COVER SHEET

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 ST. CORNER DELA ROSA AND GIL STREETS, LEGASPI VILLAGE, MAKATI CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-Q	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)
66	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 cor. Dela Rosa Streets, Legaspi Village, Makati City

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **September 30, 2017**

2. Commission identification number **A1996-00179** 3. BIR Tax Identification No. **004-668-224**

4. Exact name of issuer as specified in its charter

NOW CORPORATION

5. Province, country or other jurisdiction of incorporation or organization

MAKATI CITY, PHILIPPINES

6. Industry Classification Code: (SEC Use Only)

7. Address of issuer's principal office Postal Code

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

8. Issuer's telephone number, including area code **(0632)750-0211**

9. Former name, former address and former fiscal year, if changed since last report

N/A

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
COMMON STOCK	**1,517,278,350**

11. Are any or all of the securities listed on a Stock Exchange?
Yes [**x**] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE **COMMON STOCK**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
Yes [**x**] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.
Yes [**x**] No [ ]

Part I. Financial Information

Item1. Financial Statement

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NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
REVENUES		
Service Revenue	87,546,095	90,623,757
Sales	13,624,370	13,048,685
Others	430,465	1,764,541
	101,600,930	105,436,983
COST AND EXPENSES		
Cost of services	39,955,983	46,431,240
Cost of sales	13,977,321	10,215,702
Salaries and other benefits	9,957,491	1,301,160
Outside Services	11,915,535	7,489,693
Rental	1,152,919	1,728,730
Taxes and licenses	3,936,207	1,068,636
Professional fees	1,408,157	2,918,643
Light and water	196,703	982,225
Transportation and travel	4,573,896	1,702,362
Advertising and promotion	1,108,389	4,524,439
Depreciation and amortization	2,733,520	2,214,569
Repairs and maintenance	396,129	1,008,292
Communication	2,035,645	4,109,582
Representation	4,867,885	4,706,499
Supplies	536,814	2,441,318
Others	489,946	1,384,812
Insurance	149,770	258,661
Interest	39,497	572,962
Provision on impairment loss on receivables	-	5,685,685
	99,431,807	100,745,210
INCOME (LOSS) BEFORE INCOME TAX	**2,169,123**	**4,691,773**
PROVISION FOR INCOME TAX		
Current	2,084,361	2,193,264
Deferred	-	-
NET INCOME (LOSS)	**84,762**	**2,498,509**
Currency Translation Adjustment – Gain (Loss)	-	(9,553)
TOTAL COMPREHENSIVE INCOME	**84,762**	**2,488,956**
Non-controlling interests	**-**	**-**
	84,762	2,488,956
Basic /Diluted Earnings (Loss) Per Share	0.0002	0.0016

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
NET INCOME (LOSS) ATRRIBUTABLE TO:		
Equity holders of the Parent	84,762	2,498,509
Non-controlling interests		
	84,762	2,498,509
OTHER COMPREHENSIVE INCOME		
Cumulative translation adjustment	9,553	(9,553)
TOTAL COMPREHENSIVE INCOME (LOSS)	94,315	2,488,956
ATTRIBUTABLE TO:		
Equity holders of the parent	347,253	2,490,880
Non-controlling interest	(252,938)	(1,924)
	94,315	2,488,956

See accompanying Notes to Financial Statements

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
CAPITAL STOCK		
Authorized - 1,360,000,000 shares in 2006 and 40,000,000 shares in 2005		
Issued - 1,217,278,350 shares in 2006 and 28,000,000 shares in 2005		
Balance at the beginning of the year	1,517,278,350	1,517,278,350
Issuance		
Balance at end of the year	1,517,278,350	1,517,278,350
Deposit for future stock subscription	264,000,000	264,000,000
EQUITY RESERVE	(1,978,794)	-
RETAINED EARNINGS		
Balance at beginning of the year	(427,950,225)	(430,450,658)
Net Income (loss)	337,700	2,500,433
Deficit	(427,612,525)	(427,950,225)
Cumulative Translation Adjustment	1,149,988	

		1,140,435
	(426,462,537)	(426,809,790)
Non-controlling equity	(3,238,304)	(5,132,960)
Balance at end of year	(429,700,841)	(431,942,750)
Total Equity	1,349,598,715	1,349,335,600

See accompanying Notes to Consolidated Financial Statements

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	September 30, 2017 (Unaudited)	**December 31, 2016 (Audited)**
Income (Loss) before income tax	2,169,123	4,691,773
Adjustments for:		
Interest and Other charges (Note 9 & 11)	39,497	572,962
Depreciation and amortization (Note 7 & 14)	2,733,520	2,214,569
Provision on Impairment loss on receivables (Note 4 and 14)	-	5,685,685
Unrealized foreign exchange loss	-	-
Loss on disposal of property and equipment	-	-
Interest income	(353,446)	(470,984)
Equity in net losses of associates (Note 8)	-	-
Operating income (loss) before working capital changes	4,588,694	12,694,005
Decrease (increase) in:		
Trade and other receivables	(32,242,385)	(34,439,198)
Other current assets	(9,714,675)	(3,481,122)
Increase (decrease)		
Accounts payable and accrued expenses	5,907,909	(13,284,487)
Net cash generated from (used in) operations	(31,460,457)	(38,510,802)
Interest received	3,171	3,951
Income taxes paid	(2,084,361)	(2,193,264)
Interest paid	(39,497)	(572,806)
Net cash flows from (used in) operating activities	(33,581,144)	(41,272,921)
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in:		
Due from related parties	(24,159,296)	(24,109,146)
Other noncurrent assets	(321,490)	(227,928)
Acquisition of property and equipment (Note 7)	(2,536,150)	(5,451,837)
Sale of non-controlling interest - i-Professional	168,800	-
Net cash flows from (used in) investing activities	(26,848,136)	(29,788,911)
CASH FLOWS FROM A FINANCING ACTIVITY		
Increase in amounts owed to related parties	58,406,345	58,942,202
Proceeds from loan availment		45,036,377
Payment of loans payable	(64,837)	(44,500,000)
Other Noncurrent liability	-	-

Net cash flows from financing activities	58,341,508	59,478,579
EFFECT OF EXCHANGE RATE CHANGES ON CASH	-	2,371
NET INCREASE (DECREASE) IN CASH	(2,087,772)	(11,583,253)
CASH AT BEGINNING OF THE YEAR	4,396,419	15,979,672
CASH AT END OF THE YEAR	**2,308,647**	**4,396,419**

See accompanying Notes to Consolidated Financial Statements

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	YTD January to September	
	2017	**2016**
ASSETS		
Current Assets		
Cash	2,308,647	2,223,980
Trade and other receivables	147,699,002	83,021,781
Amount owed by related parties)	90,821,183	95,382,150
Other current assets	17,373,999	5,057,301
Total Current Assets	**258,202,831**	**185,685,212**
Noncurrent Assets		
Investments in shares of stocks	1,289,278,350	1,317,871,168
Advances to affiliates	23,592,818	0
Due from related parties - net of current portion	27,380,986	0
Property and equipment	6,417,310	4,783,363
Other noncurrent assets - net of accumulated amortization of computer software amounting to P1,091,644 and P1,091,644 as of September 30, 2017 and December 31, 2016, respectively	756,477	454,610
Total Noncurrent Assets	**1,347,425,941**	**1,323,109,141**
TOTAL ASSETS	**1,605,628,772**	**1,508,794,353**
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	130,630,755	112,293,029
Due to related parties	124,927,606	65,934,041
Current portion of loans payable	94,759	0
Total Current Liabilities	**255,653,120**	**178,227,070**
Noncurrent Liability		
Loans payable - net of current portion	376,937	0
Total Liabilities	**256,030,057**	**178,227,070**
Equity		
Equity attributable to equity holders of the Parent Company:		
Common stock	1,517,278,350	1,785,236,384
Deposit for future stock subscriptions	264,000,000	0
Deficit	(427,950,225)	(430,450,658)
Cumulative translation adjustment	1,149,988	1,149,988
Equity reserve	(1,978,794)	
Net Income	347,253	(20,227,857)

Comprehensive Income	(9,553)	(7,978)
Non-controlling interest	(3,238,304)	(5,132,596)
Total Equity	**1,349,598,715**	**1,330,567,283**
TOTAL LIABILITIES AND EQUITY	**1,605,628,772**	**1,508,794,353**

See accompanying Notes to DRAFT Unaudited Interim Condensed Consolidated Financial Statements.

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	YTD January to September	
	2017	2016
REVENUES		
Service Revenue	87,546,095	36,589,452
Sales	13,624,370	8,330,399
Others	430,465	1,479,451
	101,600,930	46,399,302
COST AND EXPENSES		
Cost of services	39,955,983	23,118,351
Cost of sales	13,977,321	10,544,986
Salaries and other benefits	9,957,491	4,366,218
Outside Services	11,915,535	5,415,658
Rental	1,152,919	1,453,724
Taxes and licenses	3,936,207	878,028
Professional fees	1,408,157	1,328,164
Light and water	196,703	752,393
Transportation and travel	4,573,896	1,181,576
Advertising and promotion	1,108,389	4,077,504
Depreciation and amortization	2,733,520	1,907,917
Repairs and maintenance	396,129	96,631
Communication	2,035,645	3,212,503
Representation	4,867,885	3,706,889
Supplies	536,814	1,536,553
Others	489,946	1,616,396
Insurance	149,770	214,122
Interest	39,497	-
Provision on impairment loss on receivables	-	5,645,685
Miscellaneous		
	99,431,807	71,053,298
INCOME (LOSS) BEFORE INCOME TAX	2,169,123	(24,653,996)
PROVISION FOR INCOME TAX		
Current	2,084,361	644,494
Deferred	- -	
NET INCOME (LOSS)	84,762	(25,298,490)
Currency Translation Adjustment – Gain (Loss)	-	-
TOTAL COMPREHENSIVE INCOME	84,762	(25,298,490)

Non-controlling interests	-	-
	84,762	(25,298,490)
Basic /Diluted Earnings (Loss) Per Share	0.0002	(0.0171)

NOW CORPORATION
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	July to September	
	2017	2016
REVENUES		
Service Revenue	29,254,219	8,876,012
Sales	3,859,109	6,236,678
Others	389,737	409,477
	33,503,065	15,522,167
COST AND EXPENSES		
Cost of services	23,396,442	7,927,097
Cost of sales	755,086	5,248,779
Salaries and other benefits	647,659	647,715
Outside Services	3,841,524	1,937,723
Rental	372,963	573,826
Taxes and licenses	839,421	152,707
Professional fees	716,157	769,717
Light and water	61,927	271,003
Transportation and travel	862,190	483,033
Advertising and promotion	144,960	3,484,814
Depreciation and amortization	1,084,344	650,745
Repairs and maintenance	38,112	28,362
Communication	46,500	625,586
Representation	1,046,661	-
Supplies	199,697	790,636

Others	425,691	61,063
Insurance	67,223	79,592
Interest	9,151	-
Provision on impairment loss on receivables	-	5,645,685
Miscellaneous	-	-
	34,555,708	29,378,083
INCOME (LOSS) BEFORE INCOME TAX	(1,052,643)	(13,855,916)
PROVISION FOR INCOME TAX		
Current		
Deferred		
NET INCOME (LOSS)	(1,052,643)	(13,855,916)
Currency Translation Adjustment – Gain (Loss)	-	-
TOTAL COMPREHENSIVE INCOME	(1,052,643)	(13,855,916)
Non-controlling interests	-	-
	(1,052,643)	(13,855,916)
Basic /Diluted Earnings (Loss) Per Share		

NOW CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine Months Ended September 30	
	2017	2016
NET INCOME (LOSS)	84,762	(26,008,919)
OTHER COMPREHENSIVE LOSS		
Item that will be reclassified to profit or loss in subsequent periods:		
Cumulative translation adjustments	9,553	(7,978)
TOTAL COMPREHENSIVE INCOME (LOSS)	94,315	(26,016,897)

TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:		
Equity holders of the Parent	347,253	(26,015,337)
Non-controlling interests	(252,938)	(1,560)
	94,315	(26,016,897)

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	YTD January to September	
	2017	**2016**
CAPITAL STOCK		
Authorized - 1,360,000,000 shares in 2006		
and 40,000,000 shares in 2005		
Issued - 1,217,278,350 shares in 2006 and		
28,000,000 shares in 2005		
Balance at the beginning of the year	1,517,278,350	1,517,278,350
Issuance		
Balance at end of the year	1,517,278,350	1,517,278,350
Deposit for future stock subscription	264,000,000	264,000,000
EQUITY RESERVE	(1,978,794)	-
RETAINED EARNINGS		
Balance at beginning of the year	(427,950,225)	(430,450,658)
Net Income (loss)	337,700	(26,007,359)
Deficit	(427,612,525)	(456,458,017)
Cumulative Translation Adjustment	1,149,988	1,142,010
	(426,462,537)	(455,316,007)
Non-controlling equity	(3,238,304)	(5,132,596)
Balance at end of year	(429,700,841)	(460,448,603)
Total Equity	1,349,598,715	1,320,829,747

See accompanying Notes to Consolidated Financial Statements

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YTD January to September	
	2017	**2016**
Income (Loss) before income tax	2,169,123	(25,364,425)
Adjustments for:		
Interest and Other charges(Note 9 & 11)	39,497	571,355
Depreciation and amortization (Note 7 & 14)	2,733,520	1,907,917
Provision on Impairment loss on receivables (Note 4 and 14)	-	5,000,000
Unrealized foreign exchange loss	-	
Loss on disposal of property and equipment	-	
Interest income	(353,446)	(351,574)

Equity in net losses of associates (Note 8)	-	
Operating income (loss) before working capital changes	4,588,694	(18,236,727)
Decrease (increase) in:		
Trade and other receivables	(32,242,385)	(1,233,373)
Other current assets	(9,714,675)	(880,539)
Increase (decrease)		
Accounts payable and accrued expenses	5,907,909	(21,428,677)
Net cash generated from (used in) operations	(31,460,457)	(41,779,316)
Interest received	3,171	1,299
Income taxes paid	(2,084,361)	-
Interest paid	(39,497)	(153,152)
Net cash flows from (used in) operating activities	(33,581,144)	(41,931,169)
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in:		
Due from related parties	(24,159,296)	(19,158,596)
Other noncurrent assets	(321,490)	(215,824)
Acquisition of property and equipment (Note 7)	(2,536,150)	(3,345,595)
Sale of non-controlling interest - i-Professional	168,800	-
Net cash flows from (used in) investing activities	(26,848,136)	(22,720,015)
CASH FLOWS FROM A FINANCING ACTIVITY		
Increase in amounts owed to related parties	58,406,345	50,895,492
Proceeds from loan availment		44,500,000
Payment of loans payable	(64,837)	(44,500,000)
Other Noncurrent liability	-	
Net cash flows from financing activities	58,341,508	50,895,492
EFFECT OF EXCHANGE RATE CHANGES ON CASH	-	
NET INCREASE (DECREASE) IN CASH	(2,087,772)	(13,755,692)
CASH AT BEGINNING OF THE YEAR	4,396,419	15,979,672
CASH AT END OF THE YEAR	**2,308,647**	**2,223,980**

See accompanying Notes to Consolidated Financial Statements

NOW CORPORATION

AND SUBSIDIARIES

AGING OF RECEIVABLES

	30-September-17	30-September-16
Current	4,961,052	83,506
1 -30 days past due	14,600,813	707,409
31 -60 days past due	35,236	253,314
61 -90 days past due	162,435	6,088,596
over 91 days past due	113,591,628	64,096,696
Total	133,351,164	71,229,521

NOW CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

Corporate Background

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

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

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

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

In July 2009, the SEC approved the further 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 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 July 31, 2015, the Parent 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 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.

The Company's administrative and management functions, including key management personnel, are being handled by personnel of Knowledge Professionals Service Cooperative (KPSC) (see Note 9).

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 29, 2017 Regular 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 consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to herein as the Group) as of December 31, 2016, 2015 and 2014 and for the years then ended.

The consolidated financial statements of the Group as of December 31, 2016, 2015 and 2014 and for the years then ended were authorized for issue by the Chairman and President on April 12, 2017.

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 assets that are 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, 2016, 2015 and 2014 and for the years then ended:

	Year of Incorporation	Nature of Business	Percentage of Ownership		
			2016	2015	2014

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	**100%**	100%	100%
Softrigger Interactive, Inc. (SII)*	2000	Service	**67%**	67%	67%

** Not yet started commercial operations as of December 31, 2016.*

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

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 holder's transactions. Any excess or deficit of consideration paid over the carrying amount of non-controlling interest acquired is recognized in equity of the Group.

<u>Changes in Accounting Policies and Disclosures</u>

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2016. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance.

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Presentation of Financial Statements* - Disclosure Initiative
- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants*
- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements*

- Annual Improvements to PFRSs 2012-2014 cycle
    - Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
    - Amendment to PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
    - Amendment to PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
    - Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*
    - Amendment to PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

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, 2016, 2015 and 2014, 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, 2016, 2015 and 2014, 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.

Input Value-added Tax (VAT)
Input VAT represents the VAT due or paid on purchases of goods and services that the Group can claim against any future liability to the Bureau of Internal Revenue (BIR) for output VAT from sale of goods and services. Input VAT is stated at net realizable value. An allowance is provided for any portion of the input VAT that cannot be claimed against output VAT or recovered as tax credit against future income tax liability.

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.

<u>Derecognition of Financial Assets and Liabilities</u>
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.

<u>Offsetting Financial Instruments</u>
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.

<u>Investment in Associate</u>
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.

Computer Software

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

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

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 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.

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.

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 capitalized 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 recognized 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, 2017

- Amendment to PFRS 12, *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.

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

  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

- 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 on the reversal of that deductible temporary difference. 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.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Group.

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 or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

- 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. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

- 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 associates 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.

- 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. The interpretation may be applied on a fully retrospective basis. Entities 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.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

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.

On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments and Estimates

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

Judgments

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

Determination of Significant Influence over an Associate

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

Operating Lease - Group as Lessee

The Group has entered into a commercial property lease on its office. Based on an evaluation of the terms and conditions of the lease agreement, 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 lessor. Thus, the lease are classified as operating lease.

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 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 2016, 2015 and 2014. The carrying amount of the investment in NOW Telecom amounted to ₱1,289,278,350 as of December 31, 2016, 2015 and 2014 (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 ₱5,685,685, ₱4,033,832 and ₱6,619,366 in 2016, 2015 and 2014, 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 ₱238,651,640, ₱185,331,501 and ₱152,318,209 as of December 31, 2016, 2015 and 2014, 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 ₱2,214,569, ₱3,567,678 and ₱4,986,825 for the years ended December 31, 2016, 2015 and 2014, respectively (see Notes 7 and 14). The aggregate net book values of property and equipment and computer software amounted to ₱6,618,907, ₱3,381,639 and ₱6,710,239 as of December 31, 2016, 2015 and 2014, 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, ₱158,767 and ₱547,503 in 2016, 2015 and 2014, respectively (see Note 5). The aggregate carrying values of property and equipment, computer software and CWTs amounted to ₱10,429,873, ₱7,284,468 and ₱10,085,978 as of December 31, 2016, 2015 and 2014 respectively (see Notes 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, and allowance for impairment on trade and other receivables totaling to ₱30,227,110, ₱74,849,543 and ₱152,272,986 as of December 31, 2016, 2015 and

2014, 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

	2016	2015	2014
Trade receivables:			
Related parties (see Note 9)	**₱101,220,311**	₱64,063,924	₱33,032,742
Third parties	**24,581,615**	27,446,304	20,935,910
Advances to officers and personnel	**1,355,118**	1,217,171	4,739,370
Others (see Note 9)	**2,211,771**	2,211,771	2,211,771
	129,368,815	94,939,170	60,919,793
Less allowance for impairment losses	**13,836,447**	13,150,762	9,116,930
	₱115,532,368	₱81,788,408	₱51,802,863

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 pertain to the 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:

	2016	2015	2014
Balance at beginning of year	**₱13,150,762**	₱9,116,930	₱2,497,564
Provisions for the year (see Note 14)	**685,685**	4,033,832	6,619,366
Balance at end of year	**₱13,836,447**	₱13,150,762	₱9,116,930

5. Other Current Assets

	2016	2015	2014
CWT - net	**₱3,810,966**	₱3,902,828	₱3,375,738
Prepayments	**3,417,471**	162,431	118,678
Input VAT	**285,426**	–	480,515
Others	**145,350**	112,832	97,189
	₱7,659,213	₱4,178,091	₱4,072,120

CWT is net of allowance for impairment losses amounting to ₱706,270 as of December 31, 2016 and 2015, and ₱547,503 as of December 31, 2014.

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

	2016	2015	2014
Balance at beginning of year	**₱706,270**	₱547,503	₱–
Provisions for the year (see Note 14)	**–**	158,767	547,503
Balance at end of year	**₱706,270**	₱706,270	₱547,503

6. Investments and Advances

	2016	2015	2014
AFS financial asset	**₱1,289,278,350**	₱1,289,278,350	₱1,289,278,350
Advances to affiliates	**23,592,818**	28,592,818	28,592,818
	₱1,312,871,168	₱1,317,871,168	₱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.

As of December 31, 2016, 2015 and 2014, 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 Associate and Advances to Affiliates

a. *Softweb Consulting, Inc.*

   Investment in 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, 2016, 2015 and 2014, 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, 2016, 2015 and 2014 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, 2016, 2015 and 2014 amounted to ₱7,077,304, ₱7,265,533 and ₱6,618,855, respectively.

   Advances
   As of December 31, 2016, 2015 and 2014, advances to Softweb amounted 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 12, 2017 (see Note 9).

7. **Property and Equipment**

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 (see 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 (see 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

2014

	Leasehold Improvements	Transportation Equipment	Office Equipment	Furniture and Fixtures	Total
Cost:					
Balances at beginning of year	₱4,856,570	₱15,169,919	₱11,201,287	₱1,393,888	₱32,621,664
Additions	80,876	–	–	–	80,876
Balances at end of year	4,937,446	15,169,919	11,201,287	1,393,888	32,702,540
Accumulated depreciation and amortization:					
Balances at beginning of year	2,430,199	9,056,032	9,107,349	871,503	21,465,083
Depreciation and amortization for the year (see Note 14)	1,013,574	3,150,484	513,078	108,118	4,785,254
Balances at end of year	3,443,773	12,206,516	9,620,427	979,621	26,250,337
Net book value	₱1,493,673	₱2,963,403	₱1,580,860	₱414,267	₱6,452,203

Transportation equipment includes vehicles under finance lease agreements (see Note 10). The aggregate carrying value of leased transportation equipment amounted to nil as of December 31, 2016 and 2015, and ₱

801,146 as of December 31, 2014.

Cost of fully depreciated assets still in use amounted to ₱17,134,057, ₱16,757,039 and ₱4,679,362 as of December 31, 2016, 2015 and 2014, respectively.

8. Accounts Payable and Accrued Expenses

	2016	2015	2014
Trade payables:			
Third parties	**₱22,510,846**	₱32,363,996	₱20,736,026
Related parties (Note 9)	**18,808,706**	25,112,678	28,242,744
Accrued expenses:			
Interest (Note 9)	**59,903,586**	59,903,586	59,903,586
Others	**8,432,065**	8,826,227	7,908,775
Deferred output VAT	**9,265,728**	6,055,944	2,966,931
Withholding tax payable	**721,643**	664,630	638,551
	₱119,642,574	₱132,927,061	₱120,396,613

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, 2016, 2015 and 2014 amounted to ₱51,346,501, ₱31,408,455 and ₱23,720,567, 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 ₱27,030,711, ₱26,563,678 and ₱26,096,645, respectively. IBI is an entity under common control.

c. As of December 31, 2016, 2015 and 2014 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, 2016, 2015 and 2014 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 ₱15,450,244, ₱19,719,161 and ₱26,207,689 as of December 31, 2016, 2015 and 2014, 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 ₱6,176,177, ₱6,858,809, and ₱5,829,249 in 2016, 2015 and 2014, 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 an additional amount owed to related party amounted to nil in 2016 and 2015 and ₱17,756,021 in 2014.

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, 2016, 2015 and 2014 (see Note 8). Due to Velarde, Inc. presented as part of "Due to related parties" amounted to ₱ 68,322,816, ₱ 223,458,035 and ₱ 394,167,083 as of December 31, 2016, 2015 and 2014, 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 2016, 2015 and 2014 reflected as part of "Others" in revenue.
The Group has outstanding trade receivables to Velarde, Inc. amounting to ₱1,440,000, ₱1,200,000 and ₱960,000 as of December 31, 2016, 2015 and 2014, respectively.

g. The Group entered into a non-interest-bearing loan agreement with Porteon Electric Vehicles, Inc. (Porteon). As of December 31, 2016, 2015 and 2014, 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 2016, 2015 and 2014. In connection with this, the related due to I-College amounted to ₱4,806,612, ₱3,876,300 and ₱2,945,987 as of December 31, 2016, 2015 and 2014, respectively.

i. The Group sells IBM licenses to Softweb, an associate. Sales of IBM license to Softweb amounted to ₱ 5,412,232, ₱12,088,054 and ₱2,792,846 in 2016, 2015 and 2014.

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. 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. Service revenue from GHT and Newsnet amounted to ₱10,000,000 each in 2015 reflected as part of "Service fees" in revenue.

l. *Infrastructure build-up and technical services*
   In 2016, the Group entered into contracts with GHT, Newsnet and NOW Telecom whereas the Group 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. Total of six hubs were completed for GHT and Newsnet in 2016. Service revenue recognized in 2016 amounts to ₱15,000,000 each for GHT and Newsnet. Service revenue recognized in 2016 for the technical service related to Rohill TetraNode System provided by the Group to NOW Telecom amounts to ₱7,500,000.

m. *Technology consultancy*
   Included in the contract entered in 2016, the Parent Company will provide technology consultancy services for a period of ten (10) years with an annual fee of ₱450,000 each for GHT and Newsnet. Service revenue recognized in 2016 amounts to ₱450,000 each for GHT and Newsnet.

n. *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.

Related parties	Category	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**	**₱73,626,954**	**₱–**	**₱–**	**₱68,322,816**	**₱–**	**₱–**	**On demand**	**Unsecured**
	2015	170,709,048	–	–	223,458,035	–	–	On demand	Unsecured
		45,143,729	–	–	394,167,083	–	–	On demand	Unsecured
	Management fee	**240,000**	**–**	**1,440,000**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		240,000	–	1,200,000	–	–	–	On demand	Unsecured, no impairment
		240,000	–	960,000	–	–	–	On demand	Unsecured, no impairment
	Interest	**–**	**–**	**–**	**–**	**59,903,586**	**–**	**On demand**	**Unsecured**
		–	–	–	–	59,903,586	–	On demand	Unsecured
		17,756,021	–	–	–	59,903,586	–	On demand	Unsecured
GHI	**Advances**	**–**	**–**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured**
		–	–	–	95,536	2,035,055	–	On demand	Unsecured
		–	–	–	95,536	2,035,055	–	On demand	Unsecured
EII	**Advances**	**–**	**40,848**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		–	40,848	–	–	–	–	On demand	Unsecured, no impairment
		–	40,848	–	–	–	–	On demand	Unsecured, no impairment
	Leases	**–**	**–**	**–**	**2,902,918**	**–**	**–**	**On demand**	**Unsecured**
		–	–	–	2,902,918	–	–	On demand	Unsecured
		–	–	–	2,902,918	–	–	On demand	Unsecured
Affiliates									
NOW Telecom	**Advances**	**2,704,687**	**51,346,501**	**–**	**878,208**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		7,816,287	31,408,455	–	749,806	–	–	On demand	Unsecured, no impairment
		5,320,038	23,720,567	–	621,407	–	–	On demand	Unsecured, no impairment
	Services	**7,500,000**	**–**	**8,400,000**	**–**	**–**	**–**	**On demand**	**Unsecured, no**

Related parties	Category	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
									impairment
		–	–	–	–	–	–	–	
		–	–	–	–	–	–	–	
(Forward)									
KPSC	**Advances**	**₱–**	**₱204,708**	**₱–**	**₱–**	**₱–**	**₱–**	**On demand**	**Unsecured**
		2,160	204,708	–	–	–	–	On demand	Unsecured
		–	202,548	–	–	–	–	On demand	Unsecured
	Outside services	**50,716,312**	**–**	**–**	**–**	**15,450,244**	**–**	**On demand**	**Unsecured**
		46,656,791	–	–	–	19,719,161	–	On demand	Unsecured
		44,796,755	–	–	–	26,207,689	–	On demand	Unsecured
IBI	**Advances**	**–**	**15,567,752**	**–**	**–**	**–**	**–**	**Due within 5 years**	**Unsecured, no impairment**
		–	15,567,752	–	–	–	–	Due within 5 years	Unsecured, no impairment
		–	15,567,752	–	–	–	–	On demand	Unsecured, no impairment
	Interest	**467,033**	**11,462,959**	**–**	**–**	**–**	**–**	**Due within 5 years**	**Unsecured, no impairment**
		467,033	10,995,926	–	–	–	–	Due within 5 years	Unsecured, no impairment
		467,033	10,528,893	–	–	–	–	On demand	Unsecured, no impairment
Asian Institute of Journalism and Communication	**Advances**	**1,039**	**471,061**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2,661	470,022	–	–	–	–	On demand	Unsecured, no impairment
		233,228	472,683	–	–	–	–	On demand	Unsecured, no impairment

Related parties	Category	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
Paradiso Verde, Inc.	**Advances**	**–**	**–**	**–**	**–**	**3,358,462**	**–**	**On demand**	**Unsecured**
		–	–	–	–	3,358,462	–	On demand	Unsecured
		–	–	–	7,940,563	–	–	–	Unsecured
	Services	**–**	**–**	**–**	**605,212**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		368,195	–	–	605,212	–	–	On demand	Unsecured, no impairment
		973,407	–	–	973,407	–	–	On demand	Unsecured, no impairment
(Forward)									
Porteon	**Loans**	**₱–**	**₱2,160,300**	**₱–**	**₱–**	**₱–**	**₱–**	**On demand**	**Unsecured, no impairment**
		–	2,160,300	–	–	–	–	On demand	Unsecured, no impairment
		–	2,160,300	–	–	–	–	On demand	Unsecured, no impairment
Newsnet	**Advances**	**4,669,416**	**10,736,960**	**–**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		947,948	6,067,544	–	–	–	–	On-demand	Unsecured, no impairment
		5,119,596	5,119,596	–	–	–	–	–	
	Services	**15,450,000**	**–**	**28,504,000**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		10,000,000	–	11,200,000	–	–	–	On-demand	Unsecured, no impairment
		–	–	–	–	–	–	–	
GHT	**Advances**	**1,177,121**	**6,177,301**	**–**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		180	5,000,180	–	–	–	–	On-demand	Unsecured, no impairment
		5,000,000	5,000,000	–	–	–	–	–	
	Services	**15,450,000**	**–**	**28,504,000**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		10,000,000	–	11,200,000	–	–	–	–	Unsecured, no

Related parties	Category	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
		–	–	–	–	–	–	–	impairment
Holycow	**Loans**	**–**	**–**	**2,211,771**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		–	–	2,211,771	–	–	–	On demand	Unsecured, no impairment
		–	–	2,211,771	–	–	–	On demand	Unsecured, no impairment
	Interest	**–**	**156,000**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		–	156,000	–	–	–	–	On demand	Unsecured, no impairment
		–	156,000	–	–	–	–	On demand	Unsecured, no impairment
	Advances	–	–	–	–	–	**9,248,449**	**On demand**	**Unsecured, no impairment**
		–	–	–	–	–	9,248,449	On demand	Unsecured, no impairment
		–	–	–	–	–	9,248,449	On demand	Unsecured, no impairment
Thumbmob	**Advances**	–	–	–	–	–	**14,344,369**	**On demand**	**Unsecured, no impairment**
		–	–	–	–	–	14,344,369	On demand	Unsecured, no impairment
		–	–	–	–	–	14,344,369	On demand	Unsecured, no impairment
(Forward)									
I-College	**Advances**	**₱–**	**₱720**	**₱–**	**₱–**	**₱–**	**₱–**	**On demand**	**Unsecured, no impairment**
		–	720	–	–	–	–	On demand	Unsecured, no impairment
		–	–	–	–	–	–	–	
	Lease	**930,313**	**–**	**–**	**4,806,612**	**–**	**–**	**On demand**	**Unsecured**
		930,313	–	–	3,876,300	–	–	On demand	Unsecured
		930,313	–	–	2,945,987	–	–	On demand	Unsecured

Related parties	Category	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**	**–**	**487,344**	**2,380,860**	**4,816**	**–**	**–**	**On demand**	**Unsecured**
		1,389,259	2,163,820	2,380,860	6,390,573	–	5,000,000	On demand	Unsecured
		4,403,554	8,239,341	2,380,860	1,704,311	–	5,000,000	On demand	Unsecured
	Loans	**–**	**714,000**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		–	714,000	–	–	–	–	On demand	Unsecured, no impairment
		–	714,000	–	–	–	–	On demand	Unsecured, no impairment
	Sales	**5,412,232**	**–**	**16,401,451**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		12,088,054	–	22,493,064	–	–	–	On demand	Unsecured, no impairment
		2,792,846	–	14,101,882	–	–	–	On demand	Unsecured, no impairment
	Management fee	**–**	**–**	**15,590,000**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		–	–	15,590,000	–	–	–	On demand	Unsecured, no impairment
		4,800,000	–	15,590,000	–	–	–	On demand	Unsecured, no impairment
			₱99,526,454	**₱103,432,082**	**₱77,520,582**	**₱78,712,292**	**₱23,592,818**		
			₱74,950,275	₱66,275,695	₱238,078,380	₱85,016,264	₱28,592,818		
			₱71,922,528	₱35,244,513	₱411,351,212	₱88,146,330	₱28,592,818		

Summary of related party transactions affecting consolidated statements of income:

Related parties	Category	Revenues	Cost of sales and services	General and administrative expenses
Velarde Inc.	**Management Fee**	**₱240,000**	**₱–**	**₱–**
		240,000	–	–
		240,000	–	–
	Interest	**–**	**–**	**–**
		–	–	–
		–	–	17,756,021
NOW Telecom	**Services**	**7,500,000**	**–**	**–**
		–	–	–
		–	–	–
	Cost of data services	**–**	**779,715**	**–**
		–	–	–
		–	–	–
Newsnet	**Services**	**15,450,000**	**–**	**–**
		–	–	–
		–	–	–
	Cost of data services	**–**	**1,696,912**	**–**
		–	–	–
		–	–	–
GHT	**Services**	**15,450,000**	**–**	**–**
		–	–	–
		–	–	–
IBI	**Interest**	**467,033**	**–**	**–**
		–	–	–
		–	–	–
KPSC	**Outside services**	**–**	**43,226,619**	**7,489,693**
		–	40,054,599	6,602,192
		–	41,662,334	3,134,421
Softweb	**Sales**	**5,412,232**	**–**	**–**
		12,088,054	–	–
		2,792,846	–	–
	Management fee	**–**	**–**	**–**
		–	–	–
		4,800,000	–	–
I-College	**Lease**	**–**	**–**	**930,313**
		–	–	930,313
		–	–	930,313
		₱44,519,265	**₱45,703,246**	**₱8,420,006**
		₱12,328,054	₱40,054,599	₱7,532,505
		₱7,832,846	₱41,662,334	₱21,820,755

10. **Lease Commitments**

The Group purchased transportation equipment through four-year financing agreements which are payable on a monthly basis. The Group recognized the obligation and pays to Velarde, Inc. The assets were capitalized since the lease term is for the major part of the economic life of the assets.

The future minimum lease payments of the Group for the obligations under finance lease are amounted to nil as of December 31, 2016 and 2015 and ₱675,433 as of December 31, 2014, respectively.

	2014
Within one year	₱701,747
After one year but not more than five (5) years	–
Total minimum lease obligations	701,747
Less interest portion	–
Present value of minimum lease obligations	701,747
Less current portion	701,747
Noncurrent portion	₱–

Interest expense related to the lease commitments amounted to nil, ₱26,314 and ₱252,359 in 2016, 2015 and 2014, respectively.

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 included under “Rental”.

a. 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 Group renewed its sublease agreement for the periods 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.

b. On April 16, 2013, the Group entered into a contract of lease with 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 March 2016, the parties agreed to terminate the said agreement.

   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.

Future minimum lease payment related to the lease as of December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Within one year	**₱917,364**	₱930,312	₱930,312
After one year but not more than five years	**–**	775,260	1,705,572
	₱917,364	₱1,705,572	₱2,635,884

11. **Loans Payable**

<u>Metropolitan Bank and Trust Company and Bank of Makati loan</u>

In September 2012, the Parent 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 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 sixty monthly repayments of ₱11,754 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 ₱87,426 and ₱449,107, respectively, as of December 31, 2016.

Interest expense recognized on this loan amounted to ₱1,607 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 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 12, 2017. As of December 31, 2016, 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		
	2016	2015	2014
Authorized capital stock			
Common stock, ₱1 par value:			
Balance at beginning of the year	**2,120,000,000**	1,320,000,000	1,320,000,000
Increase during the year	**–**	800,000,000	–
Balance at end of the year	**2,120,000,000**	2,120,000,000	1,320,000,000

Movements in the outstanding capital stock are as follows:

	Number of shares		
	2016	2015	2014
Common stocks issued			
Balance at beginning of the year	**1,517,278,350**	1,317,278,350	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	1,317,278,350

	Amount		
	2016	2015	2014
Common stocks issued			
Balance at beginning of the year	**₱1,517,278,350**	₱1,317,278,350	₱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	₱1,317,278,350

13. Costs of Sales and Services

	2016	2015	2014
Cost of service:			
Outside services	**₱43,226,619**	₱40,054,599	₱43,119,594
Cost of data services	**3,204,621**	–	–
Cost of sales	**10,215,702**	35,545,753	18,956,087
	₱56,646,942	₱75,600,352	₱62,075,681

14. General and Administrative Expenses

	2016	2015	2014
Outside services	**₱7,489,693**	₱6,602,192	₱3,134,421
Provision for impairment loss on:			
Advances to affiliate (Note 6)	**5,000,000**	–	–
Trade and other receivables (Note 4)	**685,685**	4,033,832	6,619,366
Other current assets (Note 5)	**–**	158,767	547,503
Entertainment, amusement and recreation	**4,706,499**	2,430,290	1,270,642
Advertising and promotion	**4,524,439**	–	–
Communication	**4,109,582**	3,563,207	2,817,637
Professional fees	**2,918,643**	632,437	1,379,090
Office supplies	**2,441,318**	1,020,425	877,500
Depreciation and amortization (Note 7)	**2,214,569**	3,567,678	4,986,825
Rental (Note 10)	**1,728,730**	1,681,446	3,045,309
Transportation and travel	**1,702,362**	1,586,867	1,866,773
Salaries and other employee benefits	**1,301,160**	756,000	820,646
Taxes and licenses	**1,068,636**	2,473,879	867,666
Repairs and maintenance	**1,008,292**	353,177	348,738
Utilities	**982,225**	804,573	1,309,979
Insurance	**258,661**	271,898	269,943
Others	**1,260,642**	1,275,162	480,749
	₱43,401,136	₱31,211,830	₱30,642,787

15. **Income Taxes**

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

	2016	2015	2014
Statutory income tax at 30%	**₱1,407,532**	₱2,023,297	(₱11,506,157)
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses	**3,169,352**	2,393,591	6,304,039
Movement of unrecognized deferred income tax assets	**(2,382,463)**	(2,905,716)	5,332,385
Interest income subjected to final tax	**(1,157)**	(2,282)	(1,655)
	₱2,193,264	₱1,508,890	₱128,612

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:

	2016	2015	2014
Allowance for impairment on trade and other receivables	**₱13,836,447**	₱13,150,762	₱9,116,930
NOLCO	**14,677,498**	60,886,089	142,821,516
MCIT	**1,713,165**	812,692	334,540
	₱30,227,110	₱74,849,543	₱152,272,986

As of December 31, 2016, 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
2016	2019	₱565,624	₱903,836
2015	2018	1,593,769	680,717
2014	2017	12,518,105	128,612
		₱14,677,498	₱1,713,165

The following are the movements in NOLCO and MCIT:

	2016	2015	2014
NOLCO:			
Balances at beginning of year	**₱60,886,089**	₱142,821,516	₱213,170,570
Additions	**565,624**	1,593,769	12,518,105
Application	**(13,432,651)**	(13,548,316)	(2,373,187)
Expirations	**(33,341,564)**	(69,980,880)	(80,493,972)
Balances at end of year	**₱14,677,498**	₱60,886,089	₱142,821,516

	2016	2015	2014
MCIT:			
Balances at beginning of year	**₱812,692**	₱334,540	₱308,987
Additions	**903,836**	680,717	128,612
Expirations	**(3,363)**	(202,565)	(103,059)
Balances at end of year	**₱1,713,165**	₱812,692	₱334,540

16. **Basic/Diluted EPS**

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

	2016	2015	2014
Net income (loss) attributable to equity holders of the Parent (a)	**₱2,500,433**	₱5,236,704	(₱38,482,470)
Weighted average number of outstanding common shares for both basic and dilutive EPS (b)	**1,517,278,350**	1,317,278,350	1,317,278,350
Basic/dilutive earnings (loss) per share (a/b)	**₱0.0016**	₱0.0040	(₱0.0292)

As of December 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014, 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.

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**

**Except government payables*

2015

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				

	On demand	Within 1 year	More than 1 year	Total
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

**Except government payables*

2014

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				
Cash	₱2,006,757	₱–	₱–	₱2,006,757
Trade and other receivables	32,861,441	18,941,422	–	51,802,863
Due from related parties	71,922,528	–	–	71,922,528
	₱106,790,726	₱18,941,422	₱–	₱125,732,148
Financial liabilities:				
Accounts payable and accrued expenses*	₱88,395,668	₱30,488,522	₱–	₱118,884,190
Due to related parties	17,950,584	–	393,400,628	411,351,212
Future interest on loans payable	–	941,175	2,043,106	2,984,281
Loans payable	–	–	44,500,000	44,500,000
	₱106,346,252	₱31,429,697	₱439,943,734	₱577,719,683

**Except 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, 2016, 2015 and 2014.

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

	2014			
	Nether past due nor impaired	Past due but not impaired	Past due and impaired	Total
Financial assets:				
Cash	₱2,006,757	₱–	₱–	₱2,006,757
Trade and other receivables	16,558,350	35,244,513	9,116,930	60,919,793
Due from related parties	26,096,645	45,825,883	–	71,922,528
	₱44,661,752	₱81,070,396	₱9,116,930	₱134,849,078

As at December 31, 2016, 2015 and 2014, 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 ₱43,527,416, ₱58,056,063 and ₱44,661,752 as of December 31, 2016, 2015 and 2014 as standard grade financial assets. Standard grade financial assets are those that are current and collectible.

The Group has impaired receivables amounting to ₱13,836,447, ₱13,150,762 and ₱9,116,930 as of December 31, 2016, 2015 and 2014, 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 and have 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 5.9% and 5.7% as of December 31, 2016 and 2015, respectively (Level 3). The fair value of noncurrent amounts due from related party amounted to ₱24,144,646 and ₱22,742,540 as of December 31, 2016 and 2015, respectively. The carrying value of noncurrent amounts due from related party amounted to ₱27,030,711 and ₱26,563,678 as of December 31, 2016 and 2015, respectively.

Noncurrent Amounts Due to Related Party

The fair value of noncurrent amounts due to related party was based on discounted value of future cash flows using applicable credit-adjusted risk-free rates of 2.4% as of December 31, 2014 (Level 3). As of December 31, 2014, the fair value and carrying value of noncurrent amounts due to related party amounted to ₱367,096,703 and ₱394,167,083, respectively.

Noncurrent Loans Payable

The carrying amount of the loans payable as of December 31, 2016 and 2014 are estimated using the discounted cash flow methodology with the applicable credit-adjusted risk-free rates of 5.9% and 4.8%, respectively (Level 3). The fair value of noncurrent loans payable amounted to ₱337,186 and ₱42,471,963 as of December 31, 2016 and 2014, respectively. The carrying value of noncurrent loans payable amounted to ₱ 449,107 and ₱44,500,000 as of December 31, 2016 and 2014, respectively.

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, 2016, 2015 and 2014.

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, 2016, 2015 and 2014, 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:

	2016			
	IT Manpower and Resource Augmentation	**Software Licenses and services**	**Broadband services**	**Total**
Service fees	**₱43,412,235**	**₱41,230,381**	**₱5,981,141**	**₱90,623,757**
Sales	**–**	**13,048,685**	**–**	**13,048,685**
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**	**37,032,502**	**–**	**43,401,136**
Provision for income tax	**1,289,428**	**903,836**	**–**	**2,193,264**
Net income (loss)	**(941,749)**	**663,738**	**2,776,520**	**2,498,509**
Other information				
AFS financial asset	**–**	**1,289,278,350**	**–**	**1,289,278,350**
Capital expenditures	**133,928**	**970,358**	**4,347,551**	**5,451,837**
Segment assets	**2,456,753**	**1,541,218,536**	**3,442,034**	**1,543,675,289**
Segment liabilities	**32,070,469**	**162,269,220**	**–**	**194,339,689**
Depreciation and amortization	**39,062**	**1,269,990**	**905,517**	**2,214,569**

	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			
AFS financial asset	–	1,289,278,350	1,289,278,350
Capital expenditures	–	239,078	239,078
Segment assets	13,446,324	1,484,905,761	1,498,352,085
Segment liabilities	53,782,558	361,722,883	415,505,441
Depreciation and amortization	625,520	2,942,158	3,567,678

	2014		
	IT Manpower and Resource Augmentation	Software Licenses and services	Total
Service fees	₱38,580,090	₱8,451,386	₱47,031,476
Sales	–	21,235,363	21,235,363
Others	4,386	5,508,163	5,512,549
Total revenue	₱38,584,476	₱35,194,912	₱73,779,388
Costs of sales and services	₱33,312,486	₱28,763,195	₱62,075,681
General and administrative expense	5,980,615	24,662,172	30,642,787
Provision for income tax	–	128,612	128,612

	2014		
	IT Manpower and Resource Augmentation	Software Licenses and services	Total
Net loss	959,336	37,523,134	38,482,470
Other information			
AFS financial asset	–	1,289,278,350	1,289,278,350
Capital expenditures	–	80,876	80,876
Segment assets	13,587,236	1,440,961,467	1,454,548,703
Segment liabilities	52,828,004	524,095,254	576,923,258
Depreciation and amortization	874,338	4,112,487	4,986,825

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. Subsequent Events

a.) 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 Parent Company in i-Professional from 100% to 75%.

b.) On January 3, 2017, the Parent Company renewed its service agreement with KPSC for a period of (5) years beginning on the same day it was renewed. Subsequently, on January 31, 2017, both parties mutually agreed to terminate the service agreement following the change in the business operations of the Group.

c.) At the Joint Organizational and Regular Meeting of the Board of Directors of NOW Corporation held on 29 June 2017, the following were elected as officers and committee members:

<u>OFFICERS:</u>
Dr. Thomas G. Aquino – Chairman
Atty. Jose S. Alejandro – Vice-Chairman
Mr. Mel V. Velarde – President and CEO
Mr. Vicente I. Peñanueva – Treasurer and Chief Finance Officer
Mr. Andre Gian P. Aguirre – Chief Audit Executive
Atty. Angeline L. Macasaet – Corporate Secretary
Atty. Miguel Antonio S. Regal – Compliance Officer

<u>Nomination and Election Committee:</u>
Mr. Vicente Martin W. Araneta III, Chairman
Atty. Jose S. Alejandro
Atty. Marlou B. Ubano

<u>Audt and Risk Management Committee:</u>
Atty. Marlou B. Ubano, Chairman
Mr. Ramon Guillermo R. Tuazon
Arch. Gerard Bnn R. Bautista

<u>Compensation Committee:</u>
Dr. Thomas G. Aquino, Chairman

Atty. Marlou B. Ubano
Ms. Winnita V. Ysog

Related Party Transactions Committee
Mr. Domingo B. Bonifacio, Chairman
Atty. Lucas C. Carpio, Jr.
Atty. Marlou B. Ubano

Executive Committee:
Dr. Thomas G. Aquino, Chairman
Mr. Mel V. Velarde
Atty. Angeline L. Macasaet

d.) On 06 September 2017, the NOW Corporation received a Notice to Proceed from the Supreme Court of the Philippines for the Installation of Judiciary Email System (the "Project"), after the contract for the Project was signed and approved by the parties.

The Project, with a contract price of Php57,528,888.00 covers the installation of a private cloud-based, on-premise email and collaboration system that will set up an initial 7,000 email accounts for the judiciary. The Project is being undertaken by NOW Corporation together with its joint venture partner Accent Micro Technologies, Inc. (AMTI), utilizing the Integrated Business Machine (IBM) collaboration solution portfolio.

NOW CORPORATION
AND SUBSIDIARIES

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2016

Deficit, as adjusted to available for dividend distribution, beginning	(₱430,450,658)
Net income during the year	2,500,433
Deficit	(₱427,950,225)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation.

- Total Consolidated revenues in the third quarter of 2017 is Php101.601 Million, increased by 118.97% or Php55.202 Million from last year's 3rd quarter revenue of Php46.399 Million. The increase is due to the significant increase in Service Revenue from Php 36.589 Milion last year, it goes up to Php 87.546 Million this year. Service revenue pertains mainly to fees or income earned from the deployment by the Company of professionals to its clients to render IT-related solutions and services. Also, sales revenue increased by Php5.294 Million, from Php8.331 in 2016 to Php13.624 in 2017 and this was mainly due to increase in the sales revenue generated from broadband and software licenses

- Cost and Expenses for the third quarter of 2017 is Php99.432 Million, which is a significant increase from last year's third quarter cost and expense of Php71.053 Million. This was brought about by increase in cost of services of Php16.834 million from Php23.118 million in 2016 to Php39.956 Million in 2017. Other expenses which has a significant increase are Salaries and other benefits which has a Php5.591 million increase, outside services which has a Php6.500 million increase, representation which has a Php1.16 million increase, taxes and licenses which has an increase of Php 3.059 million and transportation and travel which has an increase of Php3.392 million.

- As of September 30, 2017, the total consolidated assets of the Company stood at Php1.606 Billion compared with last year's Php1.509 Billion or an increase of Php96.834 Million. Current Assets increased by Php72.517 Million or 39.05% from Php185.685 Million in third quarter of 2016 to Php258.203 Million in third quarter of 2017. This was due to the increase in Trade and other receivables by Php 64.677 Million, from last year's Php 83.022 Million, increased to this year's Php 147.699 Million, Amounts owed to related parties decreased by Php4.561 Million from last year's Php 95.382, it decreased to Php 90.821 Million this year. Other current assets increased by Php12.317 million. Cash increased by Php 0.084 Million, from Php2.224 Million in third quarter of 2016, it increases to Php 2.309 Million in 2017. Non-Current Assets increased to Php1.347 Billion from last year's Php 1.323 Billion.

- Current liabilities increased by Php77.426 Million or 43.44% from Php178.227 Million in third quarter of 2016 to Php255.653 Million in 2017. Accounts Payable and accrued expenses increased by Php18.338 Million or 16.33%, from Php112.293 Million in third quarter of 2016 it increased to Php130.631 Million in 2017. Non-Current Liabilities increased by Php 0.377 Million.

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

- On December 22, 2016, the Company availed a chattel mortgage amounting to Php564K from a local universal bank for the purchase of a vehicle, which serves as the property mortgage. The new loan requires 60 monthly repayments until November 23, 2021.

As of September 30, 2017, the total Assets stood at Php1.606 Billion, Liabilities at Php256.030 Million and Equity at Php1.350 Billion.

Part II. Other Information

Item 1. Financial Soundness Indicators

See **Annex "A**".

There are no known trends, demand, commitments, events or uncertainties that will have a material impact on the Company's liquidity, nor any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations. There are no significant elements of income or loss that did not arise from the Company's continuing operations.

There are no material changes from period to period of the financial statements which include vertical and horizontal analyses of any material item.

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

As the business volume builds up progressively, the Company also plans to beef up its organization by engaging the right talents particularly to join the telecommunications, media, information technology and product development and marketing teams. The Company plans to spend around PhP30 million to PhP40 million in the next two (2) years for capital expenditures in connection with the launch of its new products and services.

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

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer **MR. MEL V. VELARDE**

Signature and Title **President**

Date **November 10, 2017**

Principal Financial/Accounting Officer/Controller **MR. VICENTE I. PENANUEVA**

Signature and Title **Chief Financial Officer**

Date **November 10, 2017**

ANNEX "A"

Schedule of Financial Indicators
For the Period September 2017 and 2016

		September	
		2017	2016
Liquidity	Current Ratio	1.01	1.04
Solvency	Debt to Equity Ratio	0.190	0.134
Equity	Asset to Equity Ratio	1.190	1.134
Interest	Interest Rate Coverage Ratio	55.92	-33.28
Profitability	Profit Margin	46.92%	27.45%
	Return on Assets	0.00005%	-1.68%
	Return on Equity	0.00006%	-1.90%
	Book Value per share	0.89	0.75
	Earnings per share	0.00006	-0.0113

The Financial Indicators are computed as follows:

Liquidity:	Current Ratio = Current Assets/Current Liabilities
Solvency:	Debt to Equity Ratio = Total Liabilities/Total Stockholders' Equity
Equity:	Asset to Equity Ratio = Total Assets/Total Stockholders' Equity
Interest:	Interest Rate Coverage Ratio = Earnings Before Interest and Taxes/Interest Expense
Profitability:	Profit Margin %: Profit margin = Gross Profit/Total Revenue x 100
	Return on Assets %: Return on assets = Net Income/Total Assets x 100
	Return on Equity % = Net Income/Total Stockholders' Equity x 100
	Book Value per share = Total Stockholders' Equity/Average Outstanding Shares
	Earning per share = Net Income/Average Outstanding Shares