111142018000066

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	A199600179
Company Name	NOW CORPORATION
Industry Classification	Telecommunications
Company Type	Stock Corporation

Document Information

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Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
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C O V E R   S H E E T

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C O M P A N Y   N A M E

NOW CORPORATION

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

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

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

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
info@now-corp.com	(632) 750-0211 / (632) 750-0224	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
69	06/07	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. Miguel Antonio S. Regal	miguel.regal@now-corp.com	750-0211	N/A

CONTACT PERSON's ADDRESS

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

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

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

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, 2018**

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

METRO MANILA, 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 **(+632) 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

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current Assets		
Cash	9,273,795	10,694,196
Trade and Other receivables	231,602,660	167,943,224
Amount owed to related parties	167,557,556	95,955,268
Other current assets	69,500,299	47,364,921
Total Current Assets	477,934,310	321,957,609
Noncurrent Assets		
Investments in shares of stocks	1,289,278,350	1,289,278,350
Advances from Affiliates	5,999,500	23,592,818
Due from related parties – net of current	11,929,992	27,497,744
Property and equipment – net	11,847,354	8,711,463
Other noncurrent assets	905,207	739,715
Total Noncurrent Assets	1,319,960,403	1,349,820,090
TOTAL ASSETS	1,797,894,713	1,671,777,699
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	132,742,161	164,067,259
Due to related parties	250,731,545	151,454,345
Loans Payable- current	50,141,048	97,337
Total Current Liabilities	433,614,754	315,618,941
Noncurrent Liabilities		
Loans Payable- net of current portion	235,889	351,614
Other noncurrent liabilities	1,434,547	

Total Noncurrent Liabilities	1,670,436	351,614
Total Liabilities	435,285,190	315,970,555
Equity Attributable to Equity Holders of the Parent		
Common	1,517,278,350	1,517,278,350
Deposit for future stock subscription	264,000,000	264,000,000
Retained Earnings	- 414,355,789	-421,158,169
Revaluation	1,152,963	1,152,963
Equity Reserve	- 1,978,794	- 1,978,794
Non-controlling Interest	- 3,487,206	-3,487,206
Total Equity	1,362,609,523	1,355,807,144
TOTAL LIBILITIES AND EQUITY	1,797,894,713	1,671,777,699

See accompanying Notes to Consolidated Financial Statements

NOW CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
REVENUES		
Service Revenue	105,375,501	126,666,201
Sales	22,045,124	21,698,063
Others	151,601	610,161
Total Revenues	**127,572,226**	**148,974,425**
COST AND EXPENSES		
Cost of services	35,153,019	53,822,587
Cost of sales	17,590,694	31,980,891
COST OF SALES AND SERVICES	**52,743,713**	**85,803,478**
GROSS INCOME	**74,828,513**	**63,170,947**
Salaries and other benefits	25,828,299	13,772,096
Outside Services	2,156,668	6,988,982
Rental	6,705,548	1,739,036
Taxes and licenses	1,775,274	4,095,999
Professional fees	555,469	2,495,621
Light and water	166,188	284,014
Transportation and travel	5,245,560	5,026,897
Advertising and promotion	3,770,509	2,367,961
Depreciation and amortization	4,948,413	4,411,001
Repairs and maintenance	145,724	180,576

Communication	4,127,095	4,496,294
Representation	6,424,418	6,227,299
Office supplies	754,816	793,637
Others	646,254	1,076,501
Insurance	206,839	199,904
Provision on impairment loss on receivables		1,940
GENERAL AND ADMINISTRATIVE EXPENSES	**63,457,073**	**54,077,860**
OTHER CHARGES		
Interest	1,665,813	52,015
Others	0	79,898
TOTAL OTHER CHARGES	**1,665,813**	**131,913**
INCOME (LOSS) BEFORE INCOME TAX	**9,705,627**	**8,961,174**
PROVISION FOR INCOME TAX		
Current	3,001,856	2,670,958
Deferred	0	0
NET INCOME (LOSS)	**6,703,770**	**6,290,216**
Currency Translation Adjustment – Gain (Loss)	0	0
TOTAL COMPREHENSIVE INCOME	6,703,770	6,290,216
Non-controlling interests	0	0
	6,703,770	6,290,216
Basic /Diluted Earnings (Loss) Per Share	0.0044	0.0045

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
NET INCOME (LOSS) ATRRIBUTABLE TO:		
Equity holders of the Parent	6,703,770	6,290,216
Non-controlling interests		
	6,703,770	6,290,216
OTHER COMPREHENSIVE INCOME		
Cumulative translation adjustment	-	12,528
TOTAL COMPREHENSIVE INCOME (LOSS)	6,703,770	6,302,744
ATTRIBUTABLE TO:		
Equity holders of the parent	6,703,770	6,804,584
Non-controlling interest		-501,840
	6,703,770	6,302,744

See accompanying Notes to Financial Statements

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
CAPITAL STOCK		
Balance at the beginning of the year (Note 12)	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
RETAINED EARNINGS		
Balance at beginning of the year	-421,158,169	-427,950,225
Prior period adjustment	98,610	
Adjusted balance at beginning of the year	-421,059,559	-427,950,225
Net Income (loss)	6,703,770	6,792,056
Deficit	-414,355,789	-421,158,169
Equity Reserve	-1,978,794	-1,978,794
Cumulative Translation Adjustment	1,152,963	1,152,963
	-415,181,620	-421,984,000
Non-controlling equity	-3,487,206	-3,487,206
Balance at end of year	-418,668,826	-425,471,206
Total Equity	1,362,609,524	1,355,807,144

See accompanying Notes to Consolidated Financial Statements

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Income (Loss) before income tax	9,705,627	8,961,174
Adjustments for:		
Interest and Other charges	1,665,813	52,015
Depreciation and amortization	4,948,413	4,411,001
Provision on Impairment loss on receivables	-	1,940
Unrealized foreign exchange loss	-	-
Loss on disposal of property and equipment	-	-
Interest income	-151,601	- 472,507

Straight line adjustment on rent		5,933
Equity in net losses of associates	-	-
Operating income (loss) before working capital changes	16,168,252	12,959,556
Decrease (increase) in:		
Trade and other receivables	-63,659,437	-52,412,796
Other current assets	-22,135,377	-16,065,878
Increase (decrease)		
Accounts payable and accrued expenses	-31,325,098	20,778,922
Net cash generated from (used in) operations	-100,951,659	-34,740,196
Interest received	151,601	5,474
Income taxes paid	-3,001,856	-2,670,958
Interest paid	-1,665,813	-52,015
Net cash flows from (used in) operating activities	-105,467,727	-37,457,695
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in:		
Amounts owed to related parties	-74,309,943	-23,446,997
Other noncurrent assets	-180,247	-354,465
Acquisition of property and equipment (Note 7)	-8,069,549	-6,458,047
Sale of non-controlling interest- iProfessional	-	168,800
Advances to affiliates	17,593,318	-
Due from related parties- net of current	15,567,752	-
Net cash flows from (used in) investing activities	-46,691,014	-30,090,709
CASH FLOWS FROM A FINANCING ACTIVITY		
Increase in amounts owed to related parties	99,375,808	73,933,763
Proceeds from Loan	50,000,000	
Payment of loans payable	-72,014	-87,582
Increase in Other Non-Current Liabilities	1,434,547	-
Net cash flows from financing activities	150,738,341	73,846,181
EFFECT OF EXCHANGE RATE CHANGES ON CASH		-
NET INCREASE (DECREASE) IN CASH	-1,420,401	6,297,777
CASH AT BEGINNING OF THE YEAR	10,694,196	4,396,419
CASH AT END OF THE YEAR	9,273,795	10,694,196

See accompanying Notes to Consolidated Financial Statements

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	YTD January to September	
	2018	2017
ASSETS		
Current Assets		
Cash	9,273,795	2,308,647
Trade and Other receivables	231,602,660	147,699,002
Amount owed to related parties	167,557,556	90,821,183
Other current assets	69,500,299	17,373,999
Total Current Assets	477,934,310	258,202,831
Noncurrent Assets		
Investments in shares of stocks	1,289,278,350	1,289,278,350
Advances from Affiliates	5,999,500	23,592,818
Due from related parties – net of current	11,929,992	27,380,986
Property and equipment – net	11,847,354	6,417,310
Other noncurrent assets	905,207	756,477
Total Noncurrent Assets	1,319,960,403	1,347,425,941
TOTAL ASSETS	1,797,894,713	1,605,628,772
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	132,742,161	130,630,755
Due to related parties	250,731,545	124,927,606
Loans Payable- current	50,141,048	94,759
Total Current Liabilities	433,614,754	255,653,120
Noncurrent Liabilities		
Loans Payable- net of current portion	235,889	376,937
Other noncurrent liabilities	1,434,547	
Total Noncurrent Liabilities	1,670,436	376,937

Total Liabilities	435,285,190	256,030,057
Equity Attributable to Equity Holders of the Parent		
Common	1,517,278,350	1,517,278,350
Deposit for future stock subscription	264,000,000	264,000,000
Retained Earnings	-414,355,789	- 427,602,972
Revaluation	1,152,963	1,140,435
Equity Reserve	-1,978,794	-1,978,794
Non-controlling Interest	-3,487,206	-3,238,304
Total Equity	1,362,609,523	1,349,598,715
TOTAL LIBILITIES AND EQUITY	1,797,894,713	1,605,628,772

See accompanying Notes to Consolidated Financial Statements

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	YTD JAN TO SEPT	
	2018	**2017**
REVENUES		
Service Revenue	105,375,501	87,546,095
Sales	22,045,124	13,624,370
Others	151,601	430,465
TOTAL REVENUES	**127,572,226**	**101,600,930**
COST AND EXPENSES		
Cost of services	35,153,019	39,955,983
Cost of sales	17,590,694	13,977,321
COST OF SALES AND SERVICES	**52,743,713**	**53,933,304**
GROSS INCOME	**74,828,513**	**47,667,626**
Salaries and other benefits	25,828,299	9,957,491
Outside Services	2,156,668	11,915,535
Rental	6,705,548	1,152,919
Taxes and licenses	1,775,274	3,936,207
Professional fees	555,469	1,408,157
Light and water	166,188	196,703
Transportation and travel	5,245,560	4,573,896
Advertising and promotion	3,770,509	1,108,389
Depreciation and amortization	4,948,413	2,733,520
Repairs and maintenance	145,724	396,129
Communication	4,127,095	2,035,645

Representation	6,424,418	4,867,885
Office supplies	754,816	536,814
Others	646,254	489,946
Insurance	206,839	149,770
GENERAL AND ADMINISTRATIVE EXPENSES	**63,457,073**	**99,392,310**
OTHER CHARGES		
Interest	1,665,813	39,497
Others	0	0
TOTAL OTHER CHARGES	**1,665,813**	**39,497**
INCOME (LOSS) BEFORE INCOME TAX	**9,705,627**	**2,169,123**
PROVISION FOR INCOME TAX		
Current	3,001,856	2,084,361
Deferred	0	0
NET INCOME (LOSS)	**6,703,770**	**84,762**
Currency Translation Adjustment – Gain (Loss)	0	0
TOTAL COMPREHENSIVE INCOME	6,703,770	84,762
Non-controlling interests	0	0
	6,703,770	84,762
Basic /Diluted Earnings (Loss) Per Share	0.0044	0.0002

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

	YTD JANUARY TO SEPTEMBER	
	2018	**2017**
NET INCOME (LOSS) ATRRIBUTABLE TO:		
Equity holders of the Parent	6,703,770	84,762
Non-controlling interests		
	6,703,770	84,762
OTHER COMPREHENSIVE INCOME		
Cumulative translation adjustment	-	0
TOTAL COMPREHENSIVE INCOME (LOSS)	6,703,770	84,762
ATTRIBUTABLE TO:		
Equity holders of the parent	6,703,770	84,762
Non-controlling interest		0
	6,703,770	84,762

See accompanying Notes to Financial Statements

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	YTD JAN TO SEPT 30	
	2018	**2017**
CAPITAL STOCK		
Balance at the beginning of the year (Note 12)	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
RETAINED EARNINGS		
Balance at beginning of the year	-421,158,169	-427,950,225
Prior period adjustment	98,610	
Adjusted balance at beginning of the year	-421,059,559	-427,950,225
Net Income (loss)	6,703,770	337,700
Deficit	-414,355,789	-427,612,525
Equity Reserve	-1,978,794	-1,978,794
Cumulative Translation Adjustment	1,152,963	1,149,988
	-415,181,620	-428,441,331
Non-controlling equity	-3,487,206	-3,238,304
Balance at end of year	-418,668,826	-431,679,635
Total Equity	1,362,609,524	1,349,598,715

See accompanying Notes to Consolidated Financial Statements

NOW CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YTD January to September

	2018	2017
Income (Loss) before income tax	9,705,627	2,169,123
Adjustments for:		
Interest and Other charges(Note 9 & 11)	1,665,813	39,497
Depreciation and amortization (Note 7 & 14)	4,948,413	2,733,520
Provision on Impairment loss on receivables (Note 4 and 14)	-	
Unrealized foreign exchange loss	-	
Loss on disposal of property and equipment	-	
Interest income	-151,601	-353,446
Straight line adjustment on rent	-	-
Equity in net losses of associates (Note 8)	-	-
Operating income (loss) before working capital changes	16,168,252	4,588,694
Decrease (increase) in:		
Trade and other receivables	-63,659,437	-32,242,385
Other current assets	-22,135,377	-9,714,675
Increase (decrease)		
Accounts payable and accrued expenses	-31,325,098	5,907,909
Net cash generated from (used in) operations	-100,951,659	-31,460,457
Interest received	151,601	3,171
Income taxes paid	-3,001,856	-2,084,361
Interest paid	-1,665,813	-39,497
Net cash flows from (used in) operating activities	-105,467,727	-33,581,144
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in:		
Due to related parties	-74,309,943	-24,159,296
Other noncurrent assets	-180,247	-321,490
Acquisition of property and equipment (Note 7)	-8,069,549	-2,536,150
Proceeds from sale of I-prof shares		168,800
Advances to affiliates	17,593,318	
Due from related parties- net of current	15,567,752	
Net cash flows from (used in) investing activities	-46,691,014	-26,848,136

CASH FLOWS FROM A FINANCING ACTIVITY

Increase in amounts owed to related parties	99,375,808	58,406,345
Proceeds from Loan	50,000,000	
Payment of loans payable	-72,014	-64,837
Other Non-Current Liabilities	1,434,547	
Net cash flows from financing activities	150,738,341	58,341,508
EFFECT OF EXCHANGE RATE CHANGES ON CASH		
NET INCREASE (DECREASE) IN CASH	-1,420,401	-2,087,772
CASH AT BEGINNING OF THE YEAR	10,694,196	4,396,419
CASH AT END OF THE YEAR	9,273,795	2,308,647

See accompanying Notes to Consolidated Financial Statements

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	JULY- SEPTEMBER	
	2018	**2017**
REVENUES		
Service Revenue	39,992,087	29,254,219
Sales	1,177,680	3,859,109
Others	84,233	389,737
TOTAL REVENUES	**41,254,000**	**33,503,065**
COST AND EXPENSES		
Cost of services	13,273,612	23,396,442
Cost of sales	315,685	755,086
COST OF SALES AND SERVICES	**13,589,297**	**24,151,528**
GROSS INCOME	**27,664,703**	**9,351,537**
Salaries and other benefits	10,950,814	647,659
Outside Services	352,522	3,841,524
Rental	2,291,028	372,963
Taxes and licenses	662,427	839,421
Professional fees	155,580	716,157
Light and water	49,474	61,927
Transportation and travel	1,877,278	862,190
Advertising and promotion	1,833,566	144,960
Depreciation and amortization	1,788,589	1,084,344
Repairs and maintenance	55,006	38,112
Communication	1,671,301	46,500
Representation	2,201,125	1,046,661
Office supplies	289,725	199,697
Others	246,821	425,691

Insurance	107,536	67,223
GENERAL AND ADMINISTRATIVE EXPENSES	**24,532,791**	**10,395,029**
OTHER CHARGES		
Interest	810,837	9,151
Others	0	0
TOTAL OTHER CHARGES	**810,837**	**9,151**
INCOME (LOSS) BEFORE INCOME TAX	**2,321,075**	**(1,052,643)**
PROVISION FOR INCOME TAX		
Current	580,230	0
Deferred	0	0
NET INCOME (LOSS)	**1,740,845**	**(1,052,643)**
Currency Translation Adjustment – Gain (Loss)	0	0
TOTAL COMPREHENSIVE INCOME	1,740,845	(1,052,643)
Non-controlling interests	0	0
	1,740,845	(1,052,643)

NOW CORPORATION

AND SUBSIDIARIES

AGING OF RECEIVABLES

	September 30, 2018	**September 30, 2017**
Current	2,722,072	4,961,052
1 -30 days past due	15,701,071	14,600,813
31 -60 days past due	1,116,196	35,236
61 -90 days past due	0	162,435
over 91 days past due	166,672,685	113,591,628
Total	186,212,024	133,351,164

NOW CORPORATION
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Corporate Background

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

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

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

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

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

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

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

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

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

On 28 September 2018, the Parent Company's Board approved to pay collateral fee in favor of its affiliates Velarde, Inc. and Gamboa Holdings, Inc., respectively, each in the amount of 3% of the total amount of the loan annually until the loan is fully paid in relation to the loan/s applied for by the Parent Company with local banks to finance its capital expenditures and operational expenses. The abovementioned affiliates provided the collateral for the said loan/s in favor of the Parent Company in the form of property and shares of stock.

On 11 October 2018, the Parent Company's Board approved the conversion of advances into equity by its shareholder, Velarde, Inc., in the amount of Two Hundred Nine Million Pesos (Php209,000,000.00) with the conversion price computed based on the Volume Weighted Average Price (VWAP) of the 30-day trading period ending 11 October 2018.

Change in Corporate Name

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

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

Certificates and Memorandum of Understanding and Agreements

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

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

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

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

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

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

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

Authorization for Issuance

In the March 15, 2018 Regular BOD Meeting, the BOD delegated to the Chairman, the President, and the Chief Finance Officer the authority to approve the issuance of the consolidated financial statements of the Parent

Company and its subsidiaries (collectively referred to herein as the Group) as of December 31, 2017, 2016 and 2015 and for the years then ended.

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

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The consolidated financial statements of the Group have been prepared under the historical cost basis, including the available-for-sale (AFS) financial asset that is not quoted in an active market. The consolidated financial statements are presented in Philippine peso (₱), which is the Parent

Company's functional currency. Amounts are rounded to the nearest Philippine peso, except when otherwise indicated.

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

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries as of December 31, 2017, 2016 and 2015 and for the years then ended:

	Year of Incorporation	Nature of Business	Percentage of Ownership 2017	2016	2015
J-Span IT Services, Inc. (JSIT)	2011	Service	**100%**	100%	100%
Porteon SEA, Inc. (Porteon)	2011	Manufacturing	**100%**	100%	100%
I-Resource Consulting International, Inc. (IRCII)	2011	Service	**100%**	100%	100%
I-Professional Search Network, Inc.(I-Professional)	2012	Service	**75%**	100%	100%
Softrigger Interactive, Inc. (SII)	2000	Service	**67%**	67%	67%

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

On January 25, 2017, Velarde, Inc. entered into a subscription agreement with i-Professional for the subscription of 6,750 common shares of the latter, representing 25% interest, thereby reducing the ownership of the Company in i-Professional from 100% to 75%. This resulted to an equity reserve amounting to ₱1,978,794 as of December 31, 2017.

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

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

All other assets are classified as noncurrent.

A liability is classified as current when:

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

The Group classifies all other liabilities as noncurrent.

Cash

Cash includes cash on hand and with banks.

Financial Instruments

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

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

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

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

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

Loans and Receivables

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

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

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

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

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

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

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

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

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

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

<u>Creditable Withholding Taxes (CWTs)</u>
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.

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

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

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

The principal or the most advantageous market must be accessible to by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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

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

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

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

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

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

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Investment in Associate
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over

those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

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

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate or is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.
The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax. When the Group's share of losses exceeds the Group's interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group have an obligation or have made payments on behalf of the investee. The consolidated financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

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

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

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

	Years
Transportation equipment	5
Office equipment	2
Furniture and fixtures	2

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

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

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

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

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

The net book value of Computer software is recognized as part of “Other noncurrent assets” account in the consolidated statement of financial position. The net book value of Computer software as of December 31, 2017, 2016 and 2015 amounted to ₱9,965, ₱59,702 and ₱186,607, respectively. The amortization expense is recognized in “Depreciation and amortization” account in the consolidated statement of income.

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. Sales of goods are included under "Sales" in the consolidated statement of comprehensive income.

Service, Marketing, Management and Consultancy Fees

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

Interest

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

Cost and Expenses

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

Cost of Sales

Cost of sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer upon delivery. This pertains to the cost of software licenses sold.

Cost of Services

Cost of services are direct costs incurred in relation to service revenues. This mainly consists of outside services and advertising and promotions.

General and Administrative Expenses

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

Taxes

Current Tax

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

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

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

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted as of the reporting date.
Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

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

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

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

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

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

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

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

Provisions

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

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

Contingencies

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

Earnings Per Share (EPS)

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

Segment Reporting

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

The Group’s identified operating segments are consistent with the segments reported to the BOD, which is the Group’s chief operating decision maker. Financial information on the operating segments are presented in Note 18.

Events After the Financial Reporting Date

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

Future Changes in Accounting Policies

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

Effective beginning on or after January 1, 2018

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

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

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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

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

  The Group is currently assessing the impact of PFRS 15.

- PFRS 9, *Financial Instruments*

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

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

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

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

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

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

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

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

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

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

Effective beginning on or after January 1, 2019

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

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

- PFRS 16, *Leases*

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

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

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

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

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

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

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

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

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

  The Group is currently assessing the impact of adopting this interpretation.

Deferred effectivity

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

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

3. Significant Accounting Judgments and Estimates

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

Judgments

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

Valuation of Investment in NOW Telecom, Inc.
The fair value of investments in equity instruments that do not have a market price in active market for an identical instrument is reliably measurable if:

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

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

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

Operating Leases - Group as Lessee
The Group has entered commercial property leases on its offices. Based on an evaluation of the terms and conditions of the lease agreements, there will be no transfer of ownership of assets to the Group at the end of the lease term. The Group has determined that all significant risks and rewards of ownership are retained by the lessors. Thus the leases are classified as operating leases.

Finance Lease Commitments - Group as Lessee
The Group has entered into leases of transportation equipment. The Group has determined that these lease arrangements (i.e. lease term is for the major part of the economic useful life of the asset) are finance leases since the significant risks and rewards of ownership related to these properties are transferred to the Group from the date of the lease agreement.

<u>Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk causing material adjustments to the carrying amounts of the assets and liabilities within the next financial years are discussed below:

Recoverability of Investment in NOW Telecom, Inc.
The Group assesses at each reporting date whether there is any objective evidence that the investment in NOW Telecom is impaired. The Group has determined that NOW Telecom's continuing losses over the past several years is an objective evidence that the investment may no longer be recoverable.

When there is objective evidence of impairment, the Group is required to determine the recoverable amount of the investment, which is the sum of the (i) market value of comparable radio frequencies, and the (ii) present value of estimated future cash flows that can be generated by frequencies with no comparable market value.

i. *Market value of comparable radio frequencies*

   Market value of comparable frequencies is the estimated market value of the radio frequencies owned by NOW Telecom based on the implied price per MHzPop of the most recent comparable market transaction involving buy-outs of entities with radio frequencies.

ii. *Present value of estimated future cash flows generated by radio frequencies with no comparable market value*

   The key assumptions used by the Group in determining the present value of estimated future cash flows generated by frequencies with no comparable market value are as follows:

- *Discount rate*
  The discount rate is based on NOW Corporation's weighted average cost of capital. This rate is further adjusted to reflect the market assessment of any risk for which future estimates of cash flows have not been adjusted.

- *Long-term growth rate*
  Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at the terminal value.

- *Revenue growth rate*
  Revenue for the five-year period are forecasted using a growth rate which is within the industry outlook.

No impairment loss on the investment in NOW Telecom was recognized in 2017, 2016 and 2015. The carrying amount of the investment in NOW Telecom amounted to ₱1,289,278,350 as of December 31, 2017, 2016 and 2015 (see Note 6).

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

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

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

Estimating Useful Lives of Property and Equipment, and Computer Software
The Group estimates the useful lives of significant parts of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the Group's estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. Depreciation and amortization charged to operations amounted to
₱4,411,001, ₱2,214,569 and ₱3,567,678 for the years ended December 31, 2017, 2016 and 2015, respectively (see Notes 7 and 14). The aggregate net book values of property and equipment and computer software amounted to ₱8,721,428, ₱6,674,382 and ₱3,437,114 as of December 31, 2017, 2016 and 2015, respectively (see Note 7).

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

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

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

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

Estimating Realizability of Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its deferred income tax assets to be utilized.

The Group did not recognize deferred income tax assets on temporary differences and carryforward benefits of unused NOLCO, unused tax credits from excess MCIT, allowance for impairment on trade and other receivables and others amounting to ₱19,037,918, ₱30,227,110 and ₱74,849,543 as of December 31, 2017, 2016 and 2015, respectively (see Note 15). The Group believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

4. Trade and Other Receivables

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

Trade and nontrade receivables from third parties are noninterest-bearing and are generally on 30 to 60 days term.

Trade receivables from related parties are unsecured, noninterest-bearing and are to be settled upon demand.

Others include advances to officers and personnel, and outstanding loan receivable from Holy Cow Animation, Inc. (Holy Cow) (see Note 9).

Movement in allowance for impairment losses on trade receivables are as follows:

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

5. Other Current Assets

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

Prepayments includes deferred transaction costs amounting to ₱10,763,277 and ₱3,360,000 as of December 31, 2017 and 2016, respectively, in connection with the Group's planned offering of redeemable, convertible, non-participating and non-voting Peso-denominated preferred shares. As of April 9, 2018, the Group is in the process of securing the approval of the Philippine SEC and PSE of the said transaction (see Note 12). It also includes the prepayments made by the Parent Company in purchasing IBM Licenses related to installation of email system for the Supreme Court of the Philippines amounting to ₱23,638,466.

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

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

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

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

6. **Investments and Advances**

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

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

On April 28, 2006, the Group entered into a MOA with NOW Telecom and five (5) controlling stockholders of NOW Telecom namely, Top Mega Enterprise, Ltd, Joycelink Holdings, Ltd, GHI, Emerald Investment, Inc., Food Camp Industries and Marketing, Inc. (the five companies are collectively referred to hereafter as NOW Telecom stockholders) to swap or exchange shares of stock.

Under the MOA, the Parent Company shall issue its shares in exchange for interest in NOW Telecom. The agreed upon swap of shares was subject to certain conditions, including necessary corporate and regulatory approvals. The MOA was approved by the Parent Company's stockholders on June 2, 2006.

However, certain amendments were subsequently made to the MOA in view of the fact that upon further consultation with the PSE, it was determined that the Parent Company could not revise its primary purpose at that time. Hence, the stockholders approved the amendment in the MOA that there will be no change in the Parent Company's primary purpose. Moreover, the Parent Company's stockholders also approved the proposal that the Parent Company shall only acquire 19% equity interest in NOW Telecom and not 97% as originally intended. As a result, the Parent Company acquired 2,656,580 NOW Telecom shares constituting 19% equity interest in NOW Telecom, in exchange for new shares of the Parent Company, with par value of ₱1 with an aggregate value of ₱1,289,278,350, or effectively, at a price of ₱485.32 per NOW Telecom share.

The Parent Company applied for an increase in its authorized capital stock to accommodate the foregoing transaction (see Note 12).

In September 2006, the SEC issued Certificate of Approval of Valuation of Shares of Stock of NOW Telecom and Certificate of Increase in Capital Stock of the Parent Company.

In 2008, the PSE approved the application for the listing of the additional 1,289,278,350 common shares to cover the share-for-share swap transactions with the NOW Telecom shareholders.

On February 22, 2018, the franchise granted to NOW Telecom has been extended for another 25 years or until Year 2043 under Republic Act No. 10972 which was signed for approval into law by the President of the Republic of the Philippines. With the said law, NOW Telecom, as a telecommunications company, now has privileges similar to those granted to existing dominant players in the industry.
As of December 31, 2017, 2016 and 2015, the Group's investment in NOW Telecom amounted to ₱1,289,278,350 and no impairment was recognized for the years then ended.

Investment in an Associate and Advances to Affiliates

a. Softweb Consulting, Inc.

Investment in an associate

On December 20, 2010, the Group entered into a subscription agreement with Softweb for an investment amounting to ₱6,000,000, representing a 50% interest in Softweb.

Softweb specializes in Lotus consulting and training services as well as comprehensive Domino working solutions. As an IBM partner, Softweb offers the full range of IBM services and licensed products integrated in its own list of business solutions, software development and training.

As of December 31, 2017, 2016 and 2015, the Group's share in losses of Softweb have already exceeded the cost of investment. The Group only recognizes the loss to the extent of the cost of investment. Accordingly, the carrying amount of investment in Softweb as of December 31, 2017, 2016 and 2015 is nil. The Group does not have any legal or constructive obligation to make payments on behalf of Softweb.

The unrecognized share in net loss as of December 31, 2017, 2016 and 2015 amounted to nil, ₱7,077,304 and ₱7,265,533, respectively.

As of December 31, 2015, the Group has advances to Softweb amounting to ₱5,000,000. This pertains to deposit for future stock subscription in Softweb pending the increase in its authorized capital stock.

In 2016, the Group recognized provision for impairment loss on its advances to Softweb amounting to ₱ 5,000,000 (see Notes 9 and 14).

b. Thumbmob Philippines, Inc. and Holy Cow Animation, Inc.

The Group entered into agreements with Thumbmob and Holy Cow for the subscription of Thumbmob and Holy Cow shares. Holy Cow is a full service animation studio that produces 2D, 3D, Flash and HTML5 animation and special effect animation for the media and entertainment business. Thumbmob develops, publishes, and distributes games and applications for social networking and mobile environments. It serves brands, businesses, and institutions.

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

7. **Property and Equipment**

2017

	Leasehold Improvements	**Transportation Equipment**	**Office Equipment**	**Furniture and Fixtures**	**Total**
Cost:					
Balances at beginning of year	**₱4,937,446**	**₱15,860,277**	**₱16,201,844**	**₱1,393,888**	**₱38,393,455**
Additions	**–**	**128,750**	**6,329,297**	**–**	**6,458,047**
Balances at end of year	**4,937,446**	**15,989,027**	**22,531,141**	**1,393,888**	**44,851,502**
Accumulated depreciation and amortization:					
Balances at beginning of year	**4,445,217**	**15,191,753**	**10,945,948**	**1,195,857**	**31,778,775**
Depreciation and amortization for the year (Note 14)	**435,230**	**146,071**	**3,711,041**	**68,922**	**4,361,264**
Balances at end of year	**4,880,447**	**15,337,824**	**14,656,989**	**1,264,779**	**36,140,039**
Net book value	**₱56,999**	**₱651,203**	**₱7,874,152**	**₱129,109**	**₱8,711,463**

2016

	Leasehold Improvements	Transportation Equipment	Office Equipment	Furniture and Fixtures	Total
Cost:					
Balances at beginning of year	₱4,937,446	₱15,169,919	₱11,440,365	₱1,393,888	₱32,941,618
Additions	–	690,358	4,761,479	–	5,451,837
Balances at end of year	4,937,446	15,860,277	16,201,844	1,393,888	38,393,455
Accumulated depreciation and amortization:					
Balances at beginning of year	3,944,495	14,795,001	9,863,876	1,087,739	29,691,111
Depreciation and amortization for the year (Note 14)	500,722	396,752	1,082,072	108,118	2,087,664
Balances at end of year	4,445,217	15,191,753	10,945,948	1,195,857	31,778,775
Net book value	₱492,229	₱668,524	₱5,255,896	₱198,031	₱6,614,680

2015

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

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

8. Accounts Payable and Accrued Expenses

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

Trade payables from third parties are noninterest-bearing and are generally on 30 to 60 days' term. Trade and nontrade payables from related parties are unsecured, noninterest-bearing and are to be settled upon demand.

9. Related Party Transactions

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

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

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

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

   On June 25, 2010, both parties agreed to extend the maturity of the loan from August 30, 2010 to August 30, 2012. On August 31, 2012, both parties agreed to further extend the maturity of the loan up to August 30, 2015, with the interest rate further reduced to 3% per annum starting January 1, 2013. On August 31, 2015, both parties agreed to extend the maturity of the loan to five (5) years ending August 30, 2020. Interest was retained at 3% per annum. Interest income amounted to ₱467,033 in 2017, 2016 and 2015 reflected as part of "Others" in revenue. As of December 31, 2017, 2016 and 2015, amounts owed by IBI, including interest, amounted
   ₱27,497,744, ₱27,030,711 and ₱26,563,678, respectively. IBI is an entity under common control.

c. As of December 31, 2017, 2016 and 2015 the Group has outstanding liabilities to Emerald Investment, Inc. (EII) amounting to ₱2,902,918 which arose from the Group's sub-lease agreement with EII that ended in 2011.

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

d. On January 1, 2013, the Parent Company renewed its service agreement with KPSC for a period of four (4) years beginning January 1, 2013 to December 31, 2016. On January 3, 2017, the Parent Company renewed its service agreement with KPSC for a period of five (5) years beginning January 3, 2017 up to

January 2, 2022.

Under the service agreement, KPSC shall provide consultancy and manpower services depending on the services specifically required by the Group. Amounts owed to KPSC, in relation to the service agreement, amounted to ₱13,038,492, ₱15,450,244 and ₱19,719,161 as of December 31, 2017, 2016 and 2015, respectively.

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

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

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

   On January 22, 2015, Velarde, Inc. agreed to convert its advances amounting to ₱200,000,000 into equity interest in the Parent Company for 200,000,000 common shares with a par value of ₱1. It was further agreed that the remaining balances and subsequent advances from Velarde, Inc. shall no longer be subject to interest and shall be due on demand (see Note 12).

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

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

   On June 20, 2016, additional advances were incurred from Velarde Inc., through the latter's payment of the loans payable to bank on behalf of the Parent Company amounting to ₱44,500,000 (see Note 11).

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

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

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

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

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

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

Rent expense incurred by the Group amounted to ₱930,313 in 2017, 2016 and 2015. In connection with this, the related due to I-College amounted to ₱5,736,925, ₱4,806,612 and ₱3,876,300 as of December 31, 2017, 2016 and 2015, respectively.

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

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

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

In 2016, the Parent Company amend its contracts with GHT and Newsnet, and includes NOW Telecom whereas the Parent Company will provide project management services, design and planning services and installation services covering up to 10 major network hubs for a total contract price of ₱45,000,000 each. Right to receive payments arise upon acceptance of GHT, Newsnet and NOW Telecom of completed hubs. Payments are due upon receipt of invoice. A total of nine (9) and ten (10) hubs were completed for GHT and Newsnet, respectively as of December 31, 2017. Service revenue related to infrastructure build-up recognized in 2017, 2016 and 2015 amounted to ₱45,000,000, ₱30,000,000 and ₱20,000,000.

Included in the contract entered in 2016, the Parent Company will provide technology consultancy services for a period of ten (10) years with a monthly fee of ₱50,000 each for GHT and Newsnet. Service revenue recognized in 2017 and 2016 amounted to ₱600,000 and ₱450,000 each for GHT and Newsnet.

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

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

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

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

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

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

On December 23, 2016, the Parties further agreed to amend their VAS contracts to include additional fees from actual usage of bandwidth and other provision on charging to the Parent Company on a cost-plus margin arrangement. Total cost of data services charged to cost of services amounted to ₱3,121,774 and ₱2,476,627 in 2017 and 2016, respectively.

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

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

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Note 4)	Due to related parties	Trade and other payables (Note 8)	Advances to affiliates (Note 6)	Terms	Conditions
		2015	7,816,287	31,408,455	–	749,806	–	–	On demand	Unsecured, no impairment
	Services	**2017**	**7,800,000**	**–**	**13,102,508**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	7,500,000	–	8,400,000	–	–	–	–	–
		2015	–	–	–	–	–	–	–	–
(Forward) KPSC	**Advances**	**2017**	**₱5,000**	**₱209,708**	**₱–**	**₱–**	**₱–**	**₱–**	**On demand**	**Unsecured**
		2016	–	204,708	–	–	–	–	On demand	Unsecured
		2015	2,160	204,708	–	–	–	–	On demand	Unsecured
	Outside services	**2017**	**11,756,110**	**–**	**–**	**–**	**13,038,492**	**–**	**On demand**	**Unsecured**
		2016	50,716,312	–	–	–	15,450,244	–	On demand	Unsecured
		2015	46,656,791	–	–	–	19,719,161	–	On demand	Unsecured
IBI	**Advances**	**2017**	**–**	**15,567,752**	**–**	**–**	**–**	**–**	**Due within 5 years**	**Unsecured, no impairment**
		2016	–	15,567,752	–	–	–	–	Due within 5 years	Unsecured, no impairment
		2015	–	15,567,752	–	–	–	**–**	Due within 5 years	Unsecured, no impairment
	Interest	**2017**	**467,033**	**11,929,992**	**–**	**–**	**–**	**–**	**Due within 5 years**	**Unsecured, no impairment**
		2016	467,033	11,462,959	–	–	–	–	Due within 5 years	Unsecured, no impairment
		2015	467,033	10,995,926	–	–	–	**–**	Due within 5 years	Unsecured, no impairment
Asian Institute of Journalism and Communicatio	**Advances**	**2017**	**18,048**	**489,109**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	1,039	471,061	–	–	–	–	On demand	Unsecured, no impairment
		2015	2,661	470,022	–	–	–	–	On demand	Unsecured, no

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Note 4)	Due to related parties	Trade and other payables (Note 8)	Advances to affiliates (Note 6)	Terms	Conditions
n										impairment
Paradiso Verde, Inc.	**Advances**	**2017**	**–**	**–**	**–**	**–**	**3,358,462**	**–**	**On demand**	**Unsecured**
		2016	–	–	–	–	3,358,462	–	On demand	Unsecured
		2015	–	–	–	–	3,358,462	–	–	Unsecured
	Services	**2017**	**–**	**–**	**–**	**605,212**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	–	–	–	605,212	–	–	On demand	Unsecured, no impairment
		2015	368,195	–	–	605,212	–	–	On demand	Unsecured, no impairment
Porteon	**Loans**	**2017**	**–**	**2,160,300**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	–	2,160,300	–	–	–	–	On demand	Unsecured, no impairment
		2015	–	2,160,300	–	–	–	–	On demand	Unsecured, no impairment
Newsnet	**Advances**	**2017**	**8,623,951**	**19,360,911**	**–**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		2016	4,669,416	10,736,960	–	–	–	–	On-demand	Unsecured, no impairment
		2015	947,948	6,067,544	–	–	–	–	–	–
(Forward)	**Services**	**2017**	**₱25,600,000**	**₱–**	**₱53,441,589**	**₱–**	**₱–**	**₱–**	**On-demand**	**Unsecured, no impairment**
		2016	15,450,000	–	28,504,000	–	–	–	On-demand	Unsecured, no impairment
		2015	10,000,000	–	11,200,000	–	–	–	–	–
GHT	**Advances**	**2017**	**2,411,588**	**8,588,889**	**–**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		2016	1,177,121	6,177,301	–	–	–	–	On-demand	Unsecured, no

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Note 4)	Due to related parties	Trade and other payables (Note 8)	Advances to affiliates (Note 6)	Terms	Conditions
										impairment
		2015	180	5,000,180	–	–	–	–	–	–
	Services	**2017**	**20,600,000**	**–**	**44,032,048**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		2016	15,450,000	–	28,504,000	–	–	–	–	Unsecured, no impairment
		2015	10,000,000	–	11,200,000	–	–	–	–	–
Holycow	**Loans**	**2017**	**–**	**–**	**2,211,771**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	–	–	2,211,771	–	–	–	On demand	Unsecured, no impairment
		2015	–	–	2,211,771	–	–	–	On demand	Unsecured, no impairment
	Interest	**2017**	**–**	**156,000**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	–	156,000	–	–	–	–	On demand	Unsecured, no impairment
		2015	–	156,000	–	–	–	–	On demand	Unsecured, no impairment
	Advances	**2017**	**–**	**–**	**–**	**–**	**–**	**9,248,449**	**On demand**	**Unsecured, no impairment**
		2016	–	–	–	–	–	9,248,449	On demand	Unsecured, no impairment
		2015	–	–	–	–	–	9,248,449	On demand	Unsecured, no impairment
Thumbmob	**Advances**	**2017**	**–**	**–**	**–**	**–**	**–**	**14,344,369**	**On demand**	**Unsecured, no impairment**
		2016	–	–	–	–	–	14,344,369	On demand	Unsecured, no impairment
		2015	–	–	–	–	–	14,344,369	On demand	Unsecured, no impairment

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Note 4)	Due to related parties	Trade and other payables (Note 8)	Advances to affiliates (Note 6)	Terms	Conditions
I-College	**Advances**	**2017**	**–**	**720**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	–	720	–	–	–	–	On demand	Unsecured, no impairment
		2015	–	720	–	–	–	–	–	–
	Lease	**2017**	**930,313**	**–**	**–**	**5,736,925**	**–**	**–**	**On demand**	**Unsecured**
		2016	930,313	–	–	4,806,612	–	–	On demand	Unsecured
		2015	930,313	–	–	3,876,300	–	–	On demand	Unsecured
(Forward)										
Associate										
Softweb	**Advances**	**2017**	**₱111,701**	**₱487,344**	**₱2,380,860**	**₱4,216**	**₱–**	**₱–**	**On demand**	**Unsecured**
		2016	–	487,344	2,380,860	4,816	–	–	On demand	Unsecured
		2015	1,389,259	2,163,820	2,380,860	6,390,573	–	5,000,000	On demand	Unsecured
	Loans	**2017**	**–**	**714,000**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	–	714,000	–	–	–	–	On demand	Unsecured, no impairment
		2015	–	714,000	–	–	–	–	On demand	Unsecured, no impairment
	Sales	**2017**	**–**	**–**	**16,401,451**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	5,412,232	–	16,401,451	–	–	–	On demand	Unsecured, no impairment
		2015	12,088,054	–	22,493,064	–	–	–	On demand	Unsecured, no impairment
	Managemen t fee	**2017**	**–**	**–**	**15,590,000**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2016	–	–	15,590,000	–	–	–	On demand	Unsecured, no impairment
		2015	–	–	15,590,000	–	–	–	On demand	Unsecured, no

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Note 4)	Due to related parties	Trade and other payables (Note 8)	Advances to affiliates (Note 6)	Terms	Conditions
										impairment
		2017		**₱123,453,012**	**₱148,840,227**	**₱151,454,345**	**₱76,300,540**	**₱23,592,818**		
		2016		₱99,526,454	₱103,432,082	₱77,520,582	₱78,712,292	₱23,592,818		
		2015		₱74,950,275	₱66,275,695	₱238,078,380	₱85,016,264	₱28,592,818		

Summary of related party transactions affecting consolidated statements of income:

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

10. **Lease Commitments**

The Group has entered into operating lease agreements in respect of its office premises. There are no restrictions placed upon the Group by entering into these leases. Operating lease payments recognized in the statement of comprehensive income are as follows:

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

b. On April 16, 2013, the Group entered into a contract of lease with Robert C. Lantin with a monthly rental fee of ₱40,000 and security deposit amounting to ₱120,000 equivalent to three (3) months rental fee. The term of the lease can be renewed upon mutual consent of both parties. In April 2016, the Group entered into a new lease contract commencing on April 1, 2016 to March 31, 2017 renewable upon mutual agreement of the parties. Based on the lease agreement, monthly rental payment was set at ₱47,368. In March 2017, the parties did not renew the contract.

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

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

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

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

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

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

11. Loans Payable

Metropolitan Bank and Trust Company and Bank of Makati loan
In September 2012, the Parent Company availed of short term loan from Metropolitan Bank and Trust Company (MBTC) amounting to ₱44,500,000. In December 2013, the said loan was extended for another two (2) years with a maturity date of January 2016. The loan bears interest ranging from 2.40% and 2.12% to 2.30% in 2016 and 2015, respectively. Interest is payable every 30 days.

On March 1, 2016, the Parent Company availed of a ₱44,500,000 loan from the Bank of Makati to settle the loan from MBTC. The new loan, which will mature on March 1, 2018, has a term of 2.03 years and bears a fixed interest rate of 1.75% per annum.

On June 20, 2016, the loan from Bank of Makati was paid by Velarde, Inc. on behalf of the Parent Company (see Note 9).

Interest expense on the said loan amounted to ₱571,355 and ₱1,027,530 in 2016 and 2015, respectively.

BDO loan
On December 22, 2016, the Parent Company availed a chattel mortgage loan amounting to ₱564,800 from BDO Unibank, Inc. for the purchase of a vehicle, which serves as the property mortgaged. The new loan requires 60 monthly payments until November 23, 2021, has a term of five (5) years and bears an interest rate of 9.44% per annum.

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

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

12. Capital Stock

In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Parent Company's track record of registration of securities.

	Number of shares registered	Issue/offer price	Date of approval
Common shares	28,000,000	₱1.00	July 30, 2003
Common shares	1,289,278,350	₱1.00	December 10, 2008

On April 28, 2006, the BOD and stockholders approved the increase in the authorized capital stock from 40,000,000 shares to 1,320,000,000 shares at ₱1 par value per share. This was subsequently approved by the SEC on September 19, 2006.

On May 12, 2010, the BOD and stockholders of the Parent Company approved proposal to increase its authorized capital stock from 1,320,000,000 shares to 5,320,000,000 shares at ₱1 par value per shares. On November 7, 2014, the BOD and stockholders of the Parent Company approved the amendment in the proposal to increase the authorized capital stock up to 2,700,000,000 shares. On January 22, 2015, the Parent Company's BOD approved a new proposal to supersede previous increase in authorized capital stock plans. It was decided for the Parent Company to apply for an increase of 800,000,000 shares at ₱1 par value per share (i.e., 1,320,000,000 shares to 2,120,000,000 shares). The SEC approved the Parent Company's application to increase its authorized capital stock on December 17, 2015.

As discussed in Note 9, Velarde, Inc. subscribed to 200,000,000 shares of the Parent Company and this subscription was settled through the conversion of its advances to the Group amounting to ₱200,000,000.

On April 29, 2016, the Parent Company's BOD approved the increase in the authorized capital stock of the Parent Company from 2,120,000,000 shares at ₱1 par value per share to 3,000,000,000 shares at ₱1 par value per share. The BOD also approved the conversion into equity of the advances from Velarde, Inc. amounting to ₱ 264,000,000 at a conversion price of ₱1.22 per share computed based on the volume-weighted average price of the Parent Company's shares for a 30-day trading period ended April 14, 2016. On June 2, 2016, the stockholders of the Parent Company approved the said increase in the Parent Company's authorized capital stock.

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

On September 2, 2016, the Parent Company's BOD approved the amendment in the Articles of Incorporation of the Parent Company to reclassify 60,000,000 unissued common shares to redeemable, convertible, non-participating and non-voting Peso-denominated preferred shares, with or without detachable warrants, with a par value of ₱1 per share. On November 8, 2016, the stockholders of the Parent Company representing two-thirds of its outstanding capital stock approved the amendment.

On January 6, 2017, the Parent Company filed an application with the SEC for the approval of the said amendment. This was approved by the SEC on January 10, 2017.

At the Special Meeting of the Board of Directors held on 21 May 2018, the Board of Directors of NOW Corporation approved, confirmed, and ratified the offer of 5,000,000 Redeemable Convertible Cumulative Non-Participating Non-Voting Peso-denominated Preferred Shares and designated the series as the Preferred "A" Shares with an Oversubscription Option of 5,000,000 Preferred A Shares, with 25,000,000 underlying Common Shares and an additional 25,000,000 Common Shares upon the exercise of the Oversubscription Option, which Common Shares shall be issued upon conversion of the Preferred Shares, with Detachable Warrants.

On 22 June 2018, the Securities and Exchange Commission issued the Certificate of Filing of Enabling Resolution in relation to the Parent Company's offer to the public of 5,000,000 Redeemable Convertible Cumulative Non-Participating Non-Voting Peso-denominated Preferred Shares designated as Preferred "A" Shares with an Oversubscription Option of 5,000,000 Preferred "A" Shares, with 25,000,000 underlying Common Shares and an additional 25,000,000 Common Shares upon the exercise of the Oversubscription Option, which Common Shares shall be issued upon conversion of the Preferred Shares, with Detachable Warrants.

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

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

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

Common Stock

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

13. Costs of Sales and Services

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

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

14. General and Administrative Expenses

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

15. Income Taxes

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

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

The Group has temporary differences for which no deferred tax assets were recognized as it is probable that sufficient taxable income will not be available for those deferred tax assets to be utilized.

The temporary differences are as follows:

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

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

Year Incurred	Year of Expiration	NOLCO	MCIT

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

The following are the movements in NOLCO and MCIT:

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

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

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

16. Basic/Diluted EPS

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

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

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

17. Financial Instruments

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

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk and interest rate risk. The Group is not exposed to cash flow interest rate risk since a significant portion of the Group's due from affiliates and finance lease obligations has fixed interest rates.

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

Liquidity Risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's objective to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its financial liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking adverse effect on the Group's credit standing.

The tables summarize the maturity profile of the Group's financial liabilities as of
December 31, 2017, 2016 and 2015, based on contractual undiscounted cash flows. The tables also analyze the maturity profile of the Group's financial assets that can be used to finance maturing financial obligations. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity dates.

2017

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				
Cash	**₱10,694,196**	**₱–**	**₱–**	**₱10,694,196**
Trade and other receivables	**167,943,224**	**–**	**–**	**167,943,224**
Due from related parties	**95,955,268**	**–**	**27,497,744**	**123,453,012**
	₱274,592,688	**₱–**	**₱27,497,744**	**₱302,090,432**
Financial liabilities:				
Accounts payable and accrued expenses*	**₱147,780,972**	**₱–**	**₱–**	**₱147,780,972**
Due to related parties	**151,454,345**	**–**	**–**	**151,454,345**
Future interest on loans payable	**–**	**39,134**	**53,021**	**92,155**
Loans payable	**–**	**97,337**	**351,614**	**448,951**
	₱299,235,317	**₱136,471**	**₱404,635**	**₱299,776,423**

**Excluding government payables*

2016

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				
Cash	₱4,396,419	₱–	₱–	₱4,396,419
Trade and other receivables	85,276,916	30,255,452	–	115,532,368
Due from related parties	72,495,743	–	27,030,711	99,526,454
	₱162,169,078	₱30,255,452	₱27,030,711	₱219,455,241
Financial liabilities:				
Accounts payable and accrued expenses*	₱109,655,203	₱–	₱–	₱109,655,203
Due to related parties	77,520,582	–	–	77,520,582
Future interest on loans payable	–	52,015	103,487	155,502
Loans payable	–	87,426	449,107	536,533
	₱187,175,785	₱139,441	₱552,594	₱187,867,820

Excluding government payables

2015

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

Excluding government payables

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

Credit Risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade receivables and amounts owed by related parties.

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

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

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

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

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

As at December 31, 2017, 2016 and 2015, the Group's maximum exposure to credit risk is equal to the carrying amount of its financial assets.

Credit Quality per Class of Financial Asset
Financial assets are classified as high grade if the counterparties are not expected to default in settling their obligations. Thus, the credit risk exposure is minimal. These counterparties normally include customers, banks and related parties who pay on or before due date. Financial assets are classified as a standard grade if the counterparties settle their obligation with the Group with tolerable delays. Low grade accounts are accounts, which have probability of impairment based on historical trend. These accounts show propensity of default in payment despite regular follow-up actions and extended payment terms.

The Group considers its financial assets that are neither past due nor impaired amounting to ₱39,600,536, ₱43,527,416 and ₱58,056,063 as of December 31, 2017, 2016 and 2015 as high grade financial assets.

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

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

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

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

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

AFS Financial Assets

Unquoted equity security is carried at cost since fair value of this AFS investment cannot be reliably determined as this is not listed in active market, have no available bid price and the range of reasonable fair value measurement of the AFS investment is significant.

Noncurrent Amounts Due from Related Party

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

Loans Payable

The carrying amount of the loans payable as of December 31, 2017 and 2016 are estimated using the discounted cash flow methodology with the applicable credit-adjusted risk-free rates of 5.7% and 5.9%, respectively (Level 3). The carrying amount and fair value of loans payable amounting to ₱44,500,000 as of December 31, 2015 is the same. The fair value of loans payable amounted to P380,328 and ₱424,612 as of December 31, 2017 and 2016, respectively. The carrying value of loans payable amounted to ₱448,951 and ₱536,533 as of December 31, 2017, 2016, respectively.

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

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

Capital Management

The Group considers the equity presented in the consolidated statement of financial positon as its core capital. The primary objective of the Group's capital management is to ensure that it maintains strong credit rating and stable capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

On October 28, 2010, PSE issued a memorandum regarding the rule for the minimum public ownership for all listed companies. Based on the memorandum, listed companies shall, at all times, maintain a minimum percentage of listed securities held by the public of ten percent (10%) of the listed companies' issued and outstanding shares, exclusive of any treasury shares or as such percentage that may be prescribed by the PSE. The Group has complied with the minimum public ownership as of December 31, 2017, 2016 and 2015.

The Group considers the equity attributable to the equity holders of the Parent Company as presented in the consolidated statement of financial position as its core capital.

As of December 31, 2017, 2016 and 2015, the Group was able to meet its capital management objectives.

18. Business Segment Information

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

- IT Manpower and Resource Augmentation - provides deployment of IT professionals to clients.
- Software Licenses and Services - provides high value products and services to clients.
- Broadband Services - provides high-speed broadband service of up to 700 Mbps to clients.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Financial information on the operations of the various business segments are summarized as follows:

	2017			
	IT Manpower and Resource Augmentation	**Software Licenses and services**	**Broadband services**	**Total**
Service fees	**₱42,274,212**	**₱59,878,920**	**₱24,513,069**	**₱126,666,201**
Sales	**–**	**21,698,063**	**–**	**21,698,063**
Others	**–**	**610,161**	**–**	**610,161**
Total revenue	**₱42,274,212**	**₱82,187,144**	**₱24,513,069**	**₱148,974,425**
Costs of sales and services	**₱31,568,240**	**₱46,849,047**	**₱7,386,191**	**₱85,803,478**
General and administrative expenses	**6,524,463**	**47,553,397**	**–**	**54,077,860**
Provision for income tax	**1,590,187**	**1,080,771**	**–**	**2,670,958**
Net income (loss)	**2,365,997**	**(13,202,659)**	**17,126,878**	**6,290,216**
Other information				
Capital expenditures	**83,572**	**1,285,658**	**5,088,817**	**6,458,047**
Segment assets	**18,318,317**	**359,092,215**	**5,088,817**	**382,499,349**
Unallocated AFS financial asset				**1,289,278,350**
Segment liabilities	**19,207,375**	**296,763,180**	**–**	**315,970,555**
Depreciation and amortization	**90,535**	**1,150,261**	**3,170,205**	**4,411,001**
Unallocated interest expense and other charges	**–**	**–**	**–**	**131,913**

	2016			
	IT Manpower and Resource Augmentation	Software Licenses and services	Broadband services	Total
Service fees	₱43,412,235	₱41,230,381	₱5,981,141	₱90,623,757
Sales	–	13,048,685	–	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				
Capital expenditures	133,928	970,358	4,347,551	5,451,837
Segment assets	2,456,753	251,940,186	3,442,034	257,838,973
Unallocated AFS financial asset	–	–	–	1,289,278,350
Segment liabilities	32,070,469	162,269,220	–	194,339,689
Depreciation and amortization	39,062	1,269,990	905,517	2,214,569
Unallocated interest expense and other charges	–	–	–	697,132

	2015		
	IT Manpower and Resource Augmentation	Software Licenses and services	Total
Service fees	₱39,421,080	₱27,686,947	₱67,108,027
Sales	–	47,331,371	47,331,371
Others	5,524	948,959	954,483
Total revenue	₱39,426,604	₱75,967,277	₱115,393,881
Costs of sales and services	₱33,674,327	₱41,926,025	₱75,600,352
General and administrative expenses	6,946,021	24,265,809	31,211,830
Provision for income tax	828,173	680,717	1,508,890
Net income (loss)	(2,150,137)	7,385,570	5,235,433
Other information			
Capital expenditures	–	239,078	239,078
Segment assets	13,446,324	195,627,411	209,073,735
Unallocated AFS financial asset			1,289,278,350
Segment liabilities	53,782,558	361,722,883	415,505,441
Depreciation and amortization	625,520	2,942,158	3,567,678
Unallocated interest expense and other charges			1,837,376

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

19. Notes to Consolidated Statements of Cash Flows

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

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

20. Changes in Liabilities Arising from Financing Activities

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

21. Other Matter

Land Bank loan

On January 30, 2018, the Parent Company secured a short-term loan agreement with Land Bank of the Philippines amounting to ₱50,000,000 with an interest rate of 4.80% per annum. The loan, including the interests incurred, matured on July 27, 2018 and was renewed with an interest rate of 5% per annum.

NOW CORPORATION
AND SUBSIDIARIES

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2018

Deficit, as adjusted to available for dividend distribution, beginning	-421,158,169
Prior period adjustment	98,610
Net income during the period	6,703,770
Deficit	-414,355,789

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

- Total Consolidated revenues in the first three quarters of 2018 is Php127.572 Million, increased by 25.56% or Php25.971 Million from last year's third quarter revenue of Php101.600 Million. The difference is due to an increase in both Service Revenue and Sales of Software Licenses and Services amounting to Php17.829 Million and Php8.421 Million, respectively. The latter is the combined result of more IBM licenses sold, as well as the recognition of revenue from services already rendered for the contract with the Supreme Court. Service Revenue increased by 20.37% due to increase in Broadband Services Revenue. Also included in Service revenues pertains to fees or income earned from the deployment by the Company of professionals to its clients to render IT-related solutions and services.

- Cost and Expenses for the first three quarters of 2018 is Php117.867 million, which is an increase from last year's cost and expense of Php99.432 Million. This was brought about by 2.21% decrease in Cost of Sales and Services, wherein Cost of Sales increased by 25.85% or Php 3.613 Million from Php13.977 Million in 2017 to Php17.591 Million in 2018, and Cost of Services decreased by 12.02% or P4.803 Million from P39.956 Million in 2017 to Php35.153 Million of 2018. Other expenses which has a significant increase are Salaries and other benefits which has a Php15.871 million increase, rental which has a Php5.553 million increase, Advertising and Promotion which has an increase of Php2.662 Million and depreciation expense which has an increase of Php2.215 Million.

- As of September 30, 2018, the total consolidated assets of the Company stood at Php1.798 Billion compared with last year's Php1.606 Billion or an increase of Php192.266 Million. Current Assets increased by Php219.731 Million or 85.10% from Php258.203 Million in 2017 to Php477.934 Million in 2018. This was caused by the increase in Cash by Php 6.965 Million, from last year's Php2.309 Million to this year's Php9.274 Million; Trade and other receivables by Php83.904 Million, from last year's Php147.699 Million to this year's Php231.603 Million; Amounts owed to related parties increased by Php76.736 Million, from last year's Php90.821 Million to Php167.558 Million; and other current assets increased by Php52.126 Million, from last year's Php17.374 Million to Php69.500 Million. Non-current assets decreased by Php27.466 Million from last year's Php1.347 Billion.

- Current liabilities increased by Php177.961 Million or 69.61% from Php255.653 Million in 2017 to Php433.615 Million in 2018. Accounts payable and accrued expenses slightly increased by Php2.111 Million or 1.62% from Php130.631 Million in 2017 to Php132.742 Million in 2018. Loans payable- current portion increased by Php50 Million due to a short term loan with a local bank amounting to Php50 Million received during January 2018 and was renewed this July 2018.

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

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

- On January 2018, the Company availed a short term loan amounting to Php50 million with an interest rate of 4.80% from a local universal bank to be used in operations. The loan together with interest has matured on July 27, 2018 and was renewed with an interest rate of 5% per annum.

- As of September 30, 2018, the total Assets stood at Php1.798 Billion, Liabilities at Php435.285 Million and Equity at Php1.363 Billion.

- Current assets and Current Liabilities Increased by 85.10% and 69.61% respectively resulting to a minimal increase of the Company's Liquidity Ratio wherein Current Ratio stood at 1.1022:1 and 1.0100:1, while Acid Test Ratio stood at 0.9419 and 0.9420 as of September 30, 2018 and 2017 respectively.

- The Company's Return on Equity for the period September 30, 2018 and 2017 was at 0.49% and 0.01% respectively, due to 7,809% increase in Net Income from Php0.084 Million to Php 6.704 Million.

- A further analysis indicates that NOW Corp.'s Asset to Debt Ratio stood at 4.1304x and 6.2713x; while its Debt to Asset Ratio stood at 0.2421x and 0.1595x, as of September 30, 2018 and 2017 respectively.

Part II. Other Information

Item 1. Financial Soundness Indicators

See **Annex "A**".

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

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

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

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

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

There is no seasonality or 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 14, 2018**

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

Signature and Title **Chief Financial Officer**

Date **November 14, 2018**

ANNEX "A"

Schedule of Financial Indicators
For the Period September 30, 2018 and 2017

		YTD September 30	
		2018	2017
Liquidity	Current Ratio	1.0257	1.0100
	Acid Test Ratio	0.8655	0.9420
Solvency	Debt to Equity Ratio	0.3194	0.1897
	Asset to Debt Ratio	4.1304	6.2713
	Debt to Asset Ratio	0.2421	0.1595
Equity	Asset to Equity Ratio	1.3194	1.1897
Interest	Interest Rate Coverage Ratio	6.8264	55.9187
Profitability	Profit Margin	58.66%	46.92%
	Return on Assets	0.37%	0.0053%
	Return on Equity	0.49%	0.0063%
	Book Value per share	0.8981	0.89895
	Earnings per share	0.0044	0.0001

The Financial Indicators are computed as follows:

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

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

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