Company's products and services have indirect and direct competitors in the following areas:

1. Broadband providers;
2. IBM Lotus Notes resellers and developers;
3. Microsoft Office 365 resellers and developers;
4. Web and mobile app development companies; and
5. Software engineering service providers.

As the Company continues to improve and enhance its product and services, its competitive advantage lies in its ability to adopt and utilize new and emerging technologies to deliver a full spectrum of innovative products and services to the market. Setting the Company apart is the provision of its value added services backed by its strong and competent professionals through the synergy and collaboration across the different functional departments of the organization.

Suppliers

The Company and its subsidiaries and affiliates have a broad range of suppliers, both local and foreign.

Customers

The Company provides technology solutions to various organizations. It has a wide scope of target customers not dependent on a single or few customer base. The following are target industries for the Company's products and services:

1. Commercial Banking
2. Microfinancing and rural banking
3. Financial services
4. Manufacturing
5. Transportation
6. Media and Advertising Companies
7. Government Sector
8. Small and Medium Enterprises (SME)
9. Retail
10. Hospitality/Tourism
11. Healthcare
12. Insurance
13. Business Process Outsourcing and Knowledge Process Outsourcing

Transactions With and/or Dependence on Related Parties

All transactions with related companies are done on market terms and arm's length basis. See Note 11 (Related Party Transaction) of the Notes to the Consolidated Financial Statements.

Patents, Trademarks, Copyrights, Licenses, Franchises, Concessions and Royalty Agreements

The Philippine Intellectual Property Office ("IPO") issued on June 28, 2012 and July 5, 2012 a Certificate of Registration for the trademarks J-Span and NowPlanet.TV, respectively. The IPO also issued on 28 February 2013 a Certificate of Registration for the trademark Social Canvass. These registrations shall be effective for 10 years.

As of December 31, 2013, the Company has four (4) other trademark applications pending with the Philippine Intellectual Property Office (IPO).

On March 10, 2006, a Certificate of Registration as a Value Added Service (VAS) Provider as Voice over Internet Protocol (VOIP) Provider was issued by the National Telecommunications Commission (NTC). This Certificate is currently pending renewal with NTC. In addition, NTC issued on November 27, 2015 (valid until November 26, 2020) a Certificate of Registration in favor of the Company as a Value Added Service entity authorized to offer cloud hosting services, VPN, multimedia content and program services, online game services, cloud-based multimedia conferencing services, web hosting and cloyd0-based mail and messaging services.

Research and Development Activities

The Company did not allocate an amount for research and development in years 2017 and 2016. In the year 2013, the Company spent the amount of Php3.4K on research and development activities, which is .0044 % of its revenues. For the year 2012 and 2011, the Company did not allocate an amount for research and development activities.

Governmental Regulations and Environmental Laws

The Company is not aware of any existing or probable governmental regulations that will have a material effect on the business.

The Company and its subsidiaries have not experienced any environmental issues or problems.

Employees

The Company has a total workforce of ninety-six (96) employees, of which forty-eight (48) are regular employees, twenty-two (22) are consultants, twenty-three (23) are project employees, and three (3) are probationary employees. The following shows the breakdown of the manpower complement of the Company according to business function:

Executives and Managerial..	[14]
Administrative...	[82]
Total...	**[96]**

Major Risks

1. Competition. New and existing competitors can erode the Company and its subsidiaries' competitive advantage through the introduction of new products and services, improvement of product quality, increase in production efficiency, new and updated technologies and costs reductions. To manage all these, the Company and its subsidiaries continuously come up with new and exciting products and improve product propositions.

2. Third Party Services. The Company's social media services have a dependence on 3rd parties such as developers and internet providers. Maintaining and sustaining a satisfactory relationship with third party service providers is critical in ensuring technical support for the Company's social media services. Failure to do so may negatively impact the Company's business since we rely on them for content upgrades, localization and technical support. To mitigate this risk, the Company is constantly in search for the right partners.

3. Internet. The Company's social media services are dependent on the quality and accessibility of the Internet. The over-all user experience may be adversely affected by a poor internet connection. The growth of this sector in the Philippines may be limited as internet access has not reached more far-flung areas in the country.

Item 2. Properties

On December 22, 2016, the Company availed a chattel mortgage loan amounting to Php564,800 (Note 10) from BDO Unibank, Inc. for the purchase of a transportation equipment, which serves as the property mortgaged. The new loan requires sixty monthly repayments of Php11,754 until November 23, 2021, has a term of 5 years and bears an interest rate of 9.44% per annum. The transportation equipment is for the use of sales and technical personnel and developers.

In April 2014, the Company renewed its lease agreement covering its principal office for another one (1) year period, renewable upon mutual agreement of the parties. In March 2015, the Company informed the lessor of the former's interest to renew the lease agreement to cover the period commencing on April 1, 2015 up to March 31, 2016, renewable subject to mutual agreement of the parties, for a monthly rental rate of Php23,067 (excluding EVAT). The lease was renewed for another year in April 2016. Thereafter, the lease was renewed for another year in April 2017.

On 20 February 2018, the lease of NOW Corporation's office located at Unit 5-I, 5th Floor, OPL Building, 100 C. Palanca Street, Legaspi Village, Makati City was renewed for another year.

Item 3. Legal Proceedings

On February 20, 2013, the Company filed the trademark registration of the mark: NOWPLANET.TV AND DESIGN with Application No. 4-2013-500481 with the Bureau of Legal Affairs of the Philippine Intellectual Property Office (the "Bureau"). On 12 August 2013, Starbucks (HK) Limited filed a Verified Notice of Opposition to the said trademark application. On January 12, 2017, the Intellectual Property Office of the Philippines dismissed the opposition filed by Starbucks (HK) Limited. In an Order dated 19 May 2017, the Bureau dismissed with finality the Appeal of Oppositor-Appellant Starbucks.

On 17 November 2017, the Company filed before the Office of the Ombudsman a complaint charging Mr. Jose P. Dormido, Sheriff IV of Pasig City, Atty. Jonathan M. Polines and Marco Antonio R. Urera for conspiracy in violating Section 3(e) of R.A. 3019, as amended (Anti-Graft and Corrupt Practices Act). The administrative case pertaining to Sheriff Dormido is currently being acted upon by the Supreme Court.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. 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 2013 up to the first quarter of 2018:

Year	Quarter	High	Low	Close
2013	1st	0.510	0.400	0.400
	2nd	0.450	0.360	0.380
	3rd	0.465	0.355	0.430
	4th	0.430	0.365	0.405
2014	1st	0.405	0.360	0.380
	2nd	1.040	0.370	0.710
	3rd	0.910	0.610	0.630
	4th	0.720	0.540	0.570
2015	1st	0.670	0.400	0.495
	2nd	0.630	0.430	0.465
	3rd	0.610	0.400	0.500
	4th	1.290	0.470	0.750
2016	1st	1.140	0.580	1.100
	2nd	3.000	2.900	2.900
	3rd	3.490	3.400	3.440
	4th	2.540	2.430	2.490
2017	1st	2.980	2.900	2.900
	2nd	2.630	2.580	2.610
	3rd	2.370	2.300	2.340
	4th	2.880	2.800	2.820
2018	1st	8.200	7.560	8.190

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, 2017, 2016 and 2015 are as follows:

	2017		**2016**		**2015**	
	Number of Shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance at beginning of year	**1,517,278,350**	**1,517,278,350**	**1,517,278,350**	**1,517,278,350**	**1,317,278,350**	**1,317,278,350**
Increase in number of shares as a result of reduction in par value	**-**	**-**	**-**	**-**	**-**	**-**
Issuance during the year	**-**	**-**	**-**	**-**	**200,000,000**	**200,000,000**
	1,517,278,350	**1,517,278,350**	**1,517,278,350**	**1,517,278,350**	**1,517,278,350**	**1,517,278,350**

No party or person holds any voting trust over any of the Company's shares. There are approximately 68 Holders of Common Stock as of March 31, 2018. The Top Twenty (20) Holders of Common Stock as of March 31, 2018 are as follows:

Name	Nationality	No. of shares	Percentage
PCD Nominee Corporation	Filipino	485,300,985	31.9850%
Top Mega Enterprises, Limited	Chinese	367,935,951	24.2497%
Emerald Investments, Inc.	Filipino	209,395,185	13.8007%

Velarde, Inc	Filipino	200,571,550	13.2192%
Foodcamp Industries and Marketing, Inc.	Filipino	91,726,743	6.0455%
Joyce Link Holdings, Limited	British	86,458,552	5.6893%
Gamboa Holdings, Inc.	Filipino	75,429,216	4.9713%
Chua Co Kiong, William N.	Filipino	145,000	0.096%
De Leon, Jose Mari S.	Filipino	10,000	0.0007%
Espinosa, Joseph	Filipino	10,000	0.0007%
Diata, Juditha G.	Filipino	10,000	0.0007%
Tareno, Maria Guia I.	Filipino	10,000	0.0007%
Serania, Virginia P.	Filipino	10,000	0.0007%
Francisco, Richard L.	Filipino	10,000	0.0007%
Bocabil, Alben B.	Filipino	10,000	0.0007%
De La Cuesta, Karlo S.	Filipino	10,000	0.0007%
Ligutan, Eninias P.	Filipino	10,000	0.0007%
Pagudar, Venus B.	Filipino	10,000	0.0007%
Alvarez, Jr., Servando B.	Filipino	10,000	0.0007%
Cueto, Edessa P.	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.

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.

Item 6. Management's Discussion and Analysis or Plan of Operation

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 south and norther 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*

  The company intends to issue redeemable convertible, non-participating, cumulative and non-voting peso preferred shares of up to 15 million convertible preferred shares, up to 500 million underlying common shares, and 30 million detachable warrants and 30 million underlying common shares of the warrants. The net proceeds from the issue will be used by The Company to support the expansion of its "Fiber-in-the-Air" broadband internet service, for research and development, capital expenditures and for other general corporate purposes.

  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. Part of the use of the proceeds shall be devoted to the development of the Core Network Facility and the purchase of core network switches.

  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, subject to the approval of the SEC, to wipe out the capital deficit which may be currently impairing the ability of the Company to declare and pay dividends. Once the Company obtains the necessary approvals and implements the equity restructuring plan, the Company can resume paying dividends from future cash flows as they no longer have to use the same to eliminate retained earnings debit balances. This will also allow management the flexibility to invest the surplus cash back to grow the business.

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 auxilary 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 two of its creations: (a) the "NOW Broadband Cable TV" a guaranteed broadband Internet service with Wireless Cable TV, and (b) the "NOWPlanet.TV" a digital media platform as a product that converges free TV, web channels, cloud services and other interactive services.

The Company's planned broadband Internet service shall offer 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.

Key Performance Indicators

Profitability	Profit Margin	4.22%	
	Return on Assets	0.38%	
	Return on Equity	0.46%	
	Book Value per share	0.894	
	Earnings per share	0.0045	
Liquidity	Current Ratio	1.020	
Debt to Equity	Debt to Equity Ratio	0.2330	
Asset to Equity	Asset to Equity Ratio	1.2330	
Interest	Interest Rate Coverage Ratio	173.2806	

The Key Performance Indicators are computed as follows:

Profitability:

Profit margin = Net Income / Total Revenue x 100
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

Liquidity:

Current Ratio = Current Assets / Current Liabilities

Debt to Equity:

Debt to Equity Ratio=Total Liabilities/Total Stockholders' Equity
Asset to Equity Ratio = Total Assets / Total Stockholders' Equity
Interest rate coverage ratio = EBIT / Interest Expense

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.

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.

The Company has started to establish teams to supports its business process outsourcing pursuits. It has also put up its own operations and back-end processes through service outsourcing. Management personnel are being sourced from a cooperative of professionals.

The Company is also working together with IMX Broadband, Inc. for purposes of research and development in connection with the plan to expand the Company's existing information technology platform in order to introduce related products and services and integrating wireless communication technologies.

On December 18, 2008, the Company signed a Development Partnership Agreement with REWSS A/S, a Danish based company with an operations and development hub in the Philippines, and NOW Telecom, a MTS (mobile telephone system) operator in the Philippines. REWSS A/S provides Network Business Intelligence (NBI) software solutions for operators worldwide with clients in the USA, Europe, Africa and Asia for various network technologies including CDMA, GSM and UMTS (2G and 3G). Using NOW Telecom's network infrastructure, REWSS A/S will develop its REWS Stools for the iDEN Motorola technology. The Company will handle the project management role and use the end solution for iDEN in handling NOW Telecom's Network Operations Center.

Information on Independent Accountant

The auditing firm of SGV & Co. is the incumbent external auditor of the parent Company and i-Resource Consulting International, Inc. (subsidiary) for the calendar year 2018 and is being recommended for re-appointment for the current year.

Audit and 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 Php650,000 for 2017, Php500,000.00 for 2016, and Php280,000.00 for 2015.

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.

In 2017, SGV & Co. did the review of the Interim Condensed Consolidated Financial Statements as at September 30, 2017 and for the nine-month periods ended September 30, 2017 and 2016. There were no other significant professional services rendered by SGV & Co. during the period.

Results of operations

<u>Year 2017</u>

The consolidated revenue for the year 2017 is Php148.974 million, there is an increase of Php43.537 million or 41.29% from last year's Php105.437 million. The increase is mainly due to the increase in revenue from software licenses and services which amounted to Php82.187 million in 2017, representing an increase of 46.66% from Php56.041 million in 2016. Company's sales from IT manpower and resource augmentation slightly decreased to Php42.274 million from Php43.415 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 ₱85.80 million, higher by 51.47% or ₱29.16 million compared to the ₱56.65 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 ₱53.82 million compared to the amount last year of ₱46.43 million. Costs relating to sales increased from ₱10.22 million to ₱31.98 million when comparing amounts from those of December 31, 2016 to those of December 31, 2017.

The Operating Expenses is Php54.210 million in 2017 and Php44.098 million in 2016. There is an increase by Php10.112 million or 22.93% 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 Php18.82million.

The Net income for the year ended December 31, 2017 is Php6.29 million or Php3.792 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 Php124.742 million or 8.06%. Current Assets increased by Php121.874 million or 60.91%%, from Php200.084 million in 2016 to Php321.957 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 Php2.869 million due to increase in PPE.

Current liabilities increased by Php118.368 million or 60.00%, 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 Php315.97 million and Equity at Php1.356 billion.

Year 2016

The consolidated revenue for the year 2016 is Php105.437 million, there is a slight decrease of Php9.957 million or 9% from last year's Php115.394 million. 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 Php56.041 million in 2016 from Php75.967 million in 2015. Company's sales from IT manpower and resource augmentation increased to Php43.415 million in 2016 from Php39.427 million in 2015. Broadband sales for 2016 amounted toPhp5.981 million.

The Operating Expenses is Php44.098 million in 2016 and Php33.049 million in 2015. There is a significant increase by Php11.049 million or 33% in 2016 as compared to 2015 was mainly due to impairment of advances by the Company to one of its affiliates amounting to Php5 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 Php2.737 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%. Current Assets increased by Php49.751 million or 33%, 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 53%, from Php415.505 million in 2015 to Php197.250 million for 2016. The decrease was due to the conversion of advances from an affiliate into equity during the year which amounted to Php264 million and payment of loan amounting to Php44.5 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 Php449K 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 Php197.7 million and Equity at Php1.349 billion.

Year 2015

The consolidated revenue for the year 2015 is Php115.394 million, there is a significant increase of Php41.614 million or 56% from last year's Php73.779 million. The increase is contributed largely by an increase in revenue from IT Service Fees. Revenue from IT service fees increased to Php67.108 million in 2015 from Php47.031 million in 2014. Company's sales from IBM licenses and other services also increased by Php21.538 million or 81%, the sales increased to Php48.286 million this year from last year's Php26.748 million.

The Operating Expenses is Php33.049 million in 2015 and Php50.058 million in 2014. There is a significant decrease by Php17.008 million or 34% 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 Php569K and Php370K respectively.

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.

<u>Year 2014</u>

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.

<u>Year 2013</u>

Total Consolidated revenues generated in 2013 amounted to Php79.32 Million or 59% higher than last year's revenue of Php50.14M. The increase in Revenue was brought about by the following:

1. Revenues from IT products and services of Php38.95M was increased by 57% or Php14.15M from last year's revenue of Php24.8M;
2. Revenues from IT resource augmentation of Php38.32M was increased by 102% or Php19.32M from last year's revenue of Php19.0M;
3. Management fees were the same by Php5.04M both in 2013 and 2012; and,
4. Interest Income derived from loans and minimal bank interest of Php471.82K was decreased by 58% or Php653.09K from last year's interest of Php1.12M

Operating expenses decreased by 11% or Php21.4M in 2013, the decrease was largely attributed to outside services from Php56.2M to Php25.52M due to cost cutting measures for development activities to support its thrust to focus on providing high value ICT services. Other decreases in operating expenses include Communications at Php2.14M, Professional fees at Php1.41M, transportation and travel at Php4.94M and Advertising and promotion at Php3.39M. The equity in net losses of associates share at Php3.1M, impairment loss on goodwill on Softrigger Interactive, Inc. investment at Php3.8M and Commission of Php607K as charged in 2012 were of zero amount in 2013.

Total Net income (loss) as of December 2013 is (Php87.2 Million) or Php50.9 Million less compared with last year of Php138.1 Million). This year's increase in revenue of 33.565M and the decrease of cost and expenses by 21.399M contributed the improved bottom line in 2013.

As of December 2013, the total consolidated assets of the Company stood at Php1.445 Billion compared with last year of Php1.428 Billion or an increase by Php16 Million. Current assets increased by Php22.26M or 24% were due to the increase in Cash balance by Php8.19M, trade receivables by Php11.55M, increase in receivables by related parties by Php2.7M, while other current assets decreased by Php149.9K. Non-current assets decreased by .041% or Php5.5M due to depreciation of Property and equipment.

Current liabilities decreased by Php14.23M were brought about by the reclassification from current to a noncurrent liability on the loan secured from a commercial bank amounting to Php40.5M which was used to finance the operational requirements of the Company. Noncurrent liabilities increased by 43% or Php117M due to reclassification of the aforementioned commercial bank loan from current liabilities and the increase in amounts owed from Velarde, Inc. in the amount of Php73.27M which includes an accrued interest of Php36.38M derived when the present value of the loan was determined since it became noninterest bearing when both parties agreed for the deferment on the accrual and payment of interest starting November 2012 but shall not exceed three (3) years.

Obligation under finance lease was likewise decreased from Php3.6M in 2012 to Php675K in 2013 brought about by regular payments made to transportation vehicles under finance lease.

On December 9, 2013, the bank has approved the conversion of the short-term loans in the amount of Php44.5 into a two-year term loan. The principal balance of the loan is payable on January 19, 2016.

Total Consolidated Assets stood at Php1.445 Billion, Liabilities at Php529 Million and Equity at Php916M Billion.

Item 7. Financial Statements

The audited consolidated financial statements are attached as **"Annex A".**
The audited financial statements for parent company are attached as **"Annex B".**

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

Under the By-Laws of the Company, the members of the Board of Directors shall hold office for a term of one (1) year until their successors shall have been elected and qualified.

Board of Directors

Thomas G. Aquino, *age 69, 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 an independent member of the Board of Directors of ACR Corporation, A Brown Company Inc., and member of the Board of Trustees of Asian Institute of Journalism and Communication. 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 and the ASEAN Free Trade Area, 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, MS in Industrial Economics in 1972 from the University of Asia and the Pacific, and AB in Economics in 1970 from the School of Economics of the University of the Philippines.

Mel V. Velarde, *age 54, Filipino, President, is the President and Chief Executive Officer* of the Company. He was previously 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 from 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.). He served as Philippine Commissioner to the United Nations Educational, Scientific and Cultural Organizations 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. He obtained his Bachelor of Arts in Liberal Studies Major in Interdisciplinary Studies (Summa Cum Laude) at Boston University, Massachusetts, US. He completed the Owner/President Management Program at the Harvard Business School, Harvard University, Cambridge, Massachusetts. He has also completed courses leading to a Masters Degree in Business Economics at the University of Asia and the Pacific. He has taken Strategic Planning, Marketing and Finance at the Asian Institute of Management. In addition, he took up the following executive courses: Wealth Management at Wharton Business School, University of Pennsylvania; Strategic Finance, University of Michigan; Corporate Restructuring and Business Transformation at Harvard Business School; Digital Marketing at Harvard Business School; Managing Businesses in China, Tsinghua University and Harvard Business School; Directing Documentaries at the London School of Film and Television; Broadcasting and Cable Television, Satellite Communications, Data and Internet Communications at the United States Telecommunications Training Institute; Cybersecurity: Planning, Implementing and Auditing of Critical

Security Controls (SANS, Washington D.C.); and Advanced and Competitive Sailing Certifications at the Swain Sailing School at Tortola, the British Virgin Islands, Caribbean. He has also completed digital cinematography, digital editing and film production management at University of California, Los Angeles (UCLA), Film Institute, CA.

Jose S. Alejandro, *age 83, 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 54, Filipino, Director,* also serves as the Vice-President for Innovative Marketing 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 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 a member of the Mandaluyong Chamber of Commerce & Industry, Inc. and occupied various key positions including 1st Vice President-Director for the period 2004 until 2005. He is also a member 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 until 2007 and 2009 until 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. He was also the Executive Director of North Philippines Visitors Bureau, Inc. for the period July 2008 to July 2010. He obtained his Bachelor of Arts in Interdisciplinary Studies at the Ateneo de Manila University in 1985.

Gerard Bnn R. Bautista, *age 54 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**,** *45 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 59, Filipino, Director,* is also the president of the Asian Institute of Journalism and Communication (AIJC). He is also a member of the Board of Directors of the Singapore-based Asian Media Information Centre. Since 2007, Mr. Tuazon was the Chairman of the Commission on Higher Education Technical Committee for Communication and member of the CHED Technical Panel for Social Sciences and Communication. He serves as UNESCO Communication & Information Advisor. He also served UNESCO in various capacities: UNESCO Specialist for Myanmar from November 2012 to January 2014; representative of the UNESCO Regional Director to the UN Country Team in the Philippines from 2010 to 2012. 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. Among his latest publications are: *Multidisciplinary Inquiry on the Culture of Impunity in the Killing of Journalists (2013), and Media and Information Literacy: Curriculum for Teachers* (UNESCO Paris, 2011). He has contributed in several international publications including *Media and Information Literacy and Intercultural Dialogue* (NORDICOM, 2013) and *Gender Sensitive Indicators for Media* (UNESCO, 2012). He was a peer reviewer for the recent UNESCO publication, *Global Media Information Literacy Assessment Framework: Country Readiness and Competencies* (2013). Mr. Tuazon completed his Master in Communication Management from the AIJC and Bachelor of Science in Commerce from the University of Santo Tomas where he also took graduate work in advertising.

Winnita V. Ysog, *age 53*, *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 64, 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. Connectivity Division. In addition to these, Mr. Bonifacio was the President of Cirtek Advanced Technologies and Solutions, Inc. – Laguna from 2014 to 2015; President & CEO of REMEC Broadband Wireless International, Inc. – Laguna from 2005 to 2014; President & CEO of REMEC Manufacturing, Philippines, Inc. (Formerly Pacific Microwave Corporation acquired by REMEC, March 2001) from 2001 to 2005; Founder, President & CEO of Pacific Microwave Corporation, Philippines from 1995 to 2001; Director of Operations of Optical Microwave Networks Inc., San Jose, California, U.S.A. from 1989 to 1995; Manufacturing Manager of Litton Industries – MSS Division, Santa Clara, CA, U.S.A from 1987 to 1989; Manufacturing Manager of Gould Inc. – Microwave Products Division, San Jose, CA, U.S.A from 1983 to 1987; Manufacturing Manager of Dexcel Inc. – SATCOM Division, Santa Clara, CA, U.S.A from 1980 to 1983; and a member of the Technical Staff, Varian Associates, Solid State Div., Santa Clara, CA, U.S.A from

1977-1980. Mr. Bonifacio is also a member of the board of directors of Automated Technology (Phil), Inc. of Menlo Health and Wellness Innovations, Inc. and of REMEC Broadband and Wireless, Inc. from 2005 to 2014); a member of the board of trustee of Philippine Chamber of Industrial Estates and Ecozones and of Semiconductor and Electronics of the Philippines from 2011 to 2013; and Chairman of the Board of El Circulo Masantoleno Scholarship Foundation. Mr. Bonifacio obtained his B.S. Electronics and Communications in the University of Santo Tomas. He passed the Electronics and Communication Engineering Licensure Examination, Philippines in 1977. He also took Microwave Engineering in the University of California, Berkley, CA.

Angeline L. Macasaet, *age 45, 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 54, Filipino, Treasurer and Chief Finance Officer.* He was elected as the Company's Chief Financial Officer on January 20, 2017. Mr. Penanueva brings to the Company more than 30 years 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 seven companies. From 2012 to 2013, he was the Accounting Manager of Century Peak Metals Holding Corporation, also a publicly listed company. From 2011 to 2012, he served as Accounting Manager of Great Image Services Corporation. From 1997 to 2011, he served as Senior Financial Planning, Budget and Accounting Manager of Universal Leaf Philippines, Inc. a multinational company. Mr. Penanueva is a Certified Public Accountant. He graduated from Ateneo De Davao University in 1985.

D. Enrique O. Co*, age 47, 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.

Independent Directors

Atty. Marlou B. Ubano and Domingo B. Bonfacio are the two (2) independent directors of the Company.

Atty. Lucas C. Carpio, Jr. tendered his resignation as an Independent Director of the Board of Directors during the Regular Meeting of the Board of Directors held on 15 March 2018, effective as of said date.

Management Team

The following are the members of the Company's management team:

Thomas G. Aquino	-	Chairman of the Board (see above)
Jose S. Alejandro	-	Vice Chairman of the Board (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

Non-executive Officers

D. Enrique O. Co*, age 47, Filipino, Legal Counsel,* served as 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 served as the Acting Corporate Secretary of the Company from 01 August 2008 until 18 March 2009. He is currently serving as Director and/or Corporate Secretary of several Philippine corporations. Atty. Co is also the Managing Partner of Co Ferrer & Ang-Co Law Offices. Atty. Co obtained his BS Business Administration (*cum laude*) and Law Degrees from the University of the Philippines.

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.

Family Relationship

Except for the President and CEO Mr. Mel V. Velarde and Winnita V. Ysog who are siblings, none of the Advisors, Executive Officers and Management employees are related by affinity or consanguinity.

Involvement in Certain Legal Proceeding

On February 20, 2013, the Company filed the trademark registration of the mark: NOWPLANET.TV AND DESIGN with Application No. 4-2013-500481 with the Bureau of Legal Affairs of the Philippine Intellectual Property Office (the "Bureau"). On 12 August 2013, Starbucks (HK) Limited filed a Verified Notice of Opposition to the said trademark application. On January 12, 2017, the Intellectual Property Office of the Philippines dismissed the opposition filed by Starbucks (HK) Limited. In an Order dated 19 May 2017, the Bureau dismissed with finality the Appeal.

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 dated 17 November 2017 was forwarded to the Supreme Court on 18 December 2017 by the Office of the Chief Justice.

There are no pending legal proceeding involving Bankruptcy Petition, Conviction by Final Judgment, or being subjected to any Order, Judgment or Decree, or Violation of a Securities or Commodities Law to which the registrant or any of its subsidiaries or affiliates 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.

Item 10. Executive Compensation

The aggregate compensation of executive officers and directors of the Company for the last 2 years and projected for the ensuing year (2018) are as follows:

ACTUAL				
			2017	2016
	COMPENSATION	**OTHERS**	**TOTAL**	
A. Five (5) most highly compensated Executive Officers	**6,502,758**	**5,176,119**	**11,678,877**	12,390,177.43
All directors and executive officers as a group unnamed	**295,000**		**295,000**	475,354.73

Projected 2018			
	COMPENSATION	**OTHERS**	**TOTAL**
A. Five (5) most highly compensated Executive Officers	**6,631,510.36**	**5,100,000.00**	**11,731,510.36**
All directors and executive officers as a group unnamed	**300,000**		**300,000**

The following are the 5 highest compensated directors / executive officers of the Company: 1. Thomas G. Aquino 2. Mel V. Velarde, 3. Angeline L. Macasaet, 4. Vicente I. Penanueva; and 5) Maria Nenita G. Libid

Standard Arrangement

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

Other Arrangement

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

Terms and Conditions of any Consultancy Contract or any Compensatory Plan or Arrangement between the Company and Executive Officers

None.

Outstanding Warrants or Options Held by the Company's CEO, the Executive Officers and Directors

None.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Voting Securities and Principal Holders Thereof

The Company has outstanding common shares totaling 1,517,278,350 shares as of March 31, 2018. All outstanding shares as of record date are entitled to notice and to vote, on a one-share-one vote basis.

Security Ownership of Certain Record and Beneficial Owners
(More than 5% as of March 31, 2017)

Title of class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage
Common	PDC Nominee Corp. – Filipino	Direct	Filipino	485,300,985	31.9850
Common	Top Mega Enterprises Limited 11/F Fortune House 61 Connaught Road Central, Hong Kong	Direct	Chinese	367,935,951	24.2497
Common	Emerald Investments, Inc. Unit 5-I, 5th Flr., OPL Building, 100 C. Palanca St., Legaspi Village, Makati City	Direct	Filipino	209,395,185	13.8007
Common	Velarde, Inc. Unit 5-I, 5th Flr., OPL Building, 100 C. Palanca St., Legaspi Village, Makati City	Direct	Filipino	200,571,550	13.2192
Common	Foodcamp Industries & Marketing, Inc. Unit 5-I, 5th Flr., OPL Building, 100 C. Palanca St., Legaspi Village, Makati City	Direct	Filipino	91,726 ,643	6.0455
Common	Joyce Link Holdings, Limited 11/F Fortune House 61 Connaught Road Central, Hong Kong	Direct	British VI	86,458,552	5.6983

Security Ownership of Directors and Management as of March 31, 2018

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., Gamboa Holdings, Inc. or Foodcamp Industries and Marketing, Inc.:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of class
Common	Thomas G. Aquino	1 (Direct)	Filipino	<.01
Common	Mel V. Velarde	10 (Direct)	Filipino	<.01
Common	Jose S. Alejandro	10 (Direct)	Filipino	<.01
Common	Vicente Martin W. Araneta III	1 ((Direct)	Filipino	<.01
Common	Gerard Bnn R. Bautista	1 (Direct)	Filipino	<.01
Common	Marlou B. Ubano	1 (Direct)	Filipino	<.01
Common	Ramon Guillermo R. Tuazon	1 (Direct)	Filipino	<.01
Common	Jan-Olov Conny Dolonius	1 (Direct)	Swedish	<.01
Common	Winnita Velarde Ysog	1 (Direct)	Filipino	<.01
Common	Angeline L. Macasaset	1 (Direct)	Filipino	<.01
	D. Enrique Co (Ext Legal Counsel)			
	Vicente I. Penanueva (CFO)	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.

Item 12. Certain Relationships and Related Transactions

Except for the President and CEO Mr. Mel V. Velarde and Winnita V. Ysog who are siblings, none of the Advisors, Executive Officers and Management employees are related by affinity or consanguinity.

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

a. The Parent Company grants interest-free advances to NOW Telecom for working capital and administrative requirements. Amounts owed by NOW Telecom as of December 31, 2017, 2016 and 2015 amounted to ₱63,745,439, ₱51,346,501, and ₱31,408,455, respectively.

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. Interest income amounted to ₱ 467,033 in 2016, 2015 and 2014 reflected as part of "Others" in revenue. As of December 31, 2016, 2015 and 2014, amounts owed by IBI, including interest, amounted ₱27,497,744, ₱27,030,711, and ₱26,563,678, respectively. IBI is an entity under common control.

c. As of December 31, 2017, 2016 and 2015 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.

   Amounts owed by EII as of December 31, 2017, 2016 and 2015 is ₱40,848.

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 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 ₱13,038,492 ₱15,450,244, and ₱19,719,161 as of December 31, 2017, 2016 and 2015, respectively.

   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 KPSC amounted to ₱2,863,646, ₱6,176,177, and ₱6,858,809, in 2017, 2016 and 2015, respectively.

On January 31, 2017, both parties mutually agreed to terminate the service agreement following the change in the business operation of the Group.

e. Due to related parties include interest bearing advances from Velarde, Inc. for working capital and investment requirements. Interest rate for these loans is at 18.0% per annum or 1.5% per month.

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 12).

Interest expense booked as additional amounts owed to related party amounted to nil in 2017, 2016 and 2015.

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 Note 11).

Outstanding accrued interest presented as part of the "Accounts payable and accrued expenses" amounted to ₱59,903,586 as of December 31, 2017, 2016 and 2015 (see Note 8).
Due to Velarde, Inc. presented as part of "Due to related parties" amounted to ₱141,326,866, ₱ 68,322,816 and ₱223,458,035 as of December 31, 2017, 2016 and 2015, respectively.

f. The Group charges Softweb and Velarde, Inc. management fees for the administration and operations of the companies. Management fees charged to Softweb amounted to nil in both 2016 and 2015, and ₱4,800,000 in 2014 reflected as part of "Others" in revenue. Payments are due within 5 days upon receipt of invoice. Management fees charged to Velarde, Inc. amounted to ₱240,000 in 2017, 2016 and 2015 reflected as part of "Others" in revenue.

The Group has outstanding trade receivables to Velarde, Inc. amounting to ₱1,680,000, ₱1,440,000 and ₱1,200,000 as of December 31, 2017, 2016 and 2015, respectively.

g. The Group entered into a non-interest bearing loan agreement with Porteon Electric Vehicles, Inc. (Porteon). As of December 31, 2017, 2016 and 2015, the outstanding amount due from Porteon Electric Vehicles, Inc. amounted to ₱2,160,300 which is due on demand.

h. 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, 2014 to October 31, 2017. 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 2017, 2016 and 2015. In connection with this, the related due to I-College amounted to ₱5,736,925, ₱4,806,612, and ₱3,876,300 as of December 31, 2017, 2016 and 2015, respectively.

i. The Group sells IBM licenses to Softweb, an associate. Sales of IBM license to Softweb amounted to nil, ₱5,412,232 and ₱12,088,054 in 2017, 2016 and 2015.

j. he Group entered into agreements with Thumbmob, Holy Cow and Softweb for the subscription of their respective shares. Please see Note 6 for detailed discussion.

k. *Infrastructure build-up and technical services*
In January 2015, the Parent Company entered into two separate one (1) 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 entered into contracts with GHT, 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 total 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. A total of 9 and 10 hubs were completed for GHT and Newsnet respectively in 2017. Service revenue related to infrastructure build-up recognized in 2017, 2016 and 2015 amounted to ₱45,000,000, ₱30,000,000 and ₱20,000,000.

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. Service revenue recognized in 2017 and 2016 amounted to ₱600,000 and ₱450,000 each for GHT and Newsnet.

The Group provided technical service related with Rohill TetraNode System to NOW Telecom in 2016 which the Group recognize a service revenue amounting to ₱7,500,000.

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 servicdes to NOW Telecom amounted to ₱7,800,000 in 2017.

The Group has an outstanding trade receivables from the related parties:

	2017	2016	2015
GHT	44,032,048	28,504,000	11,200,000
Newsnet	53,441,589	28,504,000	11,200,000
NOW Telecom	13,102,508	8,400,000	-

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 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. Total cost of data services charged to cost of services amounted to ₱ 3,121,774 and ₱2,476,627 in 2017 and 2016, respectively.

l. As of December 31, 2017, 2016 and 2015, the outstanding amounts due from GHT amounted to ₱ 8,588,889, ₱6,177,301 and ₱5,000,180, respectively. The group also has an outstanding amounts due from Newsnet amounting to ₱19,360,911, ₱10,736,960 and ₱6,067,544 as of December 31, 2017, 2016 and 2015, respectively.

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables	Due to related parties	Trade and other payables	Advances to affiliates	Terms
Shareholders									
Velarde, Inc.	**Advances**	**2017**	**₱73,004,050**	**₱–**	**₱–**	**141,326,866**	**₱–**	**₱–**	**On demand**
		2016	73,626,954	–	–	68,322,816	–	–	On demand
		2015	170,709,048	–	–	223,458,035	–	–	On demand
	Management fee	**2017**	**240,000**	**–**	**1,680,000**	**–**	**–**	**–**	**On demand**
		2016	240,000	–	1,440,000	–	–	–	On demand
		2015	240,000	–	1,200,000	–	–	–	On demand
	Interest	**2017**	**–**	**–**	**–**	**–**	**59,903,586**	**–**	**On demand**
		2016	–	–	–	–	59,903,586	–	On demand
		2015	–	–	–	–	59,903,586	–	On demand
GHI	**Advances**	**2017**	**2,000**	**2.000**	**–**	**–**	**–**	**–**	**On demand**
		2016	–	–	–	–	–	–	On demand
		2015	–	–	–	95,536	2,035,055	–	On demand
EII	**Advances**	**2017**	**–**	**40,848**	**–**	**–**	**–**	**–**	**On demand**
		2016	–	40,848	–	–	–	–	On demand
		2015	–	40,848	–	–	–	–	On demand
	Leases	**2017**	**–**	**–**	**–**	**2,902,918**	**–**	**–**	**On demand**
		2016	–	–	–	2,902,918	–	–	On demand
		2015	–	–	–	2,902,918	–	–	On demand
Affiliates									
NOW Telecom	**Advances**	**2017**	**12,398,938**	**63,745,439**	**–**	**878,208**	**–**	**–**	**On demand**
		2016	2,704,687	51,346,501	–	878,208	–	–	On demand
		2015	7,816,287	31,408,455	–	749,806	–	–	On demand
	Services	**2017**	**7,800,000**	**–**	**13,102,508**	**–**	**–**	**–**	**On demand**
		2016	7,500,000	–	8,400,000	–	–	–	–
		2015	–	–	–	–	–	–	–
(Forward)									
KPSC	**Advances**	**2017**	**₱5,000**	**₱209,708**	**₱–**	**₱–**	**₱–**	**₱–**	**On demand**
		2016	–	204,708	–	–	–	–	On demand
		2015	2,160	202,548	–	–	–	–	On demand
	Outside Services	**2017**	**11,756,110**	**–**	**–**	**–**	**13,038,492**	**–**	**On demand**
		2016	50,716,312	–	–	–	15,450,244	–	On demand
		2015	46,656,791	–	–	–	19,719,161	–	On demand
IBI	**Advances**	**2017**	**–**	**15,567,752**	**–**	**–**	**–**	**–**	**Due within 5 yrs**
		2016	–	15,567,752	–	–	–	–	Due within 5 yrs
		2015	–	15,567,752	–	–	–	–	On demand
	Interest	**2017**	**467,033**	**11,929,992**	**–**	**–**	**–**	**–**	**Due within 5 yrs**
		2016	467,033	11,462,959	–	–	–	–	Due within 5 yrs
		2015	467,033	10,995,926	–	–	–	–	On demand
Asian Institute of Journalism and Communication	**Advances**	**2017**	**18,048**	**489,109**	**–**	**–**	**–**	**–**	**On demand**
		2016	1,039	471,061	–	–	–	–	On demand
		2015	2,661	470,022	–	–	–	–	On demand
Paradiso Verde, Inc.	**Advances**	**2017**	**–**	**–**	**–**	**–**	**3,358,462**	**–**	**On demand**
		2016	–	–	–	–	3,358,462	–	On demand
		2015	–	–	–	–	3,358,462	–	–
	Services	**2017**	**–**	**–**	**–**	**605,212**	**–**	**–**	**On demand**
		2016	–	–	–	605,212	–	–	On demand
		2015	368,195	–	–	605,212	–	–	On demand
(Forward)									
Porteon	**Loans**	**2017**	**₱–**	**₱2,160,300**	**₱–**	**₱–**	**₱–**	**₱–**	**On demand**
		2016	–	2,160,300	–	–	–	–	On demand

		2015	–	2,160,300	–	–	–	–	On demand
Newsnet	**Advances**	**2017**	**8,623,951**	**19,360,911**	**–**	**–**	**–**	**–**	**On-demand**
		2016	4,669,416	10,736,960	–	–	–	–	On-demand
		2015	947,948	6,067,544	–	–	–	–	–
	Services	**2017**	**25,600,000**	**–**	**53,441,589**	**–**	**–**	**–**	**On-demand**
		2016	15,450,000	–	28,504,000	–	–	–	On-demand
		2015	10,000,000	–	11,200,000	–	–	–	–
GHT	**Advances**	**2017**	**2,411,588**	**8,588,889**	**–**	**–**	**–**	**–**	**On-demand**
		2016	1,177,121	6,177,301	–	–	–	–	On-demand
		2015	180	5,000,180	–	–	–	–	–
	Services	**2017**	**20,600,000**	**–**	**44,032,048**	**–**	**–**	**–**	**On-demand**
		2016	15,450,000	–	28,504,000	–	–	–	–
		2015	10,000,000	–	11,200,000	–	–	–	–
Holycow	**Loans**	**2017**	**–**	**–**	**2,211,771**	**–**	**–**	**–**	**On demand**
		2016	–	–	2,211,771	–	–	–	On demand
		2015	–	–	2,211,771	–	–	–	On demand
	Interest	**2017**	**–**	**156,000**	**–**	**–**	**–**	**–**	**On demand**
		2016	–	156,000	–	–	–	–	On demand
		2015	–	156,000	–	–	–	–	On demand
	Advances	**2017**	–	–	–	–	–	**9,248,449**	**On demand**
		2016	–	–	–	–	–	9,248,449	On demand
		2015	–	–	–	–	–	9,248,449	On demand
Thumbmob	**Advances**	**2017**	–	–	–	–	–	**14,344,369**	**On demand**
		2016	–	–	–	–	–	14,344,369	On demand
		2015	–	–	–	–	–	14,344,369	On demand
(Forward)									
I-College	**Advances**	**2017**	**₱–**	**₱720**	**₱–**	**₱–**	**₱–**	**₱–**	**On demand**
		2016	–	720	–	–	–	–	On demand
		2015	–	720	–	–	–	–	–
	Lease	**2017**	**930,313**	**–**	**–**	**5,736,925**	**–**	**–**	**On demand**
		2016	930,313	–	–	4,806,612	–	–	On demand
		2015	930,313	–	–	3,876,300	–	–	On demand
Associate									
Softweb	**Advances**	**2017**	**111,701**	**487,344**	**2,380,860**	**4,216**	**–**	**–**	**On demand**
		2016	**–**	487,344	2,380,860	**4,816**	–	**–**	On demand
		2015	1,389,259	2,163,820	2,380,860	6,390,573	–	5,000,000	On demand
	Loans	**2017**	**–**	**714,000**	**–**	**–**	**–**	**–**	**On demand**
		2016	–	714,000	–	–	–	–	On demand
		2015	–	714,000	–	–	–	–	On demand
	Sales	**2017**	**–**	**–**	**16,401,451**	**–**	**–**	**–**	**On demand**
		2016	5,412,232	–	16,401,451	–	–	–	On demand
		2015	12,088,054	–	22,493,064	–	–	–	On demand
	Management fee	**2017**	**–**	**–**	**15,590,000**	**–**	**–**	**–**	**On demand**
		2016	–	–	15,590,000	–	–	–	On demand
		2015	4,800,000	–	15,590,000	–	–	–	On demand
		2017		**₱123,453,012**	**₱148,840,227**	**₱151,454,345**	**₱76,300,540**	**₱23,592,818**	
		2016		₱99,526,454	₱103,432,082	₱77,520,582	₱78,712,292	₱23,592,818	
		2015		₱74,950,275	₱66,275,695	₱238,078,380	₱85,016,264	₱28,592,818	

Summary of related party transactions affecting consolidated statements of income:

Related parties	Category	Year	Revenues	Cost of sales and services	General and administrative expenses
Velarde Inc.	**Management Fee**	**2017**	**₱240,000**	**₱–**	**₱–**
		2016	240,000	–	–
		2015	240,000	–	–
	Interest	**2017**	**–**	**–**	**–**
		2016	–	–	–
		2015	–	–	–
NOW Telecom	**Services**	**2017**	**7,800,000**	**–**	**–**
		2016	7,500,000	–	–
		2015	–	–	–
	Cost of data services	**2017**	**–**	**1,757,720**	**–**
		2016	–	779,715	–
					–
					–
		2015	–	–	
	Leases	**2017**	–	–	**120,000**
Newsnet	**Services**	**2017**	**25,600,000**	**–**	**–**
		2016	15,450,000	–	–
		2015	10,000,000	–	–
	Cost of data services	**2017**	**–**	**1,364,054**	**–**
		2016	–	1,696,912	–
		2015	–	–	–
GHT	**Services**	**2017**	**20,600,000**	**–**	**–**
		2016	15,450,000	–	–
		2015	10,000,000	–	–
IBI	**Interest**	**2017**	**467,033**	**–**	**–**
		2016	467,033	–	–
		2015	467,033	–	–
KPSC	**Outside services**	**2017**	**–**	**8,411,946**	**3,344,164**
		2016	–	43,226,619	7,489,693
		2015	–	40,054,599	6,602,192
Softweb	**Sales**	**2017**	–	**–**	**–**
		2016	5,412,232	–	–
		2015	12,088,054	–	–
	Management fee	**2017**	**–**	**–**	**–**
		2016	–	–	–
		2015	–	–	–
I-College	**Lease**	**2017**	**–**	**–**	**930,313**
		2016	–	–	930,313
		2015	–	–	930,313
		2017	**₱54,707,033**	**₱11,533,720**	**₱4,394,477**
		2016	₱44,519,265	₱45,703,246	₱8,420,006
		2015	₱32,795,087	₱40,054,599	₱7,532,505

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Per SEC Memorandum Circular No. 15 Series of 2017, the Integrated Annual Corporate Governance Report shall be due on or before 30 May 2018, hence not yet included in this report.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits

The audited consolidated financial statements are attached as **"Annex A".** The audited financial statements for parent company are attached as **"Annex B".** The Secretary's Certificate certifying the authorized signatories for the Statement of Management Responsibility is attached as **Annex "C"**.

(b) Reports on SEC Form 17-C

The following were the reports on SEC Form 17-C filed during the year 2017 until 31 March 2018:

DATE	PARTICULARS
16 January 2017	On 13 January 2017, NOW Corporation received a copy of the Certificate of Filing of Amended Articles of Incorporation (Amending Article VII reclassification of P60,000,000.00 Common Shares to Preferred Shares thereof) issued by the Securities and Exchange Commission dated 10 January 2017.
20 January 2017	In the 20 January 2017 Special Meeting, the Board of Directors elected Domingo B. Bonifacio as an independent director to fill the vacancy created as a result of the death of Marcelito R. Ordonez. During the said meeting, the Board likewise appointed Vicente I. Peñanueva as NOW Corporation's Chief Finance Officer. Furthermore, the Board of Directors passed the following resolutions: 1) Approval of the issuance of detachable warrants in connection with the public offering of the Company's preferred shares; 2) Approval of the reissuance of combined audited consolidated Financial Statements ending 31 December 2015, 31 December 2014 and 31 December 2013, as audited by SGV; and 3) Approval and authorization of the issuance of the unaudited interim condensed consolidated Financial Statements as of 30 September 2016, as reviewed by SGV.

29 March 2017	At the Regular Meeting of the Board of Directors of NOW Corporation, the Board approved the delegation to the Chairman, or in his absence the Vice Chairman, and to the President, the authority to approve the 2016 Audited Financial Statements of the Company. In view of the Company's Annual Stockholders' Meeting scheduled on 01 June 2017, the Board resolved to set the record date on 08 May 2017.
01 June 2017	The following were elected as Directors during the Annual Meeting of the Stockholders held on 01 June 2017: Thomas G. Aquino; Jose S. Alejandro; Mel V. Velarde; Vicente Martin W. Araneta III; Gerard Bnn R. Bautista; Ramon Guillermo R. Tuazon; Marlou B. Ubano, as independent director; Domingo B. Bonifacio, as independent director; Lucas C. Carpio, Jr., as independent director; Winnita V. Ysog; Angeline L. Macasaet. The shareholders present, in person or by proxy, approved/ratified the following items; 1. Minutes of the Special Stockholders' Meeting held on 08 November 2016; 2. 2016 Annual Report and 2016 Audited Financial Statements; 3. Acts of and Resolutions of the Board of Directors and Officers of the Corporation since the Last Special Stockholders' Meeting; 4. Re-Appointment of Sycip Gorres Velayo & Co. as External Auditor.
07 August 2017	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.
20 December 2017	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"); The Board likewise approved the proposed term sheet with respect to the FOO, which among others, contain the following: a. Offer Size of Php500,000,000 without oversubscription, and up to Php1,000,000,000 with oversubscription with an Offer Prize of Php100.00 per preferred share; b. Between the end of the 3rd and 4th anniversary of the Preferred Shares, the holder of the

	Preferred Shares may convert all of the holder's outstanding shareholdings of the Preferred Shares to common shares of the Company at a conversion price of Php20.00 per share; c. Holders of the Preferred Shares shall have no pre-emptive rights to subscribe to any shares (including, without limitation, treasury shares) that will be issued or sold by the Issuer. Each application shall be for a minimum of 500 Preferred Shares and thereafter, in multiples of 100 Preferred Shares. No application for multiples of any other members of Preferred Shares will be considered. d. 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. Maximum of 10,000,000 common shares underlying the Detachable Warrants without oversubscription, and maximum of 20,000,000 common shares underlying the Detachable Warrants with oversubscription. The Warrants shall have a strike price of Php10.00 for the duration of the Exercise Dates; e. The above terms were finalized by the Company together with Unicapital, Inc., its Issue Manager, Lead Underwriter, bookrunner. In the same meeting, the Board likewise confirmed the Company's Short-Term Loan Line applied with the LandBank of the Philippines minimum of Php50,000,00.00. The Board delegated to the Executive Committee the authority to negotiate with the bank the final terms and conditions of the loan.
15 March 2018	In its 15 March 2018 Regular Meeting, the Board approved the delegation to the Chairman, the President, and the Chief Finance Officer, the authority to approve the 2017 Audited Financial Statements of the Corporation. In view of the Corporation's Annual Stockholders' Meeting scheduled on 07 June 2018, the Board resolved to set the record date on 30 April 2018. Likewise in the said 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 Php260,000,000.00 advances from a shareholder. Said conversion into equity was previously approved by both the Board and the Stockholders, respectively, and was likewise promptly disclosed to the Philippine Stock Exchange. Furthermore, Atty. Lucas C. Carpio, Jr. tendered his resignation as an Independent Director of the Board of Directors of the Corporation effective 15 March 2018.

Quarterly Financial Reports (Form 17-Q) were submitted to the SEC for the quarter ending March, June and September 2017.

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 Makati City on 24 April 2018.

By:

MEL V. VELARDE
President and CEO

VICENTE I. PEÑANUEVA
Chief Finance Officer

ANGELINE L. MACASAET
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 2 5 2018 day of April 2018 affiants exhibiting to me their respective competent evidence of identity, as follows:

NAMES	Competent Evidence of Identity		Expiry Date
Mel V. Velarde	Philippine Passport No.	EC0179707	30 January 2019
Vicente I. Peñanueva	Philhealth No.	19-089347195-6	
Angeline L. Macasaet	Philippine Passport No.	P3600193A	05 July 2022

Doc. No. 08;
Page No. 03;
Book. No. 08;
Series of 2018.

ATTY. ROBERT N. LLUZ
NOTARY PUBLIC
Until December 31, 2019
Appt. No. M-102 Makati City
IBP #0175... for 2018 Nov 22 2017 RSM
PTR #656...606 Jan 02 2018 Makati
S.C. Roll No. 59567
MCLE Compliance No. V-0019439 9 March 2016
Unit 301 3rd Flr. Campos Rueda Bldg.
101 Urban Avenue, Brgy. Pio del Pilar
Makati City

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	1	9	9	6	-	0	0	1	7	9

COMPANY NAME

NOW CORPORATION AND SUBSIDIARIES

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
ACFS	SEC	N/A

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
73	1/22	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
Mr. Vicente Penanueva	Vicente.penanueva@now-corp.com	799-7700	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.

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

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

RECEIVED

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, 2017, 2016 and 2015, 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, 2017, 2016 and 2015, 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.

Valuation and Recoverability of the Investment in NOW Telecom, Inc.
As at December 31, 2017, the Group has 19% equity investment in NOW Telecom, Inc. amounting to ₱1,289,278,350, which represents 77% of the Group's total assets. This unquoted equity investment is classified as an available-for-sale financial asset and is carried at cost. Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, provides that investments in shares of stock that do not have a quoted price in an active market and whose fair value cannot be reliably measured shall be measured at cost less impairment. Also, under PFRS, if there is objective evidence of impairment, the Group is required to determine the recoverable amount of the unquoted equity security, which is the present value of estimated future cash flows, and record any impairment loss.

The determination of the valuation and recoverable amount of the investment in NOW Telecom, Inc. are significant to our audit because the amount is material to the consolidated financial statements. The Group also applied judgment in selecting the valuation technique and use of assumptions such as market value of comparable frequencies, revenue growth rate, long-term growth rate and discount rate. Any changes to these assumptions could significantly affect the recoverability of the investment.

The related disclosures on the Group's investment in NOW Telecom, Inc. are included in Note 3 to the consolidated financial statements.

Audit Response
We involved our internal specialist in evaluating the assumptions and valuation methodologies used. For frequencies of NOW Telecom, Inc. with comparable market value, we compared the assumptions used in valuing these frequencies such as price per MHzPop with the most recent comparable market transactions. For all other frequencies, we compared the forecasted cash flows assumptions used in the recoverability testing such as revenue growth rate and long-term growth rate with relevant industry outlook and other relevant external data. Likewise, we tested the parameters used in the determination of the discount rate against market data. We reviewed the Group's assessment as to whether the recoverable amount computed is a reliable estimate of fair value. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of the investment in NOW Telecom, Inc.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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. 6621266, January 9, 2018, Makati City

April 9, 2018

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31		
	2017	2016	2015
ASSETS			
Current Assets			
Cash	₱10,694,196	₱4,396,419	₱15,979,672
Trade and other receivables (Note 4)	167,943,224	115,532,368	81,788,408
Due from related parties (Note 9)	95,955,268	72,495,743	48,380,597
Other current assets (Note 5)	47,364,921	7,659,213	4,178,091
Total Current Assets	321,957,609	200,083,743	150,332,768
Noncurrent Assets			
Available-for-sale investment (Note 6)	1,289,278,350	1,289,278,350	1,289,278,350
Advances to affiliates (Note 6)	23,592,818	23,592,818	28,592,818
Due from related parties (Note 9)	27,497,744	27,030,711	26,563,678
Property and equipment (Note 7)	8,711,463	6,614,680	3,250,507
Other noncurrent assets	739,715	434,987	333,964
Total Noncurrent Assets	1,349,820,090	1,346,951,546	1,348,019,317
TOTAL ASSETS	₱1,671,777,699	₱1,547,035,289	₱1,498,352,085
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses (Note 8)	₱164,067,259	₱119,642,574	₱132,927,061
Due to related parties (Note 9)	151,454,345	77,520,582	238,078,380
Loans payable (Note 11)	97,337	87,426	44,500,000
Total Current Liabilities	315,618,941	197,250,582	415,505,441
Noncurrent Liability			
Loans payable (Note 11)	351,614	449,107	–
Total Liabilities	315,970,555	197,699,689	415,505,441
Equity			
Equity attributable to equity holders of the Parent Company:			
Common stock (Note 12)	1,517,278,350	1,517,278,350	1,517,278,350
Deposits for future stock subscriptions (Notes 9 and 12)	264,000,000	264,000,000	–
Cumulative translation adjustment	1,152,963	1,140,435	1,149,988
Equity reserve (Note 2)	(1,978,794)	–	–
Deficit	(421,158,169)	(427,950,225)	(430,450,658)
	1,359,294,350	1,354,468,560	1,087,977,680
Non-controlling interest	(3,487,206)	(5,132,960)	(5,131,036)
Total Equity	1,355,807,144	1,349,335,600	1,082,846,644
TOTAL LIABILITIES AND EQUITY	₱1,671,777,699	₱1,547,035,289	₱1,498,352,085

See accompanying Notes to Consolidated Financial Statements.

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUES (Note 9)			
Service fees	₱126,666,201	₱90,623,757	₱67,108,027
Sales	21,698,063	13,048,685	47,331,371
Others	610,161	1,764,541	954,483
	148,974,425	105,436,983	115,393,881
COSTS OF SALES AND SERVICES (Note 13)	85,803,478	56,646,942	75,600,352
GROSS INCOME	63,170,947	48,790,041	39,793,529
GENERAL AND ADMINISTRATIVE EXPENSES (Note 14)	54,077,860	43,401,136	31,211,830
OTHER CHARGES			
Interest expense (Note 11)	52,015	572,962	1,053,844
Others	79,898	124,170	783,532
	131,913	697,132	1,837,376
INCOME BEFORE INCOME TAX	8,961,174	4,691,773	6,744,323
PROVISION FOR CURRENT INCOME TAX (Note 15)	2,670,958	2,193,264	1,508,890
NET INCOME	₱6,290,216	₱2,498,509	₱5,235,433
NET INCOME (LOSS) ATTRIBUTABLE TO:			
Equity holders of the Parent Company	₱6,792,056	₱2,500,433	₱5,236,704
Non-controlling interests	(501,840)	(1,924)	(1,271)
	₱6,290,216	₱2,498,509	₱5,235,433
Basic/Diluted Earnings Per Share (Note 16)	₱0.0045	₱0.0016	₱0.0040

See accompanying Notes to Consolidated Financial Statements.

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8 - MAKATI
Revenue District Office No. 47
East Makati
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NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
NET INCOME	**₱6,290,216**	₱2,498,509	₱5,235,433
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will be reclassified to profit or loss in subsequent periods:			
Cumulative translation adjustments	**12,528**	(9,553)	(14,234)
TOTAL COMPREHENSIVE INCOME	**₱6,302,744**	₱2,488,956	₱5,221,199
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**₱6,804,584**	₱2,490,880	₱5,222,470
Non-controlling interests	**(501,840)**	(1,924)	(1,271)
	₱6,302,744	₱2,488,956	₱5,221,199

See accompanying Notes to Consolidated Financial Statements.

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8 - MAKATI
Revenue District Office No. 47
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APR - 6 2018

NOW CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Attributable to Equity Holders of the Parent							
	Common Stock (Note 12)	Deposit for future stock subscriptions	Cumulative Translation Adjustment	Equity reserve (Note 2)	Deficit	Total	Non-controlling Interest	Total
Balances at December 31, 2014	₱1,317,278,350	₱–	₱1,164,222	₱–	(₱435,687,362)	₱882,755,210	(₱5,129,765)	₱877,625,445
Total comprehensive loss	–	–	(14,234)	–	5,236,704	5,222,470	(1,271)	5,221,199
Issuance of Parent Company's common stock (Note 12)	200,000,000	–	–	–	–	200,000,000	–	200,000,000
Balances at December 31, 2015	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 12)	–	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
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

See accompanying Notes to Consolidated Financial Statements.

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NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱8,961,174	₱4,691,773	₱6,744,323
Adjustments for:			
Depreciation and amortization (Notes 2, 7 and 14)	4,411,001	2,214,569	3,567,678
Interest income	(472,507)	(470,984)	(711,418)
Interest expense (Note 11)	52,015	572,962	1,053,844
Straight-line adjustment on rent (Note 10)	5,933	–	–
Provision for impairment losses on:			
Trade and other receivables (Notes 4 and 14)	1,940	685,685	4,033,832
Advances to affiliates (Note 6)	–	5,000,000	–
Other current assets (Notes 5 and 14)	–	–	158,767
Operating income before working capital changes	12,959,556	12,694,005	14,847,026
Decrease (Increase) in:			
Trade and other receivables	(52,412,796)	(34,439,198)	(34,019,377)
Other current assets	(16,065,878)	(3,481,122)	(105,971)
Increase (Decrease) in accounts payable and accrued expenses	20,778,922	(13,284,487)	11,744,986
Net cash used in operations	(34,740,196)	(38,510,802)	(7,533,336)
Income taxes paid	(2,670,958)	(2,193,264)	(1,508,890)
Interest paid	(52,015)	(572,806)	(965,588)
Interest received	5,474	3,951	7,607
Net cash flows used in operating activities	(37,457,695)	(41,272,921)	(10,000,207)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in:			
Due from related parties	(23,446,997)	(24,109,146)	(2,323,936)
Other noncurrent assets	(354,465)	(227,928)	(193,403)
Additions to property and equipment (Note 7)	(6,458,047)	(5,451,837)	(239,078)
Net cash flows used in investing activities	(30,259,509)	(29,788,911)	(2,756,417)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in due to related parties (Note 20)	73,933,763	58,942,202	26,727,168
Sale of i-Professional shares (Note 2)	168,800	–	–
Payment of loans payable (Note 20)	(87,582)	(44,500,000)	–
Proceed from loan availment	–	45,036,377	–
Cash flows from financing activities	74,014,981	59,478,579	26,727,168
EFFECT OF EXCHANGE RATE CHANGES ON CASH	–	–	2,371
NET INCREASE (DECREASE) IN CASH	6,297,777	(11,583,253)	13,972,915
CASH AT BEGINNING OF YEAR	4,396,419	15,979,672	2,006,757
CASH AT END OF YEAR	₱10,694,196	₱4,396,419	₱15,979,672

See accompanying 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 Note 6).

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.

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).

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.

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

Authorization for Issuance
In the March 15, 2018 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, 2017, 2016 and 2015 and for the years then ended.

The consolidated financial statements of the Group as of December 31, 2017, 2016 and 2015 and for the years then ended were authorized for issue by the Chairman and President on April 9, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements of the Group have been prepared under the historical cost basis, including the available-for-sale (AFS) financial asset that is not quoted in an active market. 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, 2017, 2016 and 2015 and for the years then ended:

	Year of Incorporation	Nature of Business	Percentage of Ownership		
			2017	2016	2015
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 as of December 31, 2017.

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

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
- 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 Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2017. Adoption of these pronouncements did not have a significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  Adoption of these amendments did not have any impact on the Group's consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the required information in

Note 20 to the financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  The amendments has no effect on the Group's consolidated financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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.

Cash
Cash includes cash on hand and with banks.

Financial Instruments
Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs.

Financial assets under PAS 39, are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments or AFS financial assets. The Group's financial assets are of the nature of loans and receivables and AFS financial assets. As of December 31, 2017, 2016 and 2015, the Group has no outstanding financial assets at FVPL and HTM investments.

Under PAS 39, financial liabilities are classified as FVPL or other financial liabilities. The Group's financial liabilities are of the nature of other financial liabilities. As of December 31, 2017, 2016 and 2015, the Group has no outstanding financial liabilities at FVPL.

Loans and Receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated at FVPL. This accounting policy relates to "Cash", "Trade and other receivables" and "Due from related parties" accounts in the consolidated statement of financial position.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in the "Interest income" account in the consolidated statement of comprehensive income. The losses arising from impairment of loans and receivables are recognized in the profit or loss.

AFS Financial Assets
AFS financial assets are those investments which are designated as such or do not qualify to be classified as designated as FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded, net of tax, from reported earnings and are reported as a separate account (net of tax where applicable) in the equity section of the consolidated statement of financial position.

Equity investments classified as AFS financial assets that do not have quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

When the investment is disposed of, the cumulative gains or losses previously recognized in equity is recognized in the profit or loss. Dividends earned on holding AFS financial assets are recognized when the right of payment has been established. The losses arising from impairment of such investments are recognized as provision for impairment losses in the profit and loss.

This accounting policy relates to the Group's investment in NOW Telecom.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities, 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. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

Other financial liabilities are recognized at fair value of the consideration received less directly attributable transaction costs. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Amortized cost is calculated by taking into account any related issue costs, discount or premium. This accounting policy applies primarily to the Group's "Accounts payable and accrued expenses", "Due to related parties", "Loans payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

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.

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

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

The principal or the most advantageous market must be accessible 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.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

<u>Impairment of Financial Assets</u>
Carried at Amortized Cost
The Group assesses at each reporting date whether there is objective evidence that a financial or group of financial assets is impaired.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Those characteristics are relevant to the estimation of future cash flows for group of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets Carried at Cost
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.

Derecognition of Financial Assets and Liabilities
Financial Assets
A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is derecognized where:

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognized directly in equity is recognized in the profit or loss.

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is 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. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of

business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

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 equipment	2
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.

<u>Computer Software</u>
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. The net book value of Computer software as of December 31, 2017, 2016 and 2015 amounted to ₱9,965, ₱59,702 and ₱186,607, respectively. The amortization expense is recognized in "Depreciation and amortization" account in the consolidated statement of income.

<u>Impairment of Nonfinancial Assets</u>
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.

Common 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
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.

Interest
Interest income is recognized as interest accrues using the effective interest method.

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
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 outside services and advertising and promotions.

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.

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 as 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.

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.

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 18.

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, 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.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Group is assessing the potential effect of the amendments on its consolidated financial statements.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied 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 establishes a new five-step model that will apply to revenue arising from contracts with customers. 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 principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

  The Group is currently assessing the impact of PFRS 15.

- 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 providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

Investments in unquoted equity shares currently carried at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Group intends to apply the option to present fair value changes for these investments in OCI. The Group is in the process of determining how to measure the fair value of these unquoted investments.

The Group is in the process of finalizing its assessment on the impact of the adoption of this standard once it becomes effective.

- Amendments to PAS 28, *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.

  The amendments should be applied retrospectively, with earlier application permitted.

- 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. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

- 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 a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Effective beginning on or after January 1, 2019

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

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- 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 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 types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. Early application is permitted, but not before an entity applies PFRS 15. 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.

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

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- 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 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.

Deferred effectivity

- Amendments to PFRS 10 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, *Business Combinations*. 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.

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.

Valuation of Investment in NOW Telecom, Inc.

The fair value of investments in equity instruments that do not have a market price in active market for an identical instrument is reliably measurable if:

- The variability in the range of reasonable fair value measurements is not significant for that instrument; or
- The probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value.

Based on management's judgment, the computed recoverable amount of the investment in NOW Telecom, Inc. is not a reliable measurement of fair value since there is a significant variability in the range of reasonable fair value measurements. Accordingly, the Group is precluded from measuring the investment in NOW Telecom, Inc. at fair value. Furthermore, even if the range of reasonable fair value measurements is wide, none of these measurements result in the impairment of the investment.

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.

Operating Leases - Group as Lessee
The Group has entered 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:

Recoverability of Investment in NOW Telecom, Inc.
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, 2016 and 2015. The carrying amount of the investment in NOW Telecom amounted to ₱1,289,278,350 as of December 31, 2017, 2016 and 2015 (see Note 6).

Impairment of Trade and Other Receivables, Due from Related Parties and Advances to Affiliates
The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on age and status of the financial asset, as well as on historical loss experience. Allowance for impairment loss is provided when management believes that the balance cannot be collected or realized after exhausting all efforts and courses of action. The Group recognized provision on impairment loss on receivables and advances to affiliates amounting to ₱1,940, ₱5,685,685, and ₱4,033,832 in 2017, 2016 and 2015, respectively (see Notes 4, 6 and 14).

The aggregate carrying amounts of trade and other receivables, due from related parties and advances to affiliates amounted to ₱314,989,054, ₱238,651,640 and ₱185,331,501 as of December 31, 2017, 2016 and 2015, respectively (see Notes 4, 6 and 9).

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 ₱4,411,001, ₱2,214,569 and ₱3,567,678 for the years ended December 31, 2017, 2016 and 2015,

respectively (see Notes 7 and 14). The aggregate net book values of property and equipment and computer software amounted to ₱8,721,428, ₱6,674,382 and ₱3,437,114 as of December 31, 2017, 2016 and 2015, respectively (see Note 7).

Estimating Impairment of Property and Equipment, Computer Software and Creditable Withholding Taxes (CWTs)

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets, the estimated recoverable amount represents the net fair value less costs to sell.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements. The Group recorded provision for impairment on CWTs of nil in 2017 and 2016 and ₱158,767 in 2015 (see Note 5). The aggregate carrying values of property and equipment, computer software and CWTs amounted to ₱14,409,124, ₱10,485,348 and ₱7,339,942 as of December 31, 2017, 2016 and 2015 respectively (see Notes 2, 5 and 7).

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 carryforward benefits of unused NOLCO, unused tax credits from excess MCIT, allowance for impairment on trade and other receivables and others amounting to ₱19,037,918, ₱30,227,110 and ₱74,849,543 as of December 31, 2017, 2016 and 2015, respectively (see Note 15). 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.

4. Trade and Other Receivables

	2017	2016	2015
Trade receivables:			
Related parties (Note 9)	₱146,628,456	₱101,220,311	₱64,063,924
Third parties	31,527,293	24,581,615	27,446,304
Others (Note 9)	3,620,367	3,566,889	3,428,942
	181,776,116	129,368,815	94,939,170
Less allowance for impairment losses	13,832,892	13,836,447	13,150,762
	₱167,943,224	₱115,532,368	₱81,788,408

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:

	2017	2016	2015
Balance at beginning of year	₱13,836,447	₱13,150,762	₱9,116,930
Provisions for the year (Note 14)	1,940	685,685	4,033,832
Recovery of previously recognized doubtful accounts	(5,495)	–	–
Balance at end of year	₱13,832,892	₱13,836,447	₱13,150,762

5. Other Current Assets

	2017	2016	2015
Prepayments	₱36,284,267	₱3,417,471	₱162,431
CWT - net	5,687,696	3,810,966	3,902,828
Input VAT - net	2,882,411	285,426	–
Deferred input VAT	1,735,627	–	–
Others	774,920	145,350	112,832
	₱47,364,921	₱7,659,213	₱4,178,091

Prepayments includes deferred transaction costs amounting to ₱10,763,277 and ₱3,360,000 as of December 31, 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 9, 2018, the Group is in the process of securing the approval of the Philippine SEC and PSE of the said transaction (see Note 12). It 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 ₱23,638,466.

Deferred input VAT is recognized for the unpaid services rendered to the Parent Company.

CWT is net of allowance for impairment losses amounting to ₱706,270 as of December 31, 2017, 2016 and 2015.

Movements in allowance for impairment loss on CWT are as follows:

	2017	2016	2015
Balance at beginning of year	₱706,270	₱706,270	₱547,503
Provisions for the year (Note 14)	–	–	158,767
Balance at end of year	₱706,270	₱706,270	₱706,270

6. Investments and Advances

	2017	2016	2015
AFS financial asset	₱1,289,278,350	₱1,289,278,350	₱1,289,278,350
Advances to affiliates (Note 9)	23,592,818	23,592,818	28,592,818
	₱1,312,871,168	₱1,312,871,168	₱1,317,871,168

AFS Financial Asset
The Group has an investment in NOW Telecom classified as AFS financial asset.

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, 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 12).

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.

As of December 31, 2017, 2016 and 2015, the Group's investment in NOW Telecom amounted to ₱1,289,278,350 and no impairment was recognized for the years then ended.

Investment in an Associate and Advances to Affiliates

a. *Softweb Consulting, Inc.*

Investment in an associate

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, 2017, 2016 and 2015, 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, 2017, 2016 and 2015 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 as of December 31, 2017, 2016 and 2015 amounted to nil, ₱7,077,304 and ₱7,265,533, respectively.

As of December 31, 2015, 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 14).

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.

These are currently recorded under "Advances to affiliates" in the consolidated statement of financial position pending the increase in the authorized capital stock of the investee companies. The applications for the increase in authorized capital stock are not yet filed with the Philippine SEC as of April 6, 2018 (see Note 9).

7. Property and Equipment

2017

	Leasehold Improvements	Transportation Equipment	Office Equipment	Furniture and Fixtures	Total
Cost:					
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
Accumulated depreciation and amortization:					
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 14)	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 Equipment	Furniture and Fixtures	Total
Cost:					
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
Accumulated depreciation and amortization:					
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 14)	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

2015

	Leasehold Improvements	Transportation Equipment	Office Equipment	Furniture and Fixtures	Total
Cost:					
Balances at beginning of year	₱4,937,446	₱15,169,919	₱11,201,287	₱1,393,888	₱32,702,540
Additions	–	–	239,078	–	239,078
Balances at end of year	4,937,446	15,169,919	11,440,365	1,393,888	32,941,618
Accumulated depreciation and amortization:					
Balances at beginning of year	3,443,773	12,206,516	9,620,427	979,621	26,250,337
Depreciation and amortization for the year (Note 14)	500,722	2,588,485	243,449	108,118	3,440,774
Balances at end of year	3,944,495	14,795,001	9,863,876	1,087,739	29,691,111
Net book value	₱992,951	₱374,918	₱1,576,489	₱306,149	₱3,250,507

Cost of fully depreciated assets still in use amounted to ₱17,836,276, ₱17,134,057 and ₱16,757,039 as of December 31, 2017, 2016 and 2015, respectively.

8. Accounts Payable and Accrued Expenses

	2017	2016	2015
Trade payables:			
Third parties	₱59,917,133	₱22,510,846	₱32,363,996
Related parties (Note 9)	16,396,954	18,808,706	25,112,678
Accrued expenses:			
Interest (Note 9)	59,903,586	59,903,586	59,903,586
Others	11,563,299	8,432,065	8,826,227
Deferred output VAT	14,954,494	9,265,728	6,055,944
Withholding tax payable	1,331,793	721,643	664,630
	₱164,067,259	₱119,642,574	₱132,927,061

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.

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

a. The Parent Company grants interest-free advances to NOW Telecom for working capital and administrative requirements. Amounts owed by NOW Telecom as of December 31, 2017, 2016 and 2015 amounted to ₱63,745,439, ₱51,346,501 and ₱31,408,455, respectively.

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. Interest income amounted to ₱467,033 in 2017, 2016 and 2015 reflected as part of "Others" in revenue. As of

December 31, 2017, 2016 and 2015, amounts owed by IBI, including interest, amounted ₱27,497,744, ₱27,030,711 and ₱26,563,678, respectively. IBI is an entity under common control.

c. As of December 31, 2017, 2016 and 2015 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.

   Amounts owed by EII as of December 31, 2017, 2016 and 2015 is ₱40,848.

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 ₱13,038,492, ₱15,450,244 and ₱19,719,161 as of December 31, 2017, 2016 and 2015, respectively.

   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 KPSC amounted to ₱2,863,646, ₱6,176,177 and ₱6,858,809, in 2017, 2016 and 2015, respectively. However, in February 2017, the administrative and management functions, including key management personnel, were transferred to the Group. Compensation of identified key management personnel, classified as short-term employee benefits, amounted to ₱9,124,721.

e. Due to related parties include interest bearing advances from Velarde, Inc. for working capital and investment requirements. Interest rate for these loans is at 18.0% per annum or 1.5% per month.

   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 12).

   Interest expense booked as an additional amounts owed to related party amounted to nil in 2017, 2016 and 2015.

   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 Note 11).

Outstanding accrued interest presented as part of the "Accounts payable and accrued expenses" amounted to ₱59,903,586 as of December 31, 2017, 2016 and 2015 (see Note 8).

Due to Velarde, Inc. presented as part of "Due to related parties" amounted to ₱141,326,866, ₱68,322,816 and ₱223,458,035 as of December 31, 2017, 2016 and 2015, respectively.

f. 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 2017, 2016 and 2015 reflected as part of "Others" in revenue.

   The Group has outstanding trade receivables from Velarde, Inc. amounting to ₱1,680,000, ₱1,440,000 and ₱1,200,000 as of December 31, 2017, 2016 and 2015, respectively.

g. The Group entered into a non-interest bearing loan agreement with Porteon Electric Vehicles, Inc. (Porteon). As of December 31, 2017, 2016 and 2015, the outstanding amount due from Porteon Electric Vehicles, Inc. amounted to ₱2,160,300 which is due on demand.

h. 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 2017, 2016 and 2015. In connection with this, the related due to I-College amounted to ₱5,736,925, ₱4,806,612 and ₱3,876,300 as of December 31, 2017, 2016 and 2015, respectively.

i. The Group sells IBM licenses to Softweb, an associate. Sales of IBM license to Softweb amounted to nil, ₱5,412,232 and ₱12,088,054 in 2017, 2016 and 2015.

j. The Group entered into agreements with Thumbmob, Holy Cow and Softweb for the subscription of their respective shares. Please see Note 6 for detailed discussion.

k. *Infrastructure build-up and technical services*
   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 total 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. A total of nine (9) and ten (10) hubs were completed for GHT and Newsnet, respectively as of December 31, 2017. Service revenue related to infrastructure build-up recognized in 2017, 2016 and 2015 amounted to ₱45,000,000, ₱30,000,000 and ₱20,000,000.

   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. Service revenue recognized in 2017 and 2016 amounted to ₱600,000 and ₱450,000 each for GHT and Newsnet.

The Group provided technical service related with Rohill TetraNode System to NOW Telecom in 2016 which the Group recognized a service revenue amounting to ₱7,500,000.

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 in 2017.

The Group has an outstanding trade receivables from the following related parties:

	2017	2016	2015
GHT	₱44,032,048	₱28,504,000	₱11,200,000
Newsnet	53,441,589	28,504,000	11,200,000
NOW Telecom	13,102,508	8,400,000	–

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. Total cost of data services charged to cost of services amounted to ₱3,121,774 and ₱2,476,627 in 2017 and 2016, respectively.

l. As of December 31, 2017, 2016 and 2015, the outstanding amounts due from GHT amounted to ₱8,588,889, ₱6,177,301 and ₱5,000,180, respectively. The Group also has an outstanding amounts due from Newsnet amounting to ₱19,360,911, ₱10,736,960 and ₱6,067,544 as of December 31, 2017, 2016 and 2015, respectively.

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Note 4)	Due to related parties	Trade and other payables (Note 8)	Advances to affiliates (Note 6)	Terms	Conditions
Shareholders										
Velarde, Inc.	Advances	2017	₱73,004,050	₱–	₱–	₱141,326,866	₱–	₱–	On demand	Unsecured
		2016	73,626,954	–	–	68,322,816	–	–	On demand	Unsecured
		2015	170,709,048	–	–	223,458,035	–	–	On demand	Unsecured
	Management fee	2017	240,000	–	1,680,000	–	–	–	On demand	Unsecured, no impairment
		2016	240,000	–	1,440,000	–	–	–	On demand	Unsecured, no impairment
		2015	240,000	–	1,200,000	–	–	–	On demand	Unsecured, no impairment
	Interest	2017	–	–	–	–	59,903,586	–	On demand	Unsecured
		2016	–	–	–	–	59,903,586	–	On demand	Unsecured
		2015	–	–	–	–	59,903,586	–	On demand	Unsecured
GHI	Advances	2017	2,000	2,000	–	–	–	–	On demand	Unsecured
		2016	–	–	–	–	–	–	On demand	Unsecured
		2015	–	–	–	95,536	2,035,055	–	On demand	Unsecured
EII	Advances	2017	–	40,848	–	–	–	–	On demand	Unsecured, no impairment
		2016	–	40,848	–	–	–	–	On demand	Unsecured, no impairment
		2015	–	40,848	–	–	–	–	On demand	Unsecured, no impairment
	Leases	2017	–	–	–	2,902,918	–	–	On demand	Unsecured
		2016	–	–	–	2,902,918	–	–	On demand	Unsecured
		2015	–	–	–	2,902,918	–	–	On demand	Unsecured
Affiliates										
NOW Telecom	Advances	2017	12,398,938	63,745,439	–	878,208	–	–	On demand	Unsecured, no impairment
		2016	2,704,687	51,346,501	–	878,208	–	–	On demand	Unsecured, no impairment
		2015	7,816,287	31,408,455	–	749,806	–	–	On demand	Unsecured, no impairment
	Services	2017	7,800,000	–	13,102,508	–	–	–	On demand	Unsecured, no impairment
		2016	7,500,000	–	8,400,000	–	–	–	–	–
		2015	–	–	–	–	–	–	–	–

(Forward)

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Note 4)	Due to related parties	Trade and other payables (Note 8)	Advances to affiliates (Note 6)	Terms	Conditions
KPSC	Advances	**2017**	**₱5,000**	**₱209,708**	**₱–**	**₱–**	**₱–**	**₱–**	**On demand**	**Unsecured**
		2016	–	204,708	–	–	–	–	On demand	Unsecured
		2015	2,160	204,708	–	–	–	–	On demand	Unsecured
	Outside services	**2017**	**11,756,110**	**–**	**–**	**–**	**13,038,492**	**–**	**On demand**	**Unsecured**
		2016	50,716,312	–	–	–	15,450,244	–	On demand	Unsecured
		2015	46,656,791	–	–	–	19,719,161	–	On demand	Unsecured
IBI	**Advances**	**2017**	**–**	**15,567,752**	**–**	**–**	**–**	**–**	**Due within 5 years**	**Unsecured, no impairment**
		2016	–	15,567,752	–	–	–	–	Due within 5 years	Unsecured, no impairment
		2015	–	15,567,752	–	–	–	–	Due within 5 years	Unsecured, no impairment
	Interest	**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
		2015	467,033	10,995,926	–	–	–	–	Due within 5 years	Unsecured, no impairment
Asian Institute of Journalism and Communication	**Advances**	**2017**	**18,048**	**489,109**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	1,039	471,061	–	–	–	–	On demand	Unsecured, no impairment
		2015	2,661	470,022	–	–	–	–	On demand	Unsecured, no impairment
Paradiso Verde, Inc.	**Advances**	**2017**	**–**	**–**	**–**	**–**	**3,358,462**	**–**	**On demand**	**Unsecured**
		2016	–	–	–	–	3,358,462	–	On demand	Unsecured
		2015	–	–	–	–	3,358,462	–	–	Unsecured
	Services	**2017**	**–**	**–**	**–**	**605,212**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	–	–	–	605,212	–	–	On demand	Unsecured, no impairment
		2015	368,195	–	–	605,212	–	–	On demand	Unsecured, no impairment
Porteon	**Loans**	**2017**	**–**	**2,160,300**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	–	2,160,300	–	–	–	–	On demand	Unsecured, no impairment
		2015	–	2,160,300	–	–	–	–	On demand	Unsecured, no impairment
Newsnet	**Advances**	**2017**	**8,623,951**	**19,360,911**	**–**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		2016	4,669,416	10,736,960	–	–	–	–	On-demand	Unsecured, no impairment
		2015	947,948	6,067,544	–	–	–	–	–	–

(Forward)

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Note 4)	Due to related parties	Trade and other payables (Note 8)	Advances to affiliates (Note 6)	Terms	Conditions
	Services	**2017**	**₱25,600,000**	**₱–**	**₱53,441,589**	**₱–**	**₱–**	**₱–**	**On-demand**	**Unsecured, no impairment**
		2016	15,450,000	–	28,504,000	–	–	–	On-demand	Unsecured, no impairment
		2015	10,000,000	–	11,200,000	–	–	–	–	–
GHT	Advances	**2017**	**2,411,588**	**8,588,889**	**–**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		2016	1,177,121	6,177,301	–	–	–	–	On-demand	Unsecured, no impairment
		2015	180	5,000,180	–	–	–	–	–	–
	Services	**2017**	**20,600,000**	**–**	**44,032,048**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		2016	15,450,000	–	28,504,000	–	–	–	–	Unsecured, no impairment
		2015	10,000,000	–	11,200,000	–	–	–	–	–
Holycow	Loans	**2017**	**–**	**–**	**2,211,771**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	–	–	2,211,771	–	–	–	On demand	Unsecured, no impairment
		2015	–	–	2,211,771	–	–	–	On demand	Unsecured, no impairment
	Interest	**2017**	**–**	**156,000**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	–	156,000	–	–	–	–	On demand	Unsecured, no impairment
		2015	–	156,000	–	–	–	–	On demand	Unsecured, no impairment
	Advances	**2017**	**–**	**–**	**–**	**–**	**–**	**9,248,449**	**On demand**	**Unsecured, no impairment**
		2016	–	–	–	–	–	9,248,449	On demand	Unsecured, no impairment
		2015	–	–	–	–	–	9,248,449	On demand	Unsecured, no impairment
Thumbmob	Advances	**2017**	**–**	**–**	**–**	**–**	**–**	**14,344,369**	**On demand**	**Unsecured, no impairment**
		2016	–	–	–	–	–	14,344,369	On demand	Unsecured, no impairment
		2015	–	–	–	–	–	14,344,369	On demand	Unsecured, no impairment
I-College	Advances	**2017**	**–**	**720**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	–	720	–	–	–	–	On demand	Unsecured, no impairment
		2015	–	720	–	–	–	–	–	–
	Lease	**2017**	**930,313**	**–**	**–**	**5,736,925**	**–**	**–**	**On demand**	**Unsecured**
		2016	930,313	–	–	4,806,612	–	–	On demand	Unsecured
		2015	930,313	–	–	3,876,300	–	–	On demand	Unsecured

(Forward)

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Note 4)	Due to related parties	Trade and other payables (Note 8)	Advances to affiliates (Note 6)	Terms	Conditions
Associate										
Softweb	**Advances**	**2017**	**₱111,701**	**₱487,344**	**₱2,380,860**	**₱4,216**	**₱–**	**₱–**	**On demand**	**Unsecured**
		2016	–	487,344	2,380,860	4,816	–	–	On demand	Unsecured
		2015	1,389,259	2,163,820	2,380,860	6,390,573	–	5,000,000	On demand	Unsecured
	Loans	**2017**	–	**714,000**	–	–	–	–	**On demand**	**Unsecured, no impairment**
		2016	–	714,000	–	–	–	–	On demand	Unsecured, no impairment
		2015	–	714,000	–	–	–	–	On demand	Unsecured, no impairment
	Sales	**2017**	–	–	**16,401,451**	–	–	–	**On demand**	**Unsecured, no impairment**
		2016	5,412,232	–	16,401,451	–	–	–	On demand	Unsecured, no impairment
		2015	12,088,054	–	22,493,064	–	–	–	On demand	Unsecured, no impairment
	Management fee	**2017**	–	–	**15,590,000**	–	–	–	**On demand**	**Unsecured, no impairment**
		2016	–	–	15,590,000	–	–	–	On demand	Unsecured, no impairment
		2015	–	–	15,590,000	–	–	–	On demand	Unsecured, no impairment
		2017		**₱123,453,012**	**₱148,840,227**	**₱151,454,345**	**₱76,300,540**	**₱23,592,818**		
		2016		₱99,526,454	₱103,432,082	₱77,520,582	₱78,712,292	₱23,592,818		
		2015		₱74,950,275	₱66,275,695	₱238,078,380	₱85,016,264	₱28,592,818		

Summary of related party transactions affecting consolidated statements of income:

Related parties	Category	Year	Revenues	Cost of sales and services	General and administrative expenses
Velarde Inc.	**Management Fee**	**2017**	**₱240,000**	₱–	₱–
		2016	240,000	–	–
		2015	240,000	–	–
	Interest	**2017**	–	–	–
		2016	–	–	–
		2015	–	–	–
NOW Telecom	**Services**	**2017**	**7,800,000**	–	–
		2016	7,500,000	–	–
		2015	–	–	–
	Cost of data services	**2017**	–	**1,757,720**	–
		2016	–	779,715	–
		2015	–	–	–
	Lease	**2017**	–	–	**120,000**
Newsnet	**Services**	**2017**	**25,600,000**	–	–
		2016	15,450,000	–	–
		2015	10,000,000	–	–
	Cost of data services	**2017**	–	**1,364,054**	–
		2016	–	1,696,912	–
		2015	–	–	–
GHT	**Services**	**2017**	**20,600,000**		
		2016	15,450,000	–	–
		2015	10,000,000	–	–
IBI	**Interest**	**2017**	**467,033**	–	–
		2016	467,033	–	–
		2015	467,033	–	–
KPSC	**Outside services**	**2017**	–	**8,411,946**	**3,344,164**
		2016	–	43,226,619	7,489,693
		2015	–	40,054,599	6,602,192
Softweb	**Sales**	**2017**	–	–	–
		2016	5,412,232	–	–
		2015	12,088,054	–	–
	Management fee	**2017**	–	–	–
		2016	–	–	–
		2015	–	–	–
I-College	**Lease**	**2017**	–	–	**930,313**
		2016	–	–	930,313
		2015	–	–	930,313
		2017	**₱54,707,033**	**₱11,533,720**	**₱4,394,477**
		2016	₱44,519,265	₱45,703,246	₱8,420,006
		2015	₱32,795,087	₱40,054,599	₱7,532,505

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 which is located at Unit 5-I, 5th Floor, OPL Building, 100 C. Palanca corner Dela Rosa and Gil Streets Legaspi Village, Makati City from One Palanca Land, Inc.. Said lease contract is effective for one (1) year and may be renewed upon mutual agreement of both parties.

d. On January 1, 2017, the Group entered into a contract of lease with from NOW Telecom with monthly rental fee of ₱10,000 for its office located in 2244 España Avenue, Samploc, Manila City for five (5) years ending December 31, 2020.

e. On November 24, 2016, the Group entered into a contract of lease with One Executive Condominium Corporation 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 November 11, 2016 to November 17, 2021. The monthly rental payment was set at ₱5,000 with annual escalation rate of five percent (5%) after the first year. Accrued rent payable amounting to ₱5,933 as of December 31, 2017 represents straight-line adjustment on rent.

Future minimum lease payment related to the lease as of December 31, 2017, 2016 and 2016 are as follows:

	2017	2016	2015
Within one (1) year	₱1,179,514	₱917,365	₱930,313
After one (1) year but not more than five (5) years	1,900,572	–	775,260
	₱3,080,086	₱917,365	₱1,705,573

Total rent expense recognized in 2017, 2016 and 2015 amounted to ₱1,739,036, ₱1,728,730 and ₱1,681,446, respectively (see Note 14).

11. Loans Payable

Metropolitan Bank and Trust Company and Bank of Makati loan
In September 2012, the Parent Company availed of short term loan 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. The loan bears interest ranging from 2.40% and 2.12% to 2.30% in 2016 and 2015, respectively. 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 and ₱1,027,530 in 2016 and 2015, respectively.

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.

The current and noncurrent portions of the loan amounted to ₱97,337 and ₱351,614, respectively, as of December 31, 2017 and ₱87,426 and ₱449,107, respectively, as of December 31, 2016.

Interest expense recognized on this loan amounted to ₱52,015 and ₱1,607 in 2017 and 2016, respectively.

12. 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. The SEC has not yet approved the Parent Company's application as of April 6, 2018. As of December 31, 2017, the Group presented the deposit for future stock subscription amounting to ₱264,000,000 as part of equity as the Parent Company has met all the conditions required by the SEC under Financial Reporting Bulletin No. 06 for such regulation.

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.

Information on the Group's authorized capital stock is as follows:

	Number of shares		
	2017	2016	2015
Common stock, ₱1 par value:	**2,060,000,000**	2,120,000,000	2,120,000,000
Preferred stock, ₱1 par value:	**60,000,000**	–	–
Balance at end of the year	**2,120,000,000**	2,120,000,000	2,120,000,000

Movements in the issued and outstanding capital stock are as follows:

Common Stock

	Number of shares		
	2017	2016	2015
Balance at beginning of the year	**1,517,278,350**	1,517,278,350	1,317,278,350
Issuances during the year	**–**	–	200,000,000
Balance at end of the year	**1,517,278,350**	1,517,278,350	1,517,278,350

13. Costs of Sales and Services

	2017	2016	2015
Cost of service:			
Outside services (Note 9)	₱46,436,396	₱43,226,619	₱40,054,599
Cost of data services (Note 9)	7,386,191	3,204,621	–
Cost of sales	31,980,891	10,215,702	35,545,753
	₱85,803,478	₱56,646,942	₱75,600,352

Included in the cost of data services are bandwidth costs charged by NOW Telecom and Newsnet (see Note 9).

14. General and Administrative Expenses

	2017	2016	2015
Salaries and other employee benefits	₱13,772,096	₱1,301,160	₱756,000
Outside services (Note 9)	6,988,982	7,489,693	6,602,192
Entertainment, amusement and recreation	6,227,299	4,706,499	2,430,290
Transportation and travel	5,026,897	1,702,362	1,586,867
Communication	4,496,294	4,109,582	3,563,207
Depreciation and amortization (Note 7)	4,411,001	2,214,569	3,567,678
Taxes and licenses	4,095,999	1,068,636	2,473,879
Professional fees	2,495,621	2,918,643	632,437
Advertising and promotion	2,367,961	4,524,439	–
Rental (Note 10)	1,739,036	1,728,730	1,681,446
Office supplies	793,637	2,441,318	1,020,425
Utilities	284,014	982,225	804,573
Insurance	199,904	258,661	271,898
Repairs and maintenance	180,576	1,008,292	353,177
Provision for impairment loss on:			
Trade and other receivables (Note 4)	1,940	685,685	4,033,832
Advances to affiliate (Note 6)	–	5,000,000	–
Other current assets (Note 5)	–	–	158,767
Others	996,603	1,260,642	1,275,162
	₱54,077,860	₱43,401,136	₱31,211,830

15. Income Taxes

The reconciliation of the Group's statutory income tax to provision for income tax follows:

	2017	2016	2015
Statutory income tax at 30%	₱2,688,352	₱1,407,532	₱2,023,297
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses	1,886,347	3,169,352	2,393,591
Movement of unrecognized deferred income tax assets	(1,902,273)	(2,382,463)	(2,905,716)
Interest income subjected to final tax	(1,468)	(1,157)	(2,282)
	₱2,670,958	₱2,193,264	₱1,508,890

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:

	2017	2016	2015
Allowance for impairment on trade and other receivables	₱13,832,892	₱13,836,447	₱13,150,762
NOLCO	2,761,602	14,677,498	60,886,089
MCIT	2,312,359	1,713,165	812,692
Others	131,065	–	–
	₱19,037,918	₱30,227,110	₱74,849,543

As of December 31, 2017, 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
2017	2020	₱602,209	₱727,806
2016	2019	565,624	903,836
2015	2018	1,593,769	680,717
		₱2,761,602	₱2,312,359

The following are the movements in NOLCO and MCIT:

	2017	2016	2015
NOLCO:			
Balances at beginning of year	₱14,677,498	₱60,886,089	₱142,821,516
Additions	602,209	565,624	1,593,769
Application	(11,199,273)	(13,432,651)	(13,548,316)
Expirations	(1,318,832)	(33,341,564)	(69,980,880)
Balances at end of year	₱2,761,602	₱14,677,498	₱60,886,089

	2017	2016	2015
MCIT:			
Balances at beginning of year	₱1,713,165	₱812,692	₱334,540
Additions	727,806	903,836	680,717
Expirations	(128,612)	(3,363)	(202,565)
Balances at end of year	₱2,312,359	₱1,713,165	₱812,692

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

16. Basic/Diluted EPS

The following table presents information necessary to compute the basic/dilutive EPS:

	2017	2016	2015
Net income attributable to equity holders of the Parent (a)	**₱6,792,056**	₱2,500,433	₱5,236,704
Weighted average number of outstanding common shares for both basic and dilutive EPS (b)	**1,517,278,350**	1,517,278,350	1,317,278,350
Basic/dilutive earnings (loss) per share (a/b)	**₱0.0045**	₱0.0016	₱0.0040

As of December 31, 2017, 2016 and 2015, the Parent Company does not have any dilutive potential common shares.

17. Financial Instruments

The Group's financial instruments are composed of cash, trade and other receivables, due from related parties, AFS financial assets, accounts payable and accrued expenses, due to related parties, obligations under finance lease 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 and finance lease obligations has fixed interest rates.

The BOD reviews and approves the policies for managing each of these risks and they are summarized below.

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, 2017, 2016 and 2015, 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.

2017

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				
Cash	₱10,694,196	₱–	₱–	₱10,694,196
Trade and other receivables	167,943,224	–	–	167,943,224
Due from related parties	95,955,268	–	27,497,744	123,453,012
	₱274,592,688	₱–	₱27,497,744	₱302,090,432
Financial liabilities:				
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
	₱299,235,317	₱136,471	₱404,635	₱299,776,423

**Excluding government payables*

2016

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				
Cash	₱4,396,419	₱–	₱–	₱4,396,419
Trade and other receivables	85,276,916	30,255,452	–	115,532,368
Due from related parties	72,495,743	–	27,030,711	99,526,454
	₱162,169,078	₱30,255,452	₱27,030,711	₱219,455,241
Financial liabilities:				
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
	₱187,175,785	₱139,441	₱552,594	₱187,867,820

**Excluding government payables*

2015

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				
Cash	₱15,979,672	₱–	₱–	₱15,979,672
Trade and other receivables	52,921,911	28,866,497	–	81,788,408
Due from related parties	48,386,597	–	26,563,678	74,950,275
	₱117,288,180	₱28,866,497	₱26,563,678	₱172,718,355
Financial liabilities:				
Accounts payable and accrued expenses*	₱126,206,487	₱–	₱–	₱126,206,487
Due to related parties	238,078,380	–	–	238,078,380
Future interest on loans payable	–	778,750	–	778,750
Loans payable	–	44,500,000	–	44,500,000
	₱364,284,867	₱45,278,750	₱–	₱409,563,617

**Excluding government payables*

The Group monitors its cash flow position through cash planning. The Group believes that cash advances by stockholders are sufficient to mitigate the effects of fluctuation in cash flow and to cover disbursements for the day-to-day operations of the Group.

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.

The Group's management believes that there is no significant risk in the amounts due by related parties. The BOD continually reassures 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.

The following tables show the aging analysis of the Group's financial assets as of December 31, 2017, 2016 and 2015.

	2017			
	Nether past due nor impaired	Past due but not impaired	Past due and impaired	Total
Financial assets:				
Cash	₱10,694,196	₱–	₱–	₱10,694,196
Trade and other receivables	1,408,596	166,534,628	13,832,892	181,776,116
Due from related parties	27,497,744	95,955,268	–	123,453,012
	39,600,536	262,489,896	13,832,892	315,923,324

	2016			
	Nether past due nor impaired	Past due but not impaired	Past due and impaired	Total
Financial assets:				
Cash	₱4,396,419	₱–	₱–	₱4,396,419
Trade and other receivables	12,100,286	103,432,082	13,836,447	129,368,815
Due from related parties	27,030,711	72,495,743	–	99,526,454
	₱43,527,416	₱175,927,825	₱13,836,447	₱233,291,688

	2015			
	Nether past due nor impaired	Past due but not impaired	Past due and impaired	Total
Financial assets:				
Cash	₱15,979,672	₱–	₱–	₱15,979,672
Trade and other receivables	15,512,713	66,275,695	13,150,762	94,939,170
Due from related parties	26,563,678	48,386,597	–	74,950,275
	₱58,056,063	₱114,662,292	₱13,150,762	₱185,869,117

As at December 31, 2017, 2016 and 2015, 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 ₱39,600,536, ₱43,527,416 and ₱58,056,063 as of December 31, 2017, 2016 and 2015 as high grade financial assets.

The Group considers its financial assets that are past due but not impaired amounting to ₱262,489,896, ₱175,927,825 and ₱114,662,292 as of December 31, 2017, 2016 and 2015 as standard grade financial assets.

The Group has impaired receivables amounting to ₱13,832,892, ₱13,836,447 and ₱13,150,762 as of December 31, 2017, 2016 and 2015, respectively.

Fair Value of Financial Instruments

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, Trade and Other Receivables, Due from Related Parties, Accounts Payable and Accrued Expenses, 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, loans payable and due to related parties approximate their fair values due to the short-term maturity of these financial instruments.

AFS Financial Assets

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, have no available bid price and the range of reasonable fair value measurement of the AFS investment is significant.

Noncurrent Amounts Due from Related Party

The fair value of noncurrent amounts due from related party were based on discounted value of future cash flows using applicable credit-adjusted risk-free rates of 5.7%, 5.9% and 5.7% as of December 31, 2017, 2016 and 2015, respectively (Level 3). The fair value of noncurrent amounts due from related party amounted to ₱24,793,312, ₱24,144,646 and ₱22,742,540 as of December 31, 2017, 2016 and 2015, respectively. The carrying value of noncurrent amounts due from related party amounted to ₱27,497,744, ₱27,030,711 and ₱26,563,678 as of December 31, 2017, 2016 and 2015, respectively.

Loans Payable

The carrying amount of the loans payable as of December 31, 2017 and 2016 are estimated using the discounted cash flow methodology with the applicable credit-adjusted risk-free rates of 5.7% and 5.9%, respectively (Level 3). The carrying amount and fair value of loans payable amounting to ₱44,500,000 as of December 31, 2015 is the same. The fair value of loans payable amounted to ₱380,328 and ₱424,612 as of December 31, 2017 and 2016, respectively. The carrying value of loans payable amounted to ₱448,951 and ₱536,533 as of December 31, 2017, 2016, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates for the years ended December 31, 2017 and 2016, with all other variables held constant, in the Group's income before income:

	Increase (Decrease) in Basis points	Increase (Decrease) on Income Before Income Tax
December 31, 2017	**+100**	**(₱18,968)**
	-100	**18,968**
December 31, 2016	+100	(₱673)
	-100	673
December 31, 2015	+100	(₱96,455)
	-100	96,455

Capital Management

The Group considers the equity presented in the consolidated statement of financial positon 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, 2017, 2016 and 2015.

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, 2017, 2016 and 2015, the Group was able to meet its capital management objectives.

18. 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:

	2017			
	IT Manpower and Resource Augmentation	Software Licenses and services	Broadband services	Total
Service fees	₱42,274,212	₱59,878,920	₱24,513,069	₱126,666,201
Sales	–	21,698,063	–	21,698,063
Others	–	610,161	–	610,161
Total revenue	₱42,274,212	₱82,187,144	₱24,513,069	₱148,974,425
Costs of sales and services	₱31,568,240	₱46,849,047	₱7,386,191	₱85,803,478
General and administrative expenses	6,524,463	47,553,397	–	54,077,860
Provision for income tax	1,590,187	1,080,771	–	2,670,958
Net income (loss)	2,368,997	(13,202,659)	17,126,878	6,293,216
Other information				
Capital expenditures	83,572	1,285,658	5,088,817	6,458,047
Segment assets	18,318,317	359,092,215	5,088,817	382,499,349
Unallocated AFS financial asset				1,289,278,350
Segment liabilities	19,207,375	296,763,180	–	315,970,558
Depreciation and amortization	90,538	1,150,261	3,170,205	4,411,081
Unallocated interest expense and other charges	–	–	–	131,913

	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	–	13,048,683	–	13,048,683
Others	2,465	1,762,076	–	1,764,541
Total revenue	₱43,414,700	₱56,041,142	₱5,981,141	₱105,436,983
Costs of sales and services	₱36,610,332	₱16,831,989	₱3,204,621	₱56,646,942
General and administrative expenses	6,368,634	37,052,502	–	43,401,136
Provision for income tax	1,289,428	903,836	–	2,193,264
Net income (loss)	(941,769)	663,738	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	251,940,186	3,442,054	257,838,973
Unallocated AFS financial asset	–	–	–	1,289,278,350
Segment liabilities	12,070,469	162,269,220	–	194,339,689
Depreciation and amortization	39,062	1,269,990	905,517	2,214,569
Unallocated interest expense and other charges	–	–	–	657,132

	2015		
	IT Manpower and Resource Augmentation	Software Licenses and services	Total
Service fees	₱39,421,080	₱27,686,947	₱67,108,027
Sales	–	47,331,371	47,331,371
Others	5,524	948,959	954,483
Total revenue	₱39,426,604	₱75,967,277	₱115,393,881
Costs of sales and services	₱33,674,327	₱41,926,025	₱75,600,352
General and administrative expenses	6,946,021	24,265,809	31,211,830
Provision for income tax	828,173	680,717	1,508,890
Net income (loss)	(2,150,137)	7,385,570	5,235,433
Other information			
Capital expenditures	–	239,078	239,078
Segment assets	13,446,324	195,627,411	209,073,735
Unallocated AFS financial asset			1,289,278,350
Segment liabilities	53,782,558	361,722,883	415,505,441
Depreciation and amortization	625,520	2,942,118	3,567,678
Unallocated interest expense and other charges			1,827,376

In 2017, two (2) customers accounted for 17.18% and 13.83% of total revenue from infrastructure build-up and technical services. In 2016, two (2) customers accounted for 14.65% each of total revenue from infrastructure build-up and technical services. These revenues were reported under "Software licenses and services" segment. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2015 and 2014.

19. Notes to Consolidated Statements of Cash Flows

In 2015, noncash financing activity consists of debt to equity transaction from Velarde, Inc.'s advances amounting to ₱200,000,000 for 200,000,000 Parent Company common shares with a par value of ₱1 which has been approved on December 17, 2015 (see Note 12).

In 2016, the noncash financing activity involves the conversion of ₱264,000,000 advances from Velarde, Inc. to the Parent Company's common shares. This is currently presented under equity as deposit for future stock subscription pending the approval by SEC of the Parent Company's application for increase in authorized capital stock (see Note 9).

20. Changes in Liabilities Arising from Financing Activities

	January 1, 2017	Cash flows	December 31, 2017
Due to related parties	₱77,520,582	₱73,933,763	₱151,454,345
Loans payable	536,533	(87,582)	448,951
Total liabilities from financing activities	₱78,057,115	₱73,846,181	₱151,903,296

21. Other Matter

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.

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Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
NOW Corporation
Unit 5-I, 5th 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 9, 2018. 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

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. 6621266, January 9, 2018, Makati City

April 9, 2018

NOW CORPORATION AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
TABLE OF CONTENTS
DECEMBER 31, 2017

NOW CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Now Corporation is responsible for the preparation and fair presentation of the financial statements including the attached therein for the years ended December 31, 2017, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the Stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the Stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature : Thomas Aquino

Thomas G. Aquino
Chairman of the Board

Signature:

Mel V. Velarde
President and Chief Executive Officer

SUBSCRIBED AND SWORN TO BEFORE ME
THIS ____ DAY APR 16 2018

Signature:

Vicente I. Penanueva
Chief Financial Officer

Signed this ____ day of April 2018

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PAGE NO. 57
BOOK NO. XVI
SERIES NO. 2018

ATTY. MA. PERPETUA PINZA-CABRERA
NOTARY PUBLIC
COMMISSION UNTIL DEC. 31, 2018 TO 2019
ADM. MATTER NO. NP-033 (2018 TO 2019)
PTR NO. 3291240 / JAN. 03, 2018
IBP NO. 019735 / JAN. 03, 2018
ROLL NO. 44371
MCLE COMPLIANCE NO. V-0024699 / JAN. 4, 2017 TO 2019
ADDRESS, #57-B-IBIGA STREET SMH, Q.C.

SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS
DECEMBER 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendments to PFRS 1: Meaning of Effective PFRS	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Conditions			✓
	Amendments to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions*	Not early adopted		
PFRS 3 (Revised)	Business Combinations			✓
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 4	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4*	Not early adopted		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Servicing Contracts	✓		
	Amendments to PRFS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments*	Not early adopted		
	Amendments to PFRS 9: Prepayment Features with Negative Component	Not early adopted		
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Not early adopted		

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 10 (cont'd)	Amendments to PFRS 10: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Applying the Consolidation Exception			✓
	Amendments to PFRS 12: Disclosure of Interest in Other Entities-Clarification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term Receivables and Payables	✓		
	Amendments to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	Not early adopted		
PFRS 16	Leases	Not early adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12: Deferred Tax - Recovery of Underlying Assets			✓

Standards and interpretations which will become effective subsequent to December 31, 2017.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 12 *(cont'd)*	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Clarification of Servicing Equipment			✓
	Amendments to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation			✓
	Amendment to PAS 16: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits			✓
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			✓
	Amendments to PAS 19: Regional market issue regarding discount rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not early adopted		

Standards and interpretations which will become effective subsequent to December 31, 2017.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 28 (Amended) *(cont'd)*	Amendments to PAS 28: Long-term Interests in Associates in Joint Ventures	Not early adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
PAS 32	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendment to PAS 34: Disclosure of information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 39 *(cont'd)*	Amendments to PAS 39: Reclassification of Financial Assets	✓		
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
PAS 39	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendments to PAS 40: Investment Property			✓
	Amendments to PAS 40: Transfers of Investment Property*		Not early adopted	
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
Philippine interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC 9: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration*	Not early adopted		
IFRIC 23	Uncertainty over Income Tax Treatment	Not early adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation Special Purpose Entities			✓
	Amendment to SIC-12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

Note: Standards and interpretations tagged as "Not Applicable" are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the years ended December 31, 2017 and 2016.

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A 1 9 9 6 - 0 0 1 7 9

COMPANY NAME

NOW CORPORATION

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAPFS	SEC	N/A

COMPANY INFORMATION

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
64	6/1	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
Mr. Vicente Penanueva	Vicente.penanueva@now-corp.com	799-7700	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.

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1226 Makati City
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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Parent Company Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

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

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

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

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

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

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

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.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 22 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of NOW Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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. 6621266, January 9, 2018, Makati City

April 9, 2018

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NOW CORPORATION

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash	₱7,502,968	₱2,131,015
Trade and other receivables (Note 4)	165,149,265	109,778,712
Due from related parties (Note 9)	103,813,471	83,090,021
Other current assets (Note 5)	42,656,451	3,829,329
Total Current Assets	319,122,155	198,829,077
Noncurrent Assets		
Available-for-sale investment (Note 6)	1,289,278,350	1,289,278,350
Advances to affiliates (Note 6)	23,592,818	23,592,818
Investment in subsidiaries (Note 6)	8,884,131	6,634,131
Due from related parties (Note 9)	27,497,744	27,030,711
Property and equipment (Note 7)	7,675,160	5,571,414
Other noncurrent assets	642,072	340,318
Total Noncurrent Assets	1,357,570,275	1,352,447,742
TOTAL ASSETS	₱1,676,692,430	₱1,551,276,819
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 8)	₱138,308,730	₱93,412,137
Loans payable (Note 11)	97,337	87,426
Due to related parties (Note 9)	146,445,651	71,680,550
Total Current Liabilities	284,851,718	165,180,113
Noncurrent Liability		
Loans payable (Note 11)	351,614	449,107
Total Liabilities	₱285,203,332	₱165,629,220
Equity		
Capital stock (Note 12)	1,517,278,350	1,517,278,350
Deposit for future stock subscription (Note 12)	264,000,000	264,000,000
Deficit	(389,789,252)	(395,630,751)
Total Equity	₱1,391,489,098	₱1,385,647,599
TOTAL LIABILITIES AND EQUITY	₱1,676,692,430	₱1,551,276,819

See accompanying Notes to Parent Company Financial Statements.

NOW CORPORATION

PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016
REVENUES (Note 9)		
Service fees	₱75,151,989	₱47,211,522
Sales	21,698,063	13,048,685
Others	9,785,266	1,762,076
	106,635,318	62,022,283
COSTS OF SALES AND SERVICES (Note 13)	54,235,238	20,036,610
GROSS INCOME	52,400,080	41,985,673
GENERAL AND ADMINISTRATIVE EXPENSES (Note 14)	45,352,942	40,109,227
OTHER CHARGES		
Interest expense (Note 11)	52,015	572,962
Others	72,853	36,115
	124,868	609,077
INCOME BEFORE INCOME TAX	6,922,270	1,267,369
PROVISION FOR CURRENT INCOME TAX (Note 15)	1,080,771	839,684
NET INCOME	₱5,841,499	₱427,685
Basic/Diluted Earnings Per Share (Note 16)	₱0.0038	₱0.0003

See accompanying Notes to Parent Company Financial Statements.

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NOW CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
NET INCOME	₱5,841,499	₱427,685
OTHER COMPREHENSIVE INCOME	–	–
TOTAL COMPREHENSIVE INCOME	₱5,841,499	₱427,685

See accompanying Notes to Parent Company Financial Statements.

NOW CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Common Stock	Deposit for future stock subscription	Deficit	Total
Balances, January 1, 2017	₱1,517,278,350	₱264,000,000	(₱395,630,751)	₱1,385,647,599
Total comprehensive income	–	–	5,841,499	5,841,499
Balances, December 31, 2017	₱1,517,278,350	₱264,000,000	(₱389,789,252)	₱1,391,489,098
Balances, January 1, 2016	₱1,517,278,350	₱–	(₱396,058,436)	₱1,121,219,914
Total comprehensive income	–	–	427,685	427,685
Deposit for future stock subscription (Note 12)	–	264,000,000	–	264,000,000
Balances, December 31, 2016	₱1,517,278,350	₱264,000,000	(₱395,630,751)	₱1,385,647,599

See accompanying Notes to Parent Company Financial Statements.

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NOW CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱6,922,270	₱1,267,369
Adjustments for:		
Depreciation and amortization (Notes 2, 7 and 14)	4,320,465	2,175,507
Straight line adjustment on rent (Note 10)	5,933	–
Provision for impairment losses		8,669,633
Interest expense (Note 11)	–	572,962
Interest income (Note 9)	(468,212)	(468,519)
Operating income before working capital changes	10,780,456	12,216,952
Decrease (Increase) in:		
Trade and other receivables	(55,370,553)	(36,786,030)
Other current assets	(15,187,292)	807,046
Increase (Decrease) in accounts payable and accrued expenses	21,253,728	13,917,882
Net cash used in operations	(38,523,661)	(40,557,688)
Interest received	1,179	1,486
Income taxes paid	(1,080,771)	(839,684)
Interest paid	(52,015)	(572,806)
Net cash flows used in operating activities	(39,655,268)	(41,968,692)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in amounts due from related parties	(20,723,450)	(25,431,850)
Additions to property and equipment (Note 7)	(6,374,474)	(5,317,909)
Increase in investments	(2,250,000)	–
Increase in other noncurrent assets	(351,491)	(227,927)
Cash flows used in investing activities	(29,699,415)	(30,977,686)
CASH FLOWS FROM FINANCING ACTIVITY		
Additional amounts due to related parties (Note 9)	74,762,203	59,559,965
Payment of loan (Note 11)	(35,567)	(44,500,000)
Proceeds from availment of loans (Note 11)	–	45,036,377
Net cash flows from financing activities	74,726,636	60,096,342
NET INCREASE (DECREASE) IN CASH	5,371,953	(12,850,036)
CASH AT BEGINNING OF YEAR	2,131,015	14,981,051
CASH AT END OF YEAR	₱7,502,968	₱2,131,015

See accompanying Notes to Parent Company Financial Statements.

1. Corporate Information

Corporate Background

NOW Corporation (formerly Information Capital Technology Ventures, Inc.; the 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 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 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 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 Philippine Stock Exchange (PSE) and SEC on June 11, 2003 and July 30, 2003, respectively. The 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 Note 6).

In July 2009, the SEC approved the amendment of the 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 Company's AOI, removing the pre-emptive rights of shareholders with respect to subscription to any class of the Company's shares of stock.

On December 16, 2010, the Company's Board of Directors (BOD) approved the amendment in its AOI to include secondary purpose. The inclusion of the secondary purpose was subsequently ratified by the 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 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 Company.

Change in Corporate Name
The SEC approved the 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 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 Company at an aggregate purchase price of ₱74,395,000. The sale of the Company's shares became effective on August 20, 2005 resulting to a 66.67% ownership interest of GHI in the Company.

On March 10, 2006, the National Telecommunications Commission (NTC), through the efforts of IMX Broadband Inc. (IBI), issued a Certificate of Registration (COR) to the 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 July 31, 2015, the Company entered into an agreement with NOW Telecom, an authorized telecommunications carrier which provides nationwide trunk radio and cellular mobile services pursuant to the Provisional Authority by the NTC, wherein both parties mutually agreed to collaborate and interconnect their respective networks in order to provide VAS to the public (see Note 9).

On November 27, 2015, NTC issued COR to the Company that authorizes 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.

The Company's administrative and management functions, including key management personnel, are being handled by personnel of Knowledge Professionals Service Cooperative (KPSC), an entity under common control (see Note 9). However, in February 2017, the Company transferred the administrative and management functions, including key management personnel, to the Parent Company without any effect in the subsisting service agreement with KPSC.

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

Authorization for Issuance
In the March 15, 2018 Special BOD Meeting, the BOD delegated to the Chairman, or in his absence the Vice-Chairman, and President the authority to approve the issuance of the parent company financial statements as of December 31, 2017 and 2016, and for the years then ended.

The parent company financial statements as of December 31, 2017 and 2016, and for the years then ended were authorized for issue by the Chairman and President on April 9, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation
The parent company financial statements have been prepared under the historical cost basis, including the available-for-sale (AFS) financial asset that is not quoted in an active market. The parent company financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Amounts are rounded to the nearest Philippine peso, except when otherwise indicated.

Statement of Compliance
The parent company financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

The Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements which are also prepared in accordance with PFRSs. These consolidated financial statements may be obtained from the Philippine SEC.

Changes in Accounting Policies and Disclosures
The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2017. Adoption of these pronouncements did not have a significant impact on the Parent Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  Adoption of these amendments did not have any impact on the Parent Company's consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Parent Company has provided the required information in Note 20 to the financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The amendments has no effect on the Parent Company's consolidated financial position and performance as the Parent Company has no deductible temporary differences or assets that are in the scope of the amendments.

Current versus Noncurrent Classification
The Company presents assets and liabilities in the parent company 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 Company classifies all other liabilities as noncurrent.

Cash
Cash includes cash on hand and with banks.

Financial Instruments
Financial instruments are recognized in the parent company statement of financial position when the Company becomes a party to the contractual provisions of the instrument. The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs.

Financial assets under PAS 39, are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments or AFS financial assets. The Company's financial assets are of the nature of loans and receivables and AFS financial assets. As of December 31, 2017 and 2016, the Company has no outstanding financial assets at FVPL and HTM investments.

Under PAS 39, financial liabilities are classified as FVPL or other financial liabilities. The Company's financial liabilities are of the nature of other financial liabilities. As of December 31, 2017 and 2016, the Company has no outstanding financial liabilities at FVPL.

Loans and Receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated at FVPL. This accounting policy relates to "Cash", "Trade and other receivables" and "Due from related parties" accounts in the parent company statement of financial position.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in the "Interest income" account in the parent company statement of comprehensive income. The losses arising from impairment of loans and receivables are recognized in the profit or loss.

AFS Financial Assets
AFS financial assets are those investments which are designated as such or do not qualify to be classified as designated as FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded, net of tax, from reported earnings and are reported as a separate account (net of tax where applicable) in the equity section of the consolidated statement of financial position.

Equity investments classified as AFS financial assets that do not have quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

When the investment is disposed of, the cumulative gains or losses previously recognized in equity is recognized in the profit or loss. Dividends earned on holding AFS financial assets are recognized when the right of payment has been established. The losses arising from impairment of such investments are recognized as provision for impairment losses in the profit and loss.

This accounting policy relates to the Company's investment in NOW Telecom.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company 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. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. This accounting policy applies primarily to the Company's "Accounts payable and accrued expenses", "Due to related parties", "Loans payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Creditable Withholding Taxes (CWTs)
CWTs, included under "Other current assets" account in the parent company 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 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 statement of financial position to the extent of the recoverable amount.

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the parent company 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 parent company financial statements on a recurring basis, the Company 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.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Impairment of Financial Assets

Carried at Amortized Cost

The Company assesses at each reporting date whether there is objective evidence that a financial or group of financial assets is impaired.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Those characteristics are relevant to the estimation of future cash flows for group of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets Carried at Cost

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 and such impairment loss shall not be reversed.

Derecognition of Financial Assets and Liabilities

Financial Assets

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. 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 Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognized directly in equity is recognized in the profit or loss.

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

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is 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. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Investment in Associate
An associate is an entity over which the Company 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 Company's investment in associate is accounted for under the cost method of accounting.

Under the cost method, the investment in the associate is carried in the parent company statement of financial position at cost plus post-acquisition changes arising only from additional investments less subsequent withdrawal of shares. The Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment. After application of the cost method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the associate.

The reporting dates of the associate and the Company are identical and the associate's accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

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 equipment	2
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 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 as 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. The net book value of Computer software as of December 31, 2017 and 2016 amounted to ₱9,965 and ₱59,702, respectively. The amortization expense is recognized in "Depreciation and amortization" account in the consolidated statement of income.

Impairment of Nonfinancial Assets

Property and Equipment and Other Nonfinancial Assets

The Company 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 Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs 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 parent company 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

The Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in associate. The Company determines at each financial reporting date whether there is any objective evidence that these investments are impaired. If this is the case, the Company calculates the amount of impairment as being the difference between the fair value of the subsidiary and associate and its respective acquisition costs and recognizes the impairment in the profit or loss.

Common Stock

The Company 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 Company's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Company'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 Company'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
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company 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 Company 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 profit or loss.

Service, Marketing, Management and Consultancy Fees
Fees are recognized when the related services have been rendered. Revenues that falls in this category include Software services and Broadband services. Services, marketing, management and consultancy fees are included under "Service fees" in profit or loss.

Interest
Interest income is recognized as interest accrues using the effective interest method.

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
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 outside services and advertising and promotions.

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 Company and are generally recognized when the services are used or the expenses arise.

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 as 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 term of the lease.

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

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

Contingencies
Contingent liabilities are not recognized in the parent company 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 parent company financial statements but disclosed in the notes to parent company 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 Company's operating segments are organized and managed separately according to the nature of the services offered.

The Company's identified operating segments are consistent with the segments reported to the BOD, which is the Company's chief operating decision maker. Financial information on the operating segments are presented in Note 17.

Events After the Financial Reporting Date
Events after the financial reporting date that provide additional information about the Company's financial position at the financial reporting date (adjusting events) are reflected in the parent company financial statements. Events after the financial reporting date that are not adjusting events are disclosed in the notes to the parent company financial statements.

Future Changes in Accounting Policies
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its parent company financial statements. The Parent Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after 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.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Company is assessing the potential effect of the amendments on its Parent Company financial statements.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Company since no activities are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. 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 principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method.

  The Company is currently assessing the impact of PFRS 15.

- 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 providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  In 2017, the Company performed its initial impact assessment of all three phases of PFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information becoming available to the Company when it adopts PFRS 9 in 2018.

  Investments in unquoted equity shares currently carried at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Company intends to apply the option to present fair value changes for these investments in OCI. The Company is in the process of determining how to measure the fair value of these unquoted investments.

- Amendments to PAS 28, *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.

  The amendments should be applied retrospectively, with earlier application permitted.

- 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. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its Parent Company financial statements upon adoption of these amendments.

- 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 a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its Parent Company financial statements upon adoption of this interpretation.

Effective beginning on or after January 1, 2019

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

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- 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 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 types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. 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 Company is currently assessing the impact of adopting PFRS 16.

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

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- 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 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 Company is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10 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, *Business Combinations*. 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.

3. Significant Accounting Judgements and Estimates

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

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

Operating Lease - Company as Lessee
The Company has entered into a commercial property lease on its office. The Company has determined that it does not retain all the significant risks and rewards of ownership of the properties which are leased under operating lease arrangements.

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:

Recoverability of Investment in NOW Telecom, Inc.

The Company assesses at each reporting date whether there is any objective evidence that the investment in NOW Telecom is impaired. The Company determines 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 Company 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 Company 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 the average percentage of the 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 in 2016. The carrying amount of the investment in NOW Telecom amounted to ₱1,289,278,350 as of December 31, 2017 and 2016 (see Note 6).

Impairment of Trade and Other Receivables, Due from Related Parties and Advances to Affiliates

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on age and status of the financial asset, as well as on historical loss experience. Allowance for impairment loss is provided when management believes that the balance cannot be collected or realized after exhausting all efforts and courses of action. The Company recognized provision on impairment loss on receivables and advances to affiliates amounting to nil and ₱5,592,908 in 2017 and 2016, respectively (see Notes 4 and 6). Reversal of previously recognized doubtful accounts amounted to ₱5,495 and nil in 2017 and 2016, respectively (see Note 4). Allowance for impairment loss on receivables and advances to affiliates amounted to ₱17,689,387 and ₱17,694,882 as of December 31, 2017 and 2016, respectively (see Note 4 and 6).

The aggregate carrying amounts of trade and other receivables, due from related parties and advances to affiliates amounted to ₱320,053,298 and ₱243,492,262 as of December 31, 2017 and 2016, respectively (see Notes 4, 6 and 9).

Estimating Useful Lives of Property and Equipment and Computer Software
The Company estimates the useful lives of property and equipment and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and computer software 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 Company's estimation of the useful lives of property and equipment and computer software 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 ₱4,320,465 and ₱2,175,507 for the years ended December 31, 2017 and 2016, respectively (see Note 14). The aggregate net book values of property and equipment and computer software amounted to ₱7,685,125 and ₱5,631,116 as of December 31, 2017 and 2016, respectively (see Notes 2 and 7).

Estimating Impairment of Property and Equipment, Computer Software and Creditable Withholding Taxes (CWTs)
The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs. For impairment loss on specific assets, the estimated recoverable amount represents the net fair value less costs to sell.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the parent company financial statements. No provision for impairment on CWTs was recognized in both 2017 and 2016. The aggregate carrying value of property and equipment, computer software and CWTs amounted to ₱9,886,719 and ₱5,757,547 as of December 31, 2017 and 2016, respectively (see Notes 2, 5 and 7).

Estimating Realizability of Deferred Income Tax Assets
The Company 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 Company will generate sufficient taxable profit to allow all or part of its deferred income tax assets to be utilized.

The Company did not recognize deferred income tax assets on temporary differences and carryforward benefits of unused NOLCO and unused tax credits from excess MCIT amounting to ₱6,347,834 and ₱8,981,511 as of December 31, 2017 and 2016, respectively (see Note 15). The Company 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.

4. Trade and Other Receivables

	2017	2016
Trade:		
Related parties (Note 9)	₱151,895,294	₱105,735,784
Third party	21,739,629	13,170,921
Others (Note 9)	4,203,729	3,566,889
	177,838,652	122,473,594
Less allowance for impairment loss	12,689,387	12,694,882
	₱165,149,265	₱109,778,712

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).

Movements in allowance for impairment loss on trade receivables from third parties are as follows:

	2017	2016
Balance at beginning of year	₱12,694,882	₱12,101,974
Provisions (Note 13)	–	592,908
Reversals	(5,495)	–
Balance at end of year	₱12,689,387	₱12,694,882

5. Other Current Assets

	2017	2016
Prepayments	₱35,860,636	₱3,417,471
Deferred Input VAT	1,735,627	13,058
Input VAT	2,858,594	272,369
Creditable withholding tax (net of allowance for impairment losses amounting to ₱706,270 as of December 31, 2017 and 2016)	2,201,594	126,431
	₱42,656,451	₱3,829,329

Prepayments include deferred transaction costs amounting to ₱10,763,277 and ₱3,360,000 incurred as of December 31, 2017 and 2016, respectively, in connection with the Company's planned offering of redeemable, convertible, non-participating and non-voting Peso-denominated preferred shares (see Note 12). It also includes the prepayments made by the Company in purchasing IBM Licenses related to installation of email system for the Supreme Court of the Philippines amounting to ₱23,638,466.

6. Investments and Advances

	2017	2016
Investments in available-for-sale (AFS) financial asset	₱1,289,278,350	₱1,289,278,350
Advances (Note 9)	23,592,818	23,592,818
Investment in subsidiaries	8,884,131	6,634,131
	₱1,321,755,299	₱1,319,505,299

AFS Financial Asset

The Company has an investment in NOW Telecom classified as AFS financial asset.

On April 28, 2006, the Company entered into a Memorandum of Agreement (MOA) with NOW Telecom and five (5) controlling stockholders of NOW Telecom namely, Top Mega Enterprise, Ltd, Joycelink Holdings, Ltd, 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 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 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 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 Company's primary purpose. Moreover, the Company's stockholders also approved the proposal that the Company shall only acquire 19% equity interest in NOW Telecom and not 97% as originally intended. As a result, the Company acquired 2,656,580 NOW Telecom shares constituting 19% equity interest in NOW Telecom, in exchange for new shares of the 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 Company applied for an increase in its authorized capital stock to accommodate the foregoing transaction (see Note 12).

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 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.

As of December 31, 2017 and 2016, the Company's investment in NOW Telecom amounted to ₱1,289,278,350 and no impairment was recognized for each of the years then ended.

Investments in Subsidiaries and Associate

	2017	2016
Investments in		
Subsidiaries (net of allowance for impairment loss of ₱23,400,000 as of December 31, 2017 and 2016)	₱8,884,131	₱6,634,131
Associate (net of allowance for impairment loss of ₱6,000,000 as of December 31, 2017 and 2016, respectively)	–	–
Balance at end of year	₱8,884,131	₱6,634,131

Name of Companies	Percentage of Ownership 2017	Percentage of Ownership 2016	Cost 2017	Cost 2016
Subsidiaries				
I-Resource Consulting International, Inc. (I-Resource)	100%	100%	₱5,000,000	₱3,250,000
J-Span IT Services, Inc. (JSIT)	100%	100%	2,634,131	2,634,131
I-Professional Search Network, Inc. (I-Professional)	75%	100%	1,000,000	500,000
Porteon SEA, Inc. (Porteon)	100%	100%	250,000	250,000
Softrigger Interactive, Inc. (Softrigger)	67%	67%	23,400,000	23,400,000
Associate				
Softweb Consulting, Inc. (Softweb)	50%	50%	6,000,000	6,000,000

I-Resource

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 is to provide consulting, technical advice and professional advisory services to persons, firms, association, corporations, partnerships and other entities.

JSIT
On March 17, 2011, the Company's BOD confirmed/ratified the establishment of the Company's wholly-owned subsidiary named JSIT in Tokyo, Japan. The primary purpose of JSIT is to provide IT services.

Softrigger
As of December 31, 2017 and 2016, investment in Softrigger has been fully-impaired.

Porteon
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.

I-Professional
On August 15, 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 is the recruitment and placement of workers in the Philippines.

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%.

Softweb
On December 20, 2010, the Company 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.

In 2016, the Company recognized additional provision for impairment loss on its investment with Softweb amounting to ₱3,076,725 which reduces the carrying amount of the investment to nil (see Note 14).

Advances to Affiliates

	2017	2016
Thumbmob Philippines, Inc. (Thumbmob)	₱14,344,369	₱14,344,369
Holy Cow	9,248,449	9,248,449
Softweb (net of allowance for impairment loss of ₱5,000,000 in 2017)	–	–
	₱23,592,818	₱23,592,818

a) *Thumbmob Philippines, Inc. and Holy Cow Animation, Inc.*

The Company 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.

These are currently recorded under "Advances to affiliates" in the parent company statement of financial position pending the increase in the authorized capital stock of the investee companies. The applications for the increase in authorized capital stock are not yet filed with the SEC as of April 6, 2018.

b) *Softweb Consulting, Inc.*

Advances to Softweb amounted to ₱5,000,000 as of January 1, 2016. This pertains to deposit for future stock subscription in Softweb pending the increase in its authorized capital stock.

In 2016, the Company recognized provision for impairment loss on its advances to Softweb amounting to ₱5,000,000 (see Note 14).

Movements in allowance for impairment loss on investment in associate are as follows:

	2017	2016
Balance at beginning of year	₱6,000,000	₱2,923,275
Provisions (Note 14)	–	3,076,725
Balance at end of year	₱6,000,000	₱6,000,000

7. Property and Equipment

2017

	Leasehold Improvements	Transportation Equipment	Office Equipment	Furniture and Fixtures	Total
Cost:					
Balances at beginning of year	₱3,325,710	₱15,860,277	₱10,820,987	₱730,199	₱30,737,173
Additions	–	128,750	6,245,724	–	6,374,474
Balances at end of year	3,325,710	15,989,027	17,066,711	730,199	37,111,647
Accumulated depreciation:					
Balances at beginning of year	2,401,505	15,191,753	7,036,039	536,462	25,165,759
Depreciation and amortization (Note 14)	435,229	146,071	3,620,506	68,922	4,270,728
Balances at end of year	2,836,734	15,337,824	10,656,545	605,384	29,436,487
Net book values	₱488,976	₱651,203	₱6,410,166	₱124,815	₱7,675,160

2016

	Leasehold Improvements	Transportation Equipment	Office Equipment	Furniture and Fixtures	Total
Cost:					
Balances at beginning of year	₱3,325,710	₱15,169,919	₱6,193,436	₱730,199	₱25,419,264
Additions	–	690,358	4,627,551	–	5,317,909
Balances at end of year	3,325,710	15,860,277	10,820,987	730,199	30,737,173

(Forward)

	Leasehold Improvements	Transportation Equipment	Office Equipment	Furniture and Fixtures	Total
Accumulated depreciation:					
Balances at beginning of year	₱1,900,783	₱14,795,001	₱5,993,029	₱428,344	₱23,117,157
Depreciation and amortization (Note 14)	500,722	396,752	1,043,010	108,118	2,048,602
Balances at end of year	2,401,505	15,191,753	7,036,039	536,462	25,165,759
Net book values	₱924,205	₱668,524	₱3,784,948	₱193,737	₱5,571,414

Cost of fully depreciated assets still in use amounted to ₱17,836276 and ₱17,134,057 as of December 31, 2017 and 2016, respectively.

8. Accounts Payable and Accrued Expenses

	2017	2016
Accrued interest (Note 9)	**₱59,903,586**	₱59,903,586
Trade payables:		
Third parties	**34,326,360**	7,541,618
Related parties (Note 9)	**8,212,678**	8,669,812
Accrued expenses	**18,679,671**	7,993,680
Deferred output VAT	**14,954,494**	8,429,620
Withholding tax	**1,301,959**	570,386
Others	**929,982**	303,435
	₱138,308,730	₱93,412,137

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.

Others pertain to broadband customers' security deposits which are refundable upon termination of contract.

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 Company, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

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

a. The Company grants interest-free advances to NOW Telecom for working capital and administrative requirements. Amounts owed by NOW Telecom as of December 31, 2017 and 2016 amounted to ₱61,414,356 and ₱50,476,206, respectively.

b. On August 30, 2005, the 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. Interest income amounted to ₱467,033 in 2017 and 2016 reflected as part of "Others" in revenue. As of December 31, 2017 and 2016, amounts owed by IBI, including interest, amounted to ₱27,497,744 and ₱27,030,711, respectively. IBI is an entity under common control.

c. As of December 31, 2017 and 2016, the Company has outstanding liabilities to Emerald Investment, Inc. (EII) amounting to ₱2,902,918 which arose from the Company's sub-lease agreement with EII that ended in 2011.

d. On January 1, 2013, the 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 Company renewed its service agreement with KPSC for a period of five (5) years beginning January 3, 2017 to January 2, 2022.

   Under the service agreement, KPSC shall provide consultancy and manpower services depending on the services specifically required by the Company. Amounts owed to KPSC, in relation to the service agreement, amounted to ₱4,854,216 and ₱5,311,350 as of December 31, 2017 and 2016, respectively.

   The Company's administrative and management, including key management personnel, functions are being handled by personnel of KPSC.

   Outside services incurred by the Company for the provision of key management personnel services that are provided by KPSC amounted to ₱2,863,646 and ₱6,176,177, in 2017 and 2016, respectively. However, in February 2017, the Company transferred the administrative and management functions, including key management personnel, to the Company without any effect in the subsisting service agreement with KPSC. Compensation of identified key management personnel, classified as short-term employee benefits, amounted to ₱8,784,710.

Due to related parties include interest bearing advances from Velarde, Inc. for working capital and investment requirements. Interest rate for these loans is at 18.0% per annum or 1.5% per month.

On January 22, 2015, Velarde, Inc. agreed to convert its advances amounting to ₱200,000,000 into equity interest in the 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 12).

On April 29, 2016, the 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 Company's shares for a 30-day trading period ended

April 14, 2016. On June 2, 2016, the stockholders of the Company approved the said increase in the 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 Company amounting to ₱44,500,000 (see Note 11).

Outstanding accrued interest presented as part of the "Accounts payable and accrued expenses" amounted to ₱59,903,586 as of December 31, 2017 and 2016 (see Note 8).

Due to Velarde, Inc. presented as part of "Due to related parties" amounted to ₱141,326,866 and ₱68,322,816 as of December 31, 2017 and 2016, respectively.

e. The Company charges Velarde, Inc. management fees for the administration and operations of the companies. Management fees charged to Velarde, Inc. amounted to ₱240,000 in 2017 and 2016, reflected as part of "Others" in revenue. The Company has outstanding trade receivables to Velarde, Inc. amounting to ₱1,680,000 and ₱1,440,000 as of December 31, 2017 and 2016, respectively.

f. The Company entered into a non-interest bearing loan agreement with Porteon Electric Vehicles, Inc. (Porteon). As of December 31, 2017 and 2016, the outstanding amount due from Porteon Electric Vehicles, Inc. amounted to ₱2,160,300 which is due on demand.

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

h. The Company entered into agreements with Thumbmob, Holy Cow and Softweb for the subscription of their respective shares. Please see Note 6 for detailed discussion.

i. *Infrastructure build-up and technical services*
In January 2015, the 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 Company provided the infrastructure build-up and technology design and consultancy.

In 2016, the Company amend its contracts with GHT and Newsnet, and includes NOW Telecom whereas the Company will provide project management services, design and planning services and installation services covering up to 10 major network hubs for a total 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. A total of nine (9) and ten (10) hubs were completed for GHT and Newsnet, respectively as of December 31, 2017. Service revenue recognized in 2017 and 2016 amounted to ₱45,000,000 and ₱30,000,000. Service revenue recognized in 2017 and 2016 for the technical service related to Rohill TetraNode System provided by the Company to NOW Telecom amounts to ₱6,000,000 and ₱5,700,000, respectively.

Included in the contract entered in 2016, the 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. Service revenue recognized in 2017 and 2016 amounted to ₱600,000 and ₱450,000 each for GHT and Newsnet. Further, the Company also entered into a contract with NOW Telecom to provide management consultancy services commencing from January 3, 2016 up to

January 2, 2018 with an agreed monthly fee of ₱150,000. Service revenue related to management consultancy services to NOW Telecom amounted to ₱1,800,000 in 2017 and 2016.

The Company has an outstanding receivables from GHT amounting to ₱44,032,048 and ₱28,504,000 as of December 31, 2017 and 2016, respectively. The Company also has an outstanding receivables from Newsnet amounting to ₱53,441,589 and ₱28,504,000 as of December 31, 2017 and 2016, respectively.

VAS Agreement
In 2015, the 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 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 a cost plus margin arrangement.

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 Company on a cost-plus margin arrangement. Total cost of data services charged to cost of services amounted to ₱3,121,774 and ₱3,204,621 in 2017 and 2016, respectively.

Advances
As of December 31, 2017 and 2016, the outstanding amounts due from GHT amounted to ₱8,058,945 and ₱6,177,301, respectively. The Company also has an outstanding amounts due from Newsnet amounting to ₱18,712,857 and ₱10,736,960 as of December 31, 2017 and 2016, respectively.

Related parties	Category	Amount	Due from Related Party	Trade and Other Receivables (Note 4)	Due to Related Party	Trade and Other Payables (Note 8)	Advances to Affiliates (Note 6)	Terms	Conditions
Stockholders									
Velarde, Inc.	**Advances 2017**	**₱73,004,050**	**₱**	**₱**	**141,326,866**	**–**	**–**	**On demand**	**Unsecured**
	2016	₱155,135,219	₱–	₱–	68,322,816	–	–	On demand	Unsecured
	Management fees 2017	**240,000**	**–**	**1,680,000**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	240,000	–	1,440,000	–	–	–	On demand	Unsecured, no impairment
	Interest 2017	**–**	**–**	**–**	**–**	**59,903,586**	**–**	**On demand**	**Unsecured, no impairment**
	2016	–	–	–	–	59,903,586	–	On demand	Unsecured, no impairment
EB	**Advances 2017**	**–**	**6,140**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	–	6,140	–	–	–	–	On demand	Unsecured, no impairment
	Lease 2017	**–**	**–**	**–**	**2,902,918**	**–**	**–**	**On demand**	**Unsecured**
	2016	–	–	–	2,902,918	–	–	On demand	Unsecured
Affiliates									
NOW Telecom (formerly NMI)	**Advances 2017**	**10,938,359**	**61,414,356**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	19,938,046	50,476,206	–	–	–	–	On demand	Unsecured, no impairment
	Services 2017	**7,800,000**	**–**	**13,102,508**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	7,500,000	–	8,400,000	–	–	–	On demand	Unsecured, no impairment
KPSC	**Advances 2017**	**5,000**	**209,708**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	–	204,708	–	–	–	–	On demand	Unsecured, no impairment
	Services 2017	**11,756,110**	**–**	**–**	**–**	**4,854,216**	**–**	**On demand**	**Unsecured**
	2016	50,716,312	–	–	–	5,311,350	–	On demand	Unsecured
Asian Institute of Journalism and Communication (AIJC)	**Advances 2016**	**18,048**	**489,109**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	3,791	471,061	–	–	–	–	On demand	Unsecured, no impairment

(Forward)

Related parties	Category	Amount	Due from Related Party	Trade and Other Receivables (Note 4)	Due to Related Party	Trade and Other Payables (Note 8)	Advances to Affiliates (Note 6)	Terms	Conditions
IBI	Advances 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 2017	467,033	11,929,993	–	–	–	–	Due within 5 years	Unsecured, no impairment
	2016	467,033	11,462,959					Due within 5 years	Unsecured, no impairment
Porteon Electric Vehicles, Inc.	Loans 2017	–	2,160,300	–	–	–	–	On demand	Unsecured, no impairment
	2016	–	2,160,300	–	–	–	–	On demand	Unsecured, no impairment
Paradiso Verde	Advances 2017	–	–	–	–	3,358,462	–	On demand	Unsecured, no impairment
	2016	–	–	–	–	3,358,462	–	On demand	Unsecured, no impairment
Newsnet	Advances 2017	7,975,897	18,712,857	–	–	–	–	On demand	Unsecured, no impairment
	2016	4,669,416	10,736,960					On demand	Unsecured, no impairment
	Services 2017	25,600,000	–	53,441,589	–	–	–	On demand	Unsecured, no impairment
	2016	15,450,000		28,504,000				On demand	Unsecured, no impairment
GHT	Advances 2017	1,881,644	8,058,945	–	–	–	–	On demand	Unsecured, no impairment
	2016	1,177,121	6,177,301					On demand	Unsecured, no impairment
	Services 2017	20,600,000	–	44,032,048	–	–	–	On demand	Unsecured, no impairment
	2016	15,450,000	–	28,504,000	–	–	–	On demand	Unsecured, no impairment
Holy Cow	Loans 2017	–	–	2,211,771	–	–	–	On demand	Unsecured, no impairment
	2016	–	–	2,211,771	–	–	–	On demand	Unsecured, no impairment
	Interest 2017	–	156,000	–	–	–	–	On demand	Unsecured, no impairment
	2016	–	156,000	–	–	–	–	On demand	Unsecured, no impairment
	Advances 2017	–	–	–	–	–	9,248,449	On demand	Unsecured, no impairment
	2016	–	–	–	–	–	9,248,449	On demand	Unsecured, no impairment
Thumbsbook	Advances 2017	–	–	–	–	–	14,344,369	On demand	Unsecured, no impairment
	2016	–	–	–	–	–	14,344,369	On demand	Unsecured, no impairment
I-College	Loans 2017	44,838	–	123,805	–	–	–	On demand	Unsecured, no impairment
	2016	–	–	78,967	–	–	–	On demand	Unsecured, no impairment

(Forward)

Related parties	Category	Amount	Due from Related Party	Trade and Other Receivables (Note 4)	Due to Related Party	Trade and Other Payables (Note 8)	Advances to Affiliates (Note 6)	Terms	Conditions
Associate									
Softweb	**Advances 2017**	**₱600**	**₱–**	**₱–**	**₱4,216**	**₱–**	**₱–**	**On demand**	**Unsecured, no impairment**
	2016	₱–	₱–	₱–	₱4,816	₱–	₱–	On demand	Unsecured, no impairment
	Loans 2017	**–**	**714,000**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	–	714,000	–	–	–	–	On demand	Unsecured, no impairment
	Sales 2017	**–**	**–**	**16,401,451**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	5,412,232	–	16,401,451	–	–	–	On demand	Unsecured, no impairment
	Management fees 2017	**–**	**–**	**15,590,000**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	–	–	15,590,000	–	–	–	On demand	Unsecured, no impairment
Subsidiaries									
Porteon	**Advances 2017**	**–**	**3,442**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	–	3,442	–	–	–	–	On demand	Unsecured, no impairment
JSTT	**Advances 2017**	**–**	**4,700,917**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	–	4,700,917	–	–	–	–	On demand	Unsecured, no impairment
i-Resource	**Advances 2017**	**1,666,363**	**–**	**–**	**1,761,651**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	356,524	–	–	95,288	–	–	On demand	Unsecured, no impairment
Softrigger	**Advances 2017**	**–**	**2,331,659**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	–	2,331,659	–	–	–	–	On demand	Unsecured, no impairment
	Loans 2017	**–**	**4,856,038**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	–	4,856,038	–	–	–	–	On demand	Unsecured, no impairment
	Management fees 2017	**–**	**–**	**2,452,800**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	–	–	2,452,800	–	–	–	On demand	Unsecured, no impairment
i-Professional	**Advances 2017**	**627,560**	**–**	**5,071,093**	**450,000**	**–**	**–**	**On demand**	**Unsecured, no impairment**
	2016	1,627,470	–	4,443,533	450,000	–	–	On demand	Unsecured, no impairment
	2017		**₱131,311,215**	**₱154,107,065**	**₱146,445,651**	**₱68,116,264**	**₱23,592,818**	**On demand**	**Unsecured, no impairment**
	2016		₱110,120,732	₱107,947,555	₱71,680,550	₱68,573,398	₱23,592,818	On demand	Unsecured, no impairment

Summary of related party transactions affecting the Company's statement of income:

Related parties	Category	Year	Revenues	Cost of sales and services	General and administrative expenses
Velarde Inc.	Management Fee	2017	₱240,000	₱–	₱–
		2016	240,000	–	–
NOW Telecom	Services	2017	7,800,000	–	–
		2016	7,500,000	–	–
	Cost of data services	2017	–	1,757,720	–
		2016	–	779,715	–
	Lease	2017	–	–	120,000
Newsnet	Services	2017	25,600,000	–	–
		2016	15,450,000	–	–
	Cost of data services	2017	–	1,364,054	–
		2016	–	1,696,912	–
GHT	Services	2017	20,600,000	–	–
		2016	15,450,000	–	–
IBI	Interest	2017	467,033	–	–
		2016	467,033	–	–
KPSC	Outside services	2017	–	8,411,946	3,344,164
		2016	–	43,226,619	7,489,693
Softweb	Sales	2017	–	–	–
		2016	5,412,232	–	–
		2017	₱54,707,033	₱11,533,720	₱3,464,164
		2016	₱44,519,265	₱45,703,246	₱7,489,693

10. Lease Commitments

The Company has entered into operating lease agreements in respect of its office premises. There are no restrictions placed upon the Company by entering into these leases. Operating lease payment recognized in the statement of comprehensive income are included under "Rental".

a. On April 1, 2017, the Company entered into a contract of lease with monthly rental fee of ₱23,067 for its principal office which is located at Unit 5-I, 5th Floor, OPL Building, 100 C. Palanca corner Dela Rosa and Gil Streets Legaspi Village, Makati City from One Palanca Land, Inc. Said lease contract is effective for one (1) year and may be renewed upon mutual agreement of both parties.

b. On January 1, 2017, the Company entered into a contract of lease with monthly rental fee of ₱10,000 for its office located in 2244 España Avenue, Samploc, Manila City from NOW Telecom for five (5) years ending December 31, 2020.

c. On November 24, 2016, the Company entered into a contract of lease with One Executive Condominium Corporation for the common areas and facilities of the latter for the Company's fiber optic cable facilities and its value-added services for the period November 11, 2016 to November 17, 2021. The monthly rental payment was set at 5,000 with annual escalation rate of five percent (5%) after the first year. Accrued rent payable amounting to ₱5,933 as of December 31, 2017 represents straight-line adjustment on rent.

Total rent expense recognized in 2017 and 2016 amounted to ₱379,250 and ₱252,102, respectively (see Note 14).

11. Loans Payable

BDO loan
On December 22, 2016, the 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 sixty monthly payments until November 23, 2021, has a term of 5 years and bears an interest rate of 9.44% per annum.

The current and noncurrent portions of the loan amounted to ₱97,337 and ₱351,614, respectively, as of December 31, 2017 and ₱87,426 and ₱449,107, respectively, as of December 31, 2016.

Interest expense recognized on this loan amounted to ₱52,015 and ₱1,607 in 2016 and 2015, respectively.

Metropolitan Bank and Trust Company and Bank of Makati loan
In September 2012, the Company has availed of short term loan 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. The loan bears interest ranging from 2.40% and 2.12% to 2.30% in 2016 and 2015, respectively. Interest is payable every 30 days.

On March 1, 2016, the 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 Company (see Note 9).

Interest expense on the said loan amounted to ₱571,355 in 2016.

12. 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 November 11, 2006, in accordance with the MOA, the Company issued the additional 1,289,278,350 shares at par value in exchange for the 2,656,580 shares of NOW Telecom (see Note 6).

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 Note 6).

On May 12, 2010, the BOD and stockholders of the 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 share. On November 7, 2014, the BOD and stockholders of the 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 Company's BOD approved a new proposal to supersede previous increase in authorized capital stock plans. It was decided for the 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 Company's application to increase its authorized capital stock on December 17, 2015.

Velarde, Inc. subscribed 200,000,000 shares of the Company and was settled through the conversion of its advances to the Company amounting to ₱200,000,000 (see Note 9).

On April 29, 2016, the Company's BOD approved the increase in the authorized capital stock of the 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 Company's shares for a 30-day trading period ended April 14, 2016. On June 2, 2016, the stockholders of the Company approved the said increase in the Company's authorized capital stock.

On July 22, 2016, the Company filed with the SEC its application for the approval of the proposed increase in its authorized capital stock. The SEC has not yet approved the Company's application as of April 6, 2018. As of December 31, 2017 and 2016, the Company presented the deposit for future stock subscription amounting to ₱264,000,000 as part of equity as the Company has met all the conditions required by the SEC under Financial Reporting Bulletin No. 06 for such regulation.

On September 2, 2016, the Company's BOD approved the amendment in the Company's Articles of Incorporation 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 Company representing two-thirds of its outstanding capital stock approved the amendment. On January 6, 2017, the Company filed an application with the SEC for the approval of the said amendment. This was approved by the SEC on January 10, 2017.

Information on the Company's authorized capital stock is as follows:

	Number of Shares	
	2017	2016
Common stock, ₱1 par value	2,060,000,000	2,120,000,000
Preferred stock, ₱1 par value	60,000,000	–
Balance at end of the year	2,120,000,000	2,120,000,000

Information on the Company's issued and outstanding capital stock is as follows.

	2017		2016	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning and end of year	1,517,278,350	₱1,517,278,350	1,517,278,350	₱1,517,278,350

13. Costs of Sales and Services

	2017	2016
Cost of service		
Outside services (Note 9)	₱14,868,156	₱6,616,287
Cost of data services (Note 9)	7,386,191	3,204,621
Cost of sales	31,980,891	10,215,702
	₱54,235,238	₱20,036,610

14. General and Administrative Expenses

	2017	2016
Salaries and other employee benefits	₱12,801,542	₱461,206
Entertainment, amusement and recreation	5,583,865	4,034,013
Transportation and travel	4,591,181	1,236,853
Depreciation and amortization (Note 7)	4,320,465	2,175,507
Communication	4,136,146	3,838,498
Taxes and licenses	3,615,665	690,547
Outside services	3,344,164	6,753,136
Advertising and promotion	2,367,961	4,524,439
Professional fees	2,201,653	2,680,597
Office supplies	687,925	2,298,205
Rental (Note 10)	379,250	252,102
Repairs and maintenance	169,391	987,132
Insurance	104,858	206,011
Utilities	54,772	49,710
Provision for impairment loss (Notes 4 and 6)	–	8,669,633
Others	994,104	1,251,638
	₱45,352,942	₱40,109,227

15. Income Taxes

The current provision for the income tax in 2017 and 2016 represents MCIT.

The reconciliation of the Company's statutory income tax to provision for income tax follows:

	2017	2016
Statutory income tax at 30%	₱2,076,681	₱380,211
Additions to (reductions in) income tax resulting from:		
Movement of unrecognized deferred income tax assets	(2,505,063)	(3,012,239)
Nondeductible expenses	1,509,507	3,472,158
Interest income subject to final tax	(354)	(446)
	₱1,080,771	₱839,684

No deferred income tax assets were recognized on the following deductible temporary differences, carryforward benefits from unused NOLCO and unused tax credit from excess MCIT as it is not probable that sufficient taxable profit will be available to allow the benefit of the deferred income tax assets to be utilized in the future:

	2017	2016
Allowance for impairment losses	₱3,972,716	₱3,972,716
Excess MCIT	2,248,207	1,649,013
NOLCO	–	3,359,782
Others	126,913	–
	₱6,347,834	₱8,981,511

As of December 31, 2017, excess MCIT can be claimed as deduction from future taxable income and income tax liabilities, respectively, are as follows:

Year Incurred	Year of Expiration	MCIT
2017	2020	₱727,806
2016	2019	839,684
2015	2018	680,717
		₱2,248,207

The following are the movements in NOLCO and excess MCIT:

	2017	2016
NOLCO:		
Balances at beginning of year	₱11,199,273	₱57,933,286
Additions	–	–
Application	(11,199,273)	(13,432,651)
Expirations	–	(33,301,362)
Balances at the end of year	₱–	₱11,199,273

	2017	2016
Excess MCIT:		
Balances at beginning of year	₱1,649,013	₱812,692
Additions	1,080,771	839,684
Expirations	(128,612)	(3,363)
Balances at end of year	₱2,601,172	₱1,649,013

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

16. Basic/Diluted EPS

The following table presents information necessary to compute the basic/diluted EPS:

	2017	2016
Net income (a)	₱5,841,499	₱427,685
Weighted average number of outstanding common shares for both basic and diluted EPS (b)	1,517,278,350	1,517,278,350
Basic/dilutive earnings per share (a/b)	₱0.0038	₱0.0003

As of December 31, 2017 and 2016, the Company does not have any dilutive potential common shares.

17. Financial Instruments

The Company's financial instruments are composed of cash, trade and other receivables, amounts owed by related parties, AFS financial assets, accounts payable and accrued expenses, amounts owed to related parties and loans payable.

The BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and manage the Company'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 Company's activities.

The main risks arising from the Company's financial instruments are liquidity risk and credit risk. The Company is not exposed to cash flow interest rate risk since a significant portion of the Company'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.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 Company's credit standing.

The tables below summarize the maturity profile of the Company's financial liabilities as of December 31, 2017 and 2016, based on contractual undiscounted cash flows. The tables also analyze the maturity profile of the Company'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.

2017

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				
Cash	₱7,502,968	₱–	₱–	₱7,502,968
Trade and other receivables	165,149,265	–	–	165,149,265
Due from related parties	103,813,471	–	27,497,744	131,311,215
	₱276,465,704	₱–	₱27,497,744	₱303,963,448
Financial liabilities:				
Accounts payable and accrued expenses*	₱122,055,175	₱–	₱–	₱122,055,175
Due to related parties	146,442,753	–	–	146,442,753
Future interest on loans payable	–	39,134	53,022	92,156
Loans payable	–	97,337	351,614	448,951
	₱268,497,928	₱136,471	₱404,636	₱269,039,035

Excluding government payables

2016

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				
Cash	₱2,131,015	₱–	₱–	₱2,131,015
Trade and other receivables	109,778,712	–	–	109,778,712
Due from related parties	83,090,021	–	27,030,711	110,120,732
	₱194,999,748	₱–	₱27,030,711	₱222,030,459
Financial liabilities:				
Accounts payable and accrued expenses*	₱84,412,131	₱–	₱–	₱84,412,131
Due to related parties	71,680,550	–	–	71,680,550
Future interest on loans payable	–	467,333	–	467,333
Loans payable	–	87,426	449,107	536,533
	₱156,092,681	₱554,759	₱449,107	₱157,096,547

Excluding government payables

The Company monitors its cash flow position through cash planning. The Company believes that cash advances by stockholders are sufficient to mitigate the effects of fluctuation in cash flow and to cover disbursements for the day-to-day operations of the Company.

All of the Company's financial liabilities other than the noncurrent portion of the loans payable and the noncurrent amounts owed to related parties are contractually due within one year.

Credit Risk
Credit risk is the risk of financial loss to the Company 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.

The Company's management believes that there is no significant risk in the amounts due by related parties. The BOD continually reassures the Company's strategies for managing accounts with creditors, including related parties. Advances are monitored on an ongoing basis with the result that the Company's exposure to impairment and account discrepancies is not significant. In addition, the Company manages credit risk by monitoring its credit exposures and assessing the creditworthiness of counterparties.

The following tables show the aging analysis of the Company's financial assets as of December 31, 2017 and 2016.

	2017			
	Nether past due nor impaired	Past due but not impaired	Past due and impaired	Total
Financial assets:				
Cash	₱7,502,968	₱–	₱–	₱7,502,968
Trade and other receivables	1,991,958	163,157,307	12,689,387	177,838,652
Due from related parties	27,497,744	₱103,813,471	–	131,311,215
	₱36,992,670	₱266,970,778	₱12,689,387	₱316,652,835

	2016			
	Nether past due nor impaired	Past due but not impaired	Past due and impaired	Total
Financial assets:				
Cash	₱2,131,015	₱–	₱–	₱2,131,015
Trade and other receivables	1,831,157	107,947,555	12,694,882	122,473,594
Due from related parties	27,030,711	83,090,021		110,120,732
	₱30,992,883	₱191,037,576	₱12,694,882	₱234,725,341

As of December 31, 2017 and 2016, the Company'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 Company 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 Company considers its financial assets that are neither past due nor impaired amounting to ₱36,992,670 and ₱30,992,883 as of December 31, 2017 and 2016, respectively, as standard grade financial assets. Standard grade financial asset are those that are current and collectible.

The Company has impaired receivables amounting to ₱12,689,387 and ₱12,694,882 as of December 31, 2017 and 2016, respectively (see Note 4).

<u>Fair Value of Financial Instruments</u>

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, Trade and Other Receivables, Due from Related Parties, Accounts Payable and Accrued Expenses and Due to Related Parties

The carrying amounts of cash, trade and other receivables, amounted owed by related parties, accounts payable and accrued expenses and current amounts owed to related parties approximate their fair values due to the short-term maturity of these financial instruments.

AFS Financial Assets
Unquoted equity security is carried at cost or its available net book value since fair value of this AFS financial asset cannot be reliably determined as this is not listed and has no available bid price.

Noncurrent Amounts Due from Related Party
The fair value of noncurrent amounts due from related party were based on discounted value of future cash flows using applicable credit-adjusted risk-free rates of 5.7% and 5.9% as of December 31, 2017 and 2016 (Level 3). The fair value of noncurrent amounts due from related party amounted to ₱24,793,312 and ₱24,144,646 as of December 31, 2017 and 2016, respectively. The carrying value of noncurrent amounts due from related party amounted to ₱27,497,744 and ₱27,030,711 as of December 31, 2017 and 2016, respectively.

Noncurrent Loans Payable
The carrying amount of the loans payable as of December 31, 2017 and 2016 are estimated using the discounted cash flow methodology with the applicable credit-adjusted risk-free rates of 5.7% and 5.9%, respectively (Level 3). The fair value of noncurrent loans payable amounted to ₱282,991 and ₱337,186 as of December 31, 2017 and 2016, respectively. The carrying value of noncurrent loans payable amounted to ₱351,614 and ₱449,107 as of December 31, 2017 and 2016, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates for the years ended December 31, 2017 and 2016, with all other variables held constant, in the Company's income before income:

	Increase (Decrease) in Basis points	Increase (Decrease) on Income Before Income Tax
December 31, 2017	**+100**	**(₱18,968)**
	-100	**18,968**
December 31, 2016	+100	(₱673)
	-100	673

Capital Management
The Company considers the equity presented in the parent company statement of financial position as its core capital. The primary objective of the Company'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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company 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 Company has complied with the minimum public ownership.

The Company considers its equity as presented in the parent company statement of financial position as its core capital.

Capital expenditures

As of December 31, 2017 and 2016, the Company was able to meet its capital management objectives.

18. Business Segment Information

The Company's operating segments are organized and managed separately according to the nature of the services offered as follows:

- 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:

	2017		
	Software Licenses and services	**Broadband services**	**Total**
Service fees	**₱50,638,920**	**₱24,513,069**	**₱75,151,989**
Sales	**21,698,063**	**–**	**21,698,063**
Others	**9,785,266**	**–**	**9,785,266**
Total revenue	**₱82,122,249**	**₱24,513,069**	**₱106,635,318**
Costs of sales and services	**₱46,849,047**	**₱7,386,191**	**₱54,235,238**
General and administrative expenses	**42,182,737**	**3,170,205**	**45,352,942**
Provision for income tax	**1,080,771**	**–**	**1,080,771**
Net income	**(7,990,306)**	**13,956,673**	**5,841,499**
Other information			
Capital expenditures	**1,285,657**	**5,088,817**	**6,374,474**
Segment assets	**381,865,388**	**5,548,692**	**387,414,080**
Unallocated AFS financial asset			**1,289,278,350**
Segment liabilities	**284,007,714**	**–**	**284,007,714**
Depreciation and amortization	**1,150,260**	**3,170,205**	**4,320,465**
Unallocated interest expense and other charges			**124,868**

	2016		
	Software Licenses and services	Broadband services	Total
Service fees	₱41,230,381	₱5,981,141	₱47,211,522
Sales	13,048,685	–	13,048,685
Others	1,762,076	–	1,762,076
Total revenue	₱56,041,142	₱5,981,141	₱62,022,283
Costs of sales and services	₱16,831,989	₱3,204,621	₱20,036,610
General and administrative expenses	39,203,710	905,517	40,109,227
Provision for income tax	839,684	–	839,684
Net income	(1,443,318)	1,871,003	427,685
Other information			
Capital expenditures	970,358	4,347,551	5,317,909
Segment assets	258,556,435	3,442,034	261,998,469
Unallocated AFS financial asset			1,289,278,350
Segment liabilities	165,629,220	–	165,629,220
Depreciation and amortization	1,269,990	905,517	2,175,507

In 2017, two (2) customers accounted for 17.18% and 13.83% of total revenue from infrastructure build-up and technical services. In 2016, two (2) customers accounted for 14.65% each of total revenue from infrastructure build-up and technical services. These revenues were reported under "Software licenses and services" segment.

19. Changes in Liabilities Arising from Financing Activities

	January 1, 2017	Cash flows	December 31, 2017
Due to related parties	₱71,680,550	₱74,762,203	₱146,442,753
Loans payable	536,533	(87,582)	448,951
Total liabilities from financing activities	₱72,217,083	₱74,674,621	₱146,891,704

20. Notes to Statements of Cash Flows

In 2015, noncash financing activity consists of debt to equity transaction from Velarde, Inc.'s advances amounting to ₱200,000,000 for 200,000,000 Company common shares with a par value of ₱1 which has been approved on December 17, 2015 (see Note 11).

In 2016, the noncash financing activity involves the conversion of ₱264,000,000 advances from Velarde, Inc. to the Company's common shares. This is currently presented under equity as deposit for future stock subscription pending the approval by SEC of the Company's application for increase in authorized capital stock (see Note 9).

21. Other Matter

Land Bank loan
On January 30, 2018, the 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.

22. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 which amends certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements accompanying the tax returns. It requires the disclosures of taxes, duties and license fees paid or accrued during the taxable year.

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited the accompanying financial statements of NOW Corporation as of and for the year ended December 31, 2017, on which we have rendered the attached report dated April 9, 2018.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the above Company has 61 stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Jhoanna Feliza C. Go

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. 6621266, January 9, 2018, Makati City

April 9, 2018

NOW CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Now Corporation is responsible for the preparation and fair presentation of the financial statements including the attached therein for the years ended December 31, 2017, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the Stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the Stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature : Thomas Aquino

Thomas G. Aquino
Chairman of the Board

Signature:

Mel V. Velarde
President and Chief Executive Officer

SUBSCRIBED AND SWORN TO BEFORE ME
THIS ______ DAY OF ______

APR 1 6 2018

Signature:

Vicente I. Penaueva
Chief Financial Officer

Signed this ____ day of April 2018

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SERIES NO. 2018

ATTY. MA. PERPETUA PINZA-CABRERA
NOTARY PUBLIC
COMMISSION UNTIL DEC. 31, 2018 TO ...
ADM. MATTER NO. NP-033 (2018 TO ...)
PTR NO. [illegible] / JAN. 03, 2018
IBP NO. [illegible] / JAN. 03, 2018
ROLL NO. 45373
MCLE COMPLIANCE NO. V-[illegible]
ADDRESS: [illegible] STREET, [illegible]

ANNEX "C"

REPUBLIC OF THE PHILIPPINES)
Makati City) S. S.

SECRETARY'S CERTIFICATE

I, **ANGELINE L. MACASAET**, Filipino, of legal age, with office address at Unit 5-I, 5th 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, 5th Floor OPL Building, 100 C. Palanca Street, Legaspi Village, Makati City (the "Corporation");

2. I am also a Director and the Secretary of the Executive 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 2018 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 24th day of April 2018 in Makati City, Philippines.

ANGELINE L. MACASAET
Corporate Secretary

SUBSCRIBED AND SWORN TO before me this 24th day of April 2018, 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.: 496 ;
Page No.: 85 ;
Book No.: XX ;
Series of 2018.

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Until December 31, 2018
IBP No. 656155-Lifetime Member
MCLE Compliance No. V-0006934
Appointment No. M-104 (2017-2018)
PTR No. 6607879 Jan. 3, 2018
Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio Del Pilar, Makati City