C O V E R   S H E E T

A 1 9 9 6 0 0 1 7 9

COMPANY NAME

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

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

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

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

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
info@now-corp.com	(632) 750-0461 / (632) 750-0211 / (632) 750-0224	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
70	N/A	12/31

CONTACT PERSON INFORMATION

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

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

CONTACT PERSON's ADDRESS

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

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2019**

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

4. Exact name of issuer as specified in its charter

NOW CORPORATION

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

MAKATI CITY, PHILIPPINES

6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of issuer's principal office Postal Code

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

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

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

N/A

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

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

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

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

PHILIPPINE STOCK EXCHANGE **COMMON STOCK**

12. Indicate by check mark whether the registrant:

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

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

Part I. Financial Information

Item1. Financial Statement

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Current Assets		
Cash	₱ 16,445,153	₱ 25,828,933
Trade and other receivables	208,183,869	207,414,086
Contract assets	1,520,541	1,520,541
Amount owed to related parties	311,119,802	287,566,552
Other current assets	45,225,263	39,809,721
Total Current Assets	582,494,628	562,139,833
Noncurrent Assets		
Investments in shares of stocks	1,337,638,090	1,337,638,090
Property and equipment – net	11,935,431	11,686,408
Other noncurrent assets	1,532,764	2,465,543
Total Noncurrent Assets	1,351,106,285	1,351,790,041
TOTAL ASSETS	1,933,600,913	₱ 1,913,929,874
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	141,919,721	156,652,462
Due to related parties	278,080,116	265,667,135
Loans payable- current	62,064,583	52,064,583
Other current liabilities	2,419,255	-
Total Current Liabilities	484,483,675	474,384,180
Noncurrent Liabilities		
Loans Payable- net of current portion	46,077,738	45,878,924
Deposit for future subscription		264,000,000
Finance Lease Obligation- net of current portion	117,467	-
Retirement benefit obligation	975,690	975,690
Other noncurrent liabilities	3,427,673	-
Total Noncurrent Liabilities	50,598,568	310,854,614
Total Liabilities	535,082,243	785,238,794
Equity		
Equity attributable to equity holders of the Parent Company:		
Common stock	1,517,278,350	1,517,278,350
Deposit for future subscription	264,000,000	
Cumulative translation adjustment	1,126,608	1,126,608
Equity reserve	(1,978,794)	(1,978,794)
Net accumulated unrealized gain on financial assets at fair value through other comprehensive income	48,359,740	48,359,740
Accumulated unrealized loss on remeasurement of retirement benefits	(515,882)	(515,882)
Deficit	(426,589,561)	(432,343,009)
	1,401,680,461	1,131,927,013
Non-controlling interest	(3,161,791)	(3,235,933)
Total Equity	1,398,518,670	1,128,691,080
TOTAL LIABILITIES AND EQUITY	**₱ 1,933,600,913**	₱1,913,929,874

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
REVENUES		
Service Revenue	₱ 42,276,263	184,419,924
Sales	7,602,984	33,441,602
Others	24,173	-
	49,903,420	217,861,526
COST AND EXPENSES		
Cost of services	16,921,045	123,774,329
Cost of sales	4,038,894	24,549,264
Salaries and other benefits	7,130,699	12,639,969
Capacity lease	1,901,875	-
Outside Services	276,738	2,436,996
Rental	348,653	1,389,075
Taxes and licenses	801,102	2,680,771
Professional fees	928,056	1,776,658
Light and water	82,698	259,686
Transportation and travel	1,077,139	4,612,457
Advertising and promotion	1,881,286	8,350,200
Depreciation and amortization	1,841,134	7,309,611
Repairs and maintenance	80,375	219,452
Communication	695,224	5,244,439
Representation	1,538,821	5,822,950
Office supplies	265,781	1,359,932
Others	79,650	2,692,701
Provision for impairment loss on trade receivables	-	724,729
Insurance	131,035	309,151
Interest	2,289,189	1,802,986
	42,309,394	207,955,356
INCOME (LOSS) BEFORE INCOME TAX	7,594,024	9,906,170
PROVISION FOR INCOME TAX		
Current	2,278,207	1,769,401
Deferred	-	
NET INCOME (LOSS)	5,315,817	8,136,769
Currency Translation Adjustment – Gain (Loss)	-	-
TOTAL COMPREHENSIVE INCOME	5,315,817	8,136,769
Non-controlling interests	-	-
	5,315,817	8,136,769
Basic /Diluted Earnings (Loss) Per Share	0.0035	0.005

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
NET INCOME (LOSS) ATRRIBUTABLE TO:		
Equity holders of the Parent	5,241,673	8,136,769
Non-controlling interests	74,144	
	5,315,817	8,136,769
Other comprehensive gain (losses) to be reclassified to profit or loss in subsequent periods:		
Cumulative translation adjustment	-	(26,355)
Other comprehensive losses not to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of equity investments designated at fair value through other comprehensive income		(136,498,637)
Remeasurement of retirement benefits	-	(515,882)
	-	(137,014,519)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	-	(137,040,874)
TOTAL COMPREHENSIVE INCOME (LOSS)	5,315,817	(128,904,105)
ATTRIBUTABLE TO:		
Equity holders of the parent	5,241,673	(₱129,155,378)
Non-controlling interest	74,144	251,273
	5,315,817	(₱128,904,105)

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
CAPITAL STOCK		
Authorized – 2,060,000,000 common shares		
60,000,000 preferred shares		
Issued – 1,517,278,350 shares		
Balance at the beginning of the year	1,517,278,350	1,517,278,350
Issuance		
Balance at end of the year	1,517,278,350	1,517,278,350
Deposit for future stock subscription	264,000,000	
RETAINED EARNINGS		
Balance at beginning of the year	(432,343,009)	(421,158,169)
Prior period adjustment	511,775	(19,070,336)
Adjusted balance at beginning of the year	(431,831,234)	(440,228,505)
Net Income (loss)	5,241,673	7,885,496
Deficit	(426,589,561)	(432,343,009)
Equity Reserve	(1,978,794)	(1,978,794)
Cumulative Translation Adjustment	1,126,608	1,126,608
Accumulated Unrealized Gain on Fair Value Through OCI	48,359,740	48,359,740
Accumulated Unrealized Loss on Retirement Benefits	(515,882)	(515,882)
	(379,597,889)	(385,351,337)
Non-controlling equity	(3,161,791)	(3,235,933)
Balance at end of year	(382,759,680)	(388,587,270)
Total Equity	1,398,518,670	1,128,691,080

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Income (Loss) before income tax	7,594,024	9,906,170
Adjustments for:		
Interest and Other charges	2,289,189	3,324,724
Depreciation and amortization	1,841,134	7,309,611
Provision on Impairment loss on receivables	-	724,729
Retirement benefits expense	-	459,808
Straight line adjustment on rent	-	18,300
Interest income	(24,173)	(1,566,262)
Operating income (loss) before working capital changes	11,700,174	20,177,080
Decrease (increase) in:		
Trade and other receivables	(769,783)	(59,492,808)
Contract asset	-	(1,293,660)
Other current assets	(5,350,155)	7,555,200
Increase (decrease)		
Accounts payable and accrued expenses	(14,732,741)	(7,433,097)
Other current liabilities	141,048	
Net cash generated from (used in) operations	(9,011,457)	(40,487,285)
Interest received	24,173	252,050
Income taxes paid	(593,526)	(1,769,401)
Interest paid	(2,289,189)	(2,923,364)
Net cash flows from (used in) operating activities	(11,869,997)	(44,928,000)
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in:		
Due to related parties	(23,553,250)	(139,232,865)
Other noncurrent assets	-	(1,726,553)
Acquisition of property and equipment	-	(10,283,831)
Net cash flows from (used in) investing activities	(23,553,250)	(151,243,249)
CASH FLOWS FROM A FINANCING ACTIVITY		
Increase in due to related parties	12,412,981	114,212,790
Proceeds from loan availment	10,198,814	97,287,870
Finance charges	-	(194,674)
Increase in Other Non-Current Liabilities	3,427,673	-
Net cash flows from financing activities	26,039,468	211,305,986
EFFECT OF EXCHANGE RATE CHANGES ON CASH	-	-
NET INCREASE (DECREASE) IN CASH	(9,383,780)	15,134,737
CASH AT BEGINNING OF THE YEAR	25,828,933	10,694,196
CASH AT END OF THE YEAR	16,445,153	25,828,933

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	YTD January to March	
	2019	**2018**
ASSETS		
Current Assets		
Cash	₱ 16,445,153	₱19.288.765
Trade and Other receivables	208,183,869	183,075,592
Contract assets	1,520,541	-
Amount owed to related parties	311,119,802	140,308,831
Other current assets	45,225,263	52,297,181
Total Current Assets	582,494,628	394,970,369
Noncurrent Assets		
Investments in shares of stocks	1,337,638,090	1,289,278,350
Advances from affiliates		23,592,818
Due from related parties – net of current		27,497,744
Property and equipment – net	11,935,431	12,673,379
Other noncurrent assets - net	1,532,764	860,774
Total Noncurrent Assets	1,351,106,285	1,353,903,065
TOTAL ASSETS	1,933,600,913	1,748,873,434
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	141,919,721	130,320,180
Due to related parties	278,080,116	207,716,953
Loans Payable - current	62,064,583	50,000,000
Finance lease obligation- current	-	141,048
Other current liabilities	2,419,255	-
Total Current Liabilities	484,483,675	388,178,181
Noncurrent Liabilities		
Loans Payable- net of current portion	46,077,738	-
Deposit for future subscription	-	-
Finance Lease Obligation- net of current portion	117,467	284,541
Retirement benefit obligation	975,690	-
Other noncurrent liabilities	3,427,673	1,077,285
Total Noncurrent Liabilities	50,598,568	1,361,826
Total Liabilities	535,082,243	389,540,007
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	(426,589,561)	(421,158,169)
Cumulative translation adjustment	1,126,608	1,152,963
Net Income		3,526,282
Net accumulated unrealized gain on financial assets at fair value through other comprehensive income	48,359,740	
Accumulated unrealized loss on remeasurement of retirement benefits	(515,882)	
Equity reserve	(1,978,794)	(1,978,794)
Non-controlling Interest	(3,161,791)	(3,487,206)
Total Equity	1,398,518,670	1,359,333,426
TOTAL LIBILITIES AND EQUITY	₱ 1,933,600,913	1,748,873,433

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	YTD January to March	
	2019	**2018**
REVENUES		
Service Revenue	₱ 42,276,263	7,888,378
Sales	7,602,984	23,864,670
Others	24,173	2,092,030
	49,903,420	33,845,078
COST AND EXPENSES		
Cost of services	16,921,045	5,549,081
Cost of sales	4,038,894	3,514,063
Salaries and other benefits	7,130,699	6,380,560
Capacity lease	1,901,875	
Outside Services	276,738	1,958,351
Rental	348,653	2,204,492
Taxes and licenses	801,102	692,476
Professional fees	928,056	110,000
Light and water	82,698	46,593
Transportation and travel	1,077,139	1,444,931
Advertising and promotion	1,881,286	67,448
Depreciation and amortization	1,841,134	1,501,737
Repairs and maintenance	80,375	67,358
Communication	695,224	1,149,004
Representation	1,538,821	2,045,168
Office supplies	265,781	719,531
Others	79,650	1,136,338
Insurance	131,035	43,124
Interest	2,289,189	222,416
Provision on impairment loss on receivables	-	-
	42,309,396	28,852,671
INCOME (LOSS) BEFORE INCOME TAX	7,594,024	4,992,409
PROVISION FOR INCOME TAX		
Current	2,278,207	1,466,126
Deferred		-
NET INCOME (LOSS)	5,315,817	3,526,282
Currency Translation Adjustment – Gain (Loss)		-
TOTAL COMPREHENSIVE INCOME	5,315,817	3,526,282
Non-controlling interests		-
	5,315,817	3,526,282
Basic /Diluted Earnings (Loss) Per Share	0.0035	0.0023

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	YTD January to March	
	2019	**2018**
NET LOSS ATRRIBUTABLE TO:		
Equity holders of the Parent	5,241,673	3,526,282
Non-controlling interests	74,144	
	5,315,817	3,526,282
OTHER COMPREHENSIVE INCOME		
Cumulative translation adjustment	-	-
TOTAL COMPREHENSIVE LOSS	5,315,817	3,526,282
ATTRIBUTABLE TO:		
Equity holders of the parent	5,241,673	3,526,282
Non-controlling interest	74,144	
	5,315,817	3,526,282

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	YTD January to March	
	2019	**2018**
CAPITAL STOCK		
Authorized - 2,060,000,000 common shares 60,000,000 preferred shares		
Issued - 1,517,278,350 shares		
Balance at the beginning of the year	1,517,278,350	1,517,278,350
Issuance		
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	(431,831,234)	(421,158,169)
Net Income (loss)	5,241,673	3,526,282
Deficit	(426,589,561)	(417,631,887)
Equity Reserve	(1,978,794)	(1,978,794)
Cumulative Translation Adjustment	1,126,608	1,152,963
Accum Unrealized Gain on Fair Value Through OCI	48,359,740	
Accum Unrealized Loss on Retirement Benefits	(515,882)	
Non-controlling equity	(3,161,791)	(3,487,206)
Balance at end of year	(382,759,680)	(421,944,924)
Total Equity	1,398,518,670	1,359.333,426

NOW CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YTD January to March	
	2019	**2018**
Income (Loss) before income tax	7,594,024	4,992,409
Adjustments for:		
Interest and Other charges	2,289,189	222,416
Depreciation and amortization	1,841,134	1,501,737
Provision on Impairment loss on receivable	-	-
Retirement benefits expense	-	
Straight line adjustment on rent	-	
Interest income	(24,173)	(4,946)
Operating income (loss) before working capital changes	11,700,175	6,711,615
Decrease (increase) in:		
Trade and other receivables	(769,783)	(66,475,695)
Other current assets	(5,350,155)	(19,890,698)
Increase (decrease)		
Accounts payable and accrued expenses	(14,732,741)	57,218,261
Other current liabilities	141,048	
Net cash generated from (used in) operations	(9,011,456)	(22,436,517)
Interest received	24,173	4,946
Income taxes paid	(593,526)	(1,466,126)
Interest paid	(2,289,189)	(222,416)
Net cash flows from (used in) operating activities	(11,869,998)	(24,120,113)
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in:		
Due to related parties	(23,553,250)	(63,235,369)
Other noncurrent assets	-	(272,500)
Acquisition/Sale of property and equipment	-	(6,985,451)
Investments	-	-
Net cash flows from (used in) investing activities	(23,553,250)	(70,493,320)
CASH FLOWS FROM A FINANCING ACTIVITY		
Increase in due to related parties	12,412,981	108,487,654
Proceeds from loan availment	10,198,814	
Finance charges	-	
Increase in Other Non-Current Liabilities	3,427,673	
Net cash flows from financing activities	26,039,468	108,487,654
EFFECT OF EXCHANGE RATE CHANGES ON CASH	-	-
NET INCREASE (DECREASE) IN CASH	(9,383,780)	13,874,221
CASH AT BEGINNING OF THE YEAR	25,828,933	5,414,544
CASH AT END OF THE YEAR	16,445,153	19,288,765

NOW CORPORATION
AND SUBSIDIARIES
AGING OF RECEIVABLES

	31-Mar-19	**31-Mar-18**
Current	996,851	3,099,302
1 -30 days past due	16,717,523	14,868,571
31 -60 days past due	1,609,590	11,160
61 -90 days past due	-	1,384,282
over 91 days past due	188,859,905	163,712,277
Total	208,183,869	183,075,592

NOW CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 22 June 2018, the Securities and Exchange Commission issued the Certificate of Filing of Enabling Resolution in relation to the Company's offer of 5,000,000 Redeemable Convertible Cumulative Non-Participating Non-Voting Peso-denominated Preferred Shares and designate the series as the Preferred "A" Shares with an Oversubscription Option of 5,000,000 Preferred A Shares, with 25,000,000 underlying Common Shares and an additional 25,000,000 Common Shares upon the exercise of the Oversubscription Option, which Common Shares shall be issued upon conversion of the Preferred Shares, with Detachable Warrants, under the terms and conditions thereof. (see Note 13).

On 27 June 2018, the Philippine Stock exchange approved the application of the Company to list an additional 200,000,000 common shares to cover its debt-to-equity conversion transaction with its shareholder.

At the Special Meeting of the Board of Directors of NOW Corporation held on 11 October 2018, the Board approved the conversion into equity by its shareholder Velarde, Inc. in the amount of Two Hundred Nine Million Pesos (Php209,000,000.00).

At the special meeting of the Board of Directors of NOW Corporation held on 28 December 2018, the Board approved the Company's equity restructuring plan by reducing the par value of the common shares of stock of the Company and by applying the resulting additional paid-in capital to eliminate its accumulated deficit. For this purpose, the Board approved the amendment of Article Seventh of NOW's Articles of Incorporation to reduce the par value of common shares from One Peso (Php1.00) per share to Seventy Centavos (Php0.70) per share, and the resulting decrease of NOW's authorized capital stock from Php2,120,000,000.00 divided into 2,060,000,000 common shares with par value of One Peso (Php1.00) each to Php1,442,000,000 divided into 2,060,000,000 common shares with par value of Seventy Centavos (Php0.70) each.

Change in Corporate Name

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

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

Certificates and Memorandum of Understanding and Agreements

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

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

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

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

Registered Address

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

Authorization for Issuance

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

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

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

Basis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

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

	Year of	Nature of	Percentage of Ownership

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

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

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies and Disclosures

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

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

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

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

- PFRS 9, *Financial Instruments*

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

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

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

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

  The nature of these adjustments is described below:

  (a) Classification and measurement

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

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

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

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

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

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

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

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

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

(b) *Impairment*

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

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

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

(c) *Hedge accounting*

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

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

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

retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying
PFRS 9.

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

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

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

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

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

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

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

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

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

(a) Broadband service contracts
Prior to adoption of PFRS 15, the Group recognizes revenue from the broadband service contracts bundled with software licenses based on monthly fixed invoice amounts. Under PFRS 15, the Group assessed that broadband services are separate performance obligation from the bundled software

licenses and are capable of being distinct and separately identifiable. The Group performed a re-allocation of contract consideration based on the relative stand-alone selling prices of each performance obligation which decreased the amount allocated to broadband service.

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

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

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

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

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

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

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

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

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

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

Summary of Significant Accounting Policies

Current versus Noncurrent Classification

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

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or

- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is classified as current when:

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

The Group classifies all other liabilities as noncurrent.

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

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

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

Cash
Cash includes cash on hand and with banks.

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

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

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

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

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

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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

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

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

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

Financial Assets at Amortized Cost (Debt Instruments)
The Group measures financial assets at amortized cost if both of the following conditions are met:

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

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

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

Financial Assets at FVOCI (Debt Instrument)
The Group measures debt instruments at FVOCI if both of the following conditions are met:

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

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

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

Financial Assets Designated at FVOCI (Equity Instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under
PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

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

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

Loans and Receivables (Policy applicable prior to adoption of PFRS 9)
Prior to January 1, 2018, loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as or designated as AFS financial assets or financial assets at FVTPL.

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

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

AFS Investments (Policy applicable prior to adoption of PFRS 9)
Prior to January 1, 2018, AFS investments are those non-derivative financial assets that are designated as such or are not classified as financial assets designated at FVTPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

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

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

AFS investments include investment in unquoted equity investment.

HTM Investments (Policy applicable prior to adoption of PFRS 9)
Prior to January 1, 2018, HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Furthermore, the Group would be prohibited to classify any financial assets as HTM investments for the following two years. After initial measurement, HTM investments are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. Gains and losses are recognized in the profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process. The effect of restatement of foreign currency-denominated HTM investments are also recognized in profit or loss.

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

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

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

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

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

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

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

Prior to adoption of PFRS 9, the Group assesses at each reporting date whether there is an objective evidence that a financial or group of financial asset is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

<u>Derecognition</u>
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company’s consolidated statement of financial position) when:
- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

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

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

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

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

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

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

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

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

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

This category is applied for those issued financial liabilities or their components where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares, which are not designated as financial liabilities at FVTPL.

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

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

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

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

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

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

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

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

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

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

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

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

“Day 1” Differences

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

Creditable Withholding Taxes (CWTs)

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

Value-added Tax (VAT)

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

Investment in Associate

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

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

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

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax. When the Group's share of losses exceeds the Group's interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group have an obligation or have made payments on behalf of the investee. The consolidated financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.
After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as "Equity in net earnings of an associate" in profit or loss.

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

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

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

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets

Property and Equipment and Other Nonfinancial Assets

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

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

Investment in Associate

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

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

Capital Stock

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

Deficit

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

Deposit for Future Stock Subscription

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

Revenue Recognition

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

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

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

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

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

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

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

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

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

Interest
Interest income is recognized as interest accrues using the EIR.

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

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

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

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

Service, Marketing, Management and Consultancy Fees

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

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

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

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

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

Cost of Services
Cost of services are direct costs incurred in relation to service revenues. This mainly consists of bandwidth and personnel costs.
General and Administrative Expenses
General and administrative expenses consist of expenses incurred in the direction and general administration of day-to-day operation of the Group and are generally recognized when the services are used or the expenses arise.

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

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

Defined benefit costs comprise the following:

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

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

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

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

Taxes

Current Tax

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

Deferred Tax

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

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

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

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

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and involves 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.

Provisions

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2019

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

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

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

- PFRS 16, *Leases*

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

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

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

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

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

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

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

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

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

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

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

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

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

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

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

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

The interpretation specifically addresses the following:

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

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

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

Annual Improvements to PFRSs 2015-2017 Cycle

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

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2020

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

  The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

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

Deferred effectivity

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

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

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

3. **Significant Accounting Judgments and Estimates**

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

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

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

Revenue from Contracts with Customers (Applicable upon adoption of PFRS 15)
Beginning January 1, 2018, the Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

a) Identifying Performance Obligations

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

1. each distinct good or services in the series are transferred over time; and
2. the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation

The Group provides broadband services that are either sold separately or bundled with software licenses. The software licenses are a promise to transfer goods and are part of the negotiated exchange between the Group and the customer.

The Group determined that both the broadband services and transfer of software licenses are capable of being distinct. The fact that the Group regularly sells both broadband services and software licenses on a stand-alone basis indicates that the customer can benefit from both products on their own. The Group determined that the promise to provide broadband services and to transfer software licenses are distinct within the context of the contract. Consequently, the Group allocated a portion of the transaction price to the broadband services and the software licenses based on relative stand-alone selling prices.

b) Revenue Recognition

The Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Group concluded that revenue from broadband services, management services and manpower augmentation services are to be recognized over time, since customers simultaneously receive and consume the benefits as the Group provided the services. Other revenue sources are recognized at a point in time.

c) Identifying Methods for Measuring Progress of Revenue Recognized Over Time

The Group determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

Revenue from broadband services is recognized through the use of input method wherein recognition is over time based on the customer subscription period since the customer simultaneously receives and consumes the benefits as the seller renders the services.

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

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

<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:

Fair Value Measurement of Financial Instruments
The fair values of financial instruments that are not quoted in active markets are determined using valuation techniques including discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. To the extent practicable, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments (see Note 19 to the consolidated financial statements for the fair values of financial instruments).

For the fair valuation of the investment in NOW Telecom, the key assumptions used by the Group in determining the present value of estimated future cash flows generated by frequencies with no comparable market value are as follows:

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

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

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

Provision for Expected Credit Losses on Trade Receivables and Other Receivables and Contract Assets (Applicable upon adoption of PFRS 9)
Beginning January 1, 2018, the Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns such as by product type and customer type and rating.

The provision matrix is initially based on the Group's historical observed default rates. The Group then calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation rate) are expected to deteriorate over the next year which can lead to an increased number of defaults in similar sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The information about the ECLs on the Group's trade and other receivables is disclosed in Note 4.

Provision for Expected Credit Losses on Due from Related Parties (Applicable upon adoption of PFRS 9)

Beginning January 1, 2018, ECL on due from related parties is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The Group considers the probability of its counterparty to default its obligation and the expected loss at default after considering the effects of collateral, any potential value when realized and time value of money. The assumptions underlying the ECL calculation are monitored and reviewed at every reporting period.

The Group incorporates a forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. To do this, management considered a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs.

No provision for ECL on due from related parties was recognized in 2018. Due from related parties amounted to ₱287,566,552 as of December 31, 2018 (see Note 9).

Impairment of Trade and Other Receivables and Due from Related Parties (Applicable prior to adoption of PFRS 9)
Prior to January 1, 2018, the Group maintains an allowance for impairment of receivables at a level that management considers adequate to provide for potential uncollectibility of its trade and other receivables. The Group evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Group uses judgment, based on available facts and circumstances, and based on a review of the factors that affect the collectibility of the accounts including, but not limited to, the age and status of the receivables, collection experience and past loss experience. The review is made by management on a continuing basis to identify accounts to be provided with allowance. The specific allowance is re-evaluated and adjusted as additional information received affects the amount estimated.

In addition to specific allowance against individually significant receivables, the Group also provides a collective impairment allowance against exposures, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on historical default experience.

The aggregate carrying amount of trade and other receivables amounted to ₱207,414,086, ₱167,943,224 and ₱115,532,368 as of December 31, 2018, 2017 and 2016, respectively (see Notes 4 and 19). The aggregate carrying amount of due from related parties amounted to ₱287,566,552, ₱123,453,012 and ₱99,526,454 as of December 31, 2018, 2017 and 2016 (see Notes 9 and 19). The total amount of provision for impairment recognized amounted to ₱724,729, ₱1,940 and ₱685,685 in 2018, 2017 and 2016, respectively (see Notes 4 and 16).

Recoverability of Investment in NOW Telecom, Inc. (Applicable prior to the adoption of PFRS 9)
The Group assesses at each reporting date whether there is any objective evidence that the investment in NOW Telecom is impaired. The Group has determined that NOW Telecom's continuing losses over the past several years is an objective evidence that the investment may no longer be recoverable.

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

i. *Market value of comparable radio frequencies*

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

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

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

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

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

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

No impairment loss on the investment in NOW Telecom was recognized in 2017 and 2016. The carrying amount of the investment in NOW Telecom amounted to ₱1,289,278,350 as of December 31, 2017 and 2016 (see Notes 6 and 19).

Estimating Useful Lives of Property and Equipment, and Computer Software
The Group estimates the useful lives of significant parts of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the Group's estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. Depreciation and amortization charged to operations amounted to ₱7,309,611, ₱4,411,001 and ₱2,214,569 for the years ended December 31, 2018, 2017 and 2016, respectively (see Notes 7 and 16). The aggregate net book value of property and equipment amounted to ₱11,686,408, ₱ 8,711,463 and ₱6,614,680 as of December 31, 2018, 2017 and 2016, respectively (see Note 7). The net book value of computer software as of December 31, 2018, 2017, and 2016 amounted to ₱1,624,335, ₱9,965 and ₱ 59,702, respectively.

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

The Group did not recognize deferred income tax assets on temporary differences and carry forward benefits of unused NOLCO, unused tax credits from excess MCIT, allowance for impairment on trade and other receivables and others amounting to ₱37,354,235, ₱19,037,918 and ₱30,227,110 as of December 31, 2018, 2017 and 2016, respectively (see Note 17). The Group believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Estimating Retirement Benefits
The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Future salary increases are based on expected inflation rates.

Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

Further details about assumptions used are provided in Note 12.

In 2018, the Group recognized retirement benefit expense amounting to ₱459,808. The Group has recognized retirement benefit obligation amounting to ₱975,690 as of December 31, 2018 (see Note 12). No retirement benefit expense was recognized in 2017 and 2016.

4. Trade and Other Receivables

	2018	2017	2016
Trade receivables:			
Related parties (Notes 9 and 19)	**₱156,844,438**	₱146,752,260	₱101,220,311
Third parties	**82,595,527**	31,403,489	24,581,615
Others (Notes 9 and 19)	**1,828,959**	3,620,367	3,566,889
	241,268,924	181,776,116	129,368,815
Less allowance for impairment losses	**33,854,838**	13,832,892	13,836,447
	₱207,414,086	₱167,943,224	₱115,532,368

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

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

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

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

	2018	2017	2016
Balance at beginning of year	**₱13,832,892**	₱13,836,447	₱13,150,762
Impact of adoption of PFRS 9 (Note 2)	**19,297,217**	–	–
Balance at beginning of year, as adjusted	**33,130,109**	13,836,447	13,150,762
Provisions for the year (Note 16)	**724,729**	1,940	685,685
Recovery of previously recognized doubtful accounts	–	(5,495)	–
Balance at end of year	**₱33,854,838**	₱13,832,892	₱13,836,447

5. **Other Current Assets**

	2018	2017	2016
Prepayments	**₱19,207,442**	₱36,284,267	₱3,417,471
CWT – net	**16,124,593**	5,687,696	3,810,966
Deferred input VAT	**1,893,143**	1,735,627	–
Input VAT – net	**1,621,803**	2,882,411	285,426
Others	**962,740**	774,920	145,350
	₱39,809,721	₱47,364,921	₱7,659,213

Prepayments includes deferred transaction costs amounting to ₱13,379,420, ₱10,763,277 and nil as of December 31, 2018, 2017 and 2016, respectively, in connection with the Group's planned offering of redeemable, convertible, non-participating and non-voting Peso-denominated preferred shares. As of April 12, 2019, the Group is in the process of securing the approval of the PSE of the said transaction (see Note 13). This also includes the prepayments made by the Parent Company in purchasing
IBM Licenses related to installation of email system for the Supreme Court of the Philippines amounting to nil as of December 31, 2018, 2016 and ₱23,638,466 as of December 31, 2017.

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

The Group has written-off CWT amounting to ₱706,270. No impairment loss on CWT is recognized in 2018, 2017 and 2016.

6. **Investments and Advances**

	2018	2017	2016
Financial assets at FVOCI	**₱1,337,638,090**	₱–	₱–
AFS investments	**–**	1,312,871,168	1,312,871,168
	₱1,337,638,090	₱1,312,871,168	₱1,312,871,168

Financial assets at FVOCI/AFS Investments

a. *NOW Telecom*

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

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

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

The Parent Company applied for an increase in its authorized capital stock to accommodate the foregoing transaction (see Note 13).

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

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

On February 22, 2018, the franchise granted to NOW Telecom has been extended for another 25 years or until year 2043 under Republic Act No. 10972 which was signed for approval into law by the President of the Republic of the Philippines. With the said law, NOW Telecom, as a telecommunications company, now has privileges similar to those granted to existing dominant players in the industry.

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

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

On September 27, 2018, the advances made for the subscription are sold to Joyce Link (see Note 9).

Set out below is the reconciliation between the carrying amounts of AFS investment reported under PAS 39 to the balances reported under PFRS 9 as at January 1, 2018:

AFS investment as at December 31, 2017	₱1,312,871,168
Impact of adoption of PFRS 9	
Reclassifications to financial asset at FVOCI (Note 2)	(1,312,871,168)
AFS investment as at January 1, 2018	₱–

As at December 31, 2018, the movements in the financial asset at FVOCI is as follow:

Reclassification to financial asset at FVOCI (Note 2)	₱1,312,871,168
Adjustment on FVOCI as at January 1, 2018	184,858,377
Financial assets at FVOCI as at January 1, 2018	1,497,729,545
Changes in fair value of equity instrument at FVOCI	(136,498,637)
Sale of equity instruments at FVOCI (Note 9)	(23,592,818)
Financial assets at FVOCI as at December 31, 2018	₱1,337,638,090

In 2018, the Group sold its equity interest in Thumbmob and Holy Cow as these investments no longer coincides with the Group's investment strategy. The fair value on the date of sale is ₱23,592,818 which is equal to the carrying value of the investments. No gain or loss was recognized in the sale. No accumulated gain or loss recognized in OCI was transferred to retained earnings.

The movements of the net accumulated unrealized gain related to financial asset at FVOCI in 2018 are presented in the 2018 consolidated statement of comprehensive income with details as follows:

Impact of adoption of PFRS 9 as at January 1, 2018 (Note 2)	₱184,858,377
Changes in fair value of equity instrument at FVOCI during the year	(136,498,637)
Net accumulated unrealized gain on financial asset at FVOCI as at December 31, 2018	₱48,359,740

AFS financial assets
Prior to adoption of PFRS 9, the Group's investment in NOW Telecom, Thumbmob and Holycow amounting to ₱ 1,312,871,168 was previously classified as AFS investment measured at cost. No impairment loss was recognized in 2017 and 2016.

Investment in an Associate

a. Softweb Consulting, Inc.

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

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

As of December 31, 2018, 2017 and 2016, the Group's share in losses of Softweb have already exceeded the cost of investment. The Group only recognizes the loss to the extent of the cost of investment. Accordingly, the carrying amount of investment in Softweb as of December 31, 2018, 2017 and 2016 is nil. The Group does not have any legal or constructive obligation to make payments on behalf of Softweb.

The unrecognized share in net loss amounted to ₱7,077,304 as of December 31, 2018, 2017 and 2016.

The Group has advances to Softweb amounting to ₱5,000,000. This pertains to deposit for future stock subscription in Softweb pending the increase in its authorized capital stock. In 2016, the Group recognized provision for impairment loss on its advances to Softweb amounting to ₱5,000,000 (see Notes 9 and 16).

7. Property and Equipment

2018

	Leasehold Improvements	Transportation Equipment	Office and IT Equipment	Furniture and Fixtures	Total
Cost:					
Balances at beginning of year	**₱4,937,446**	**₱15,989,027**	**₱22,531,141**	**₱1,393,888**	**₱44,851,502**
Additions	**–**	**3,835,981**	**6,391,875**	**55,975**	**10,283,831**
Balances at end of year	**4,937,446**	**19,825,008**	**28,923,016**	**1,449,863**	**55,135,333**
Accumulated depreciation and amortization:					
Balances at beginning of year	**4,880,447**	**15,337,824**	**14,656,989**	**1,264,779**	**36,140,039**
Depreciation and amortization for the year (Note 16)	**56,999**	**735,537**	**6,477,059**	**39,291**	**7,308,886**
Balances at end of year	**4,937,446**	**16,073,361**	**21,134,048**	**1,304,070**	**43,448,925**
Net book value	**₱–**	**₱3,751,647**	**₱7,788,968**	**₱145,793**	**₱11,686,408**

2017

	Leasehold Improvements	Transportation Equipment	Office and IT Equipment	Furniture and Fixtures	Total
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 16)	435,230	146,071	3,711,041	68,922	4,361,264
Balances at end of year	4,880,447	15,337,824	14,656,989	1,264,779	36,140,039
Net book value	₱56,999	₱651,203	₱7,874,152	₱129,109	₱8,711,463

2016

	Leasehold Improvements	Transportation Equipment	Office and IT Equipment	Furniture and Fixtures	Total
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 16)	500,722	396,752	1,082,072	108,118	2,087,664
Balances at end of year	4,445,217	15,191,753	10,945,948	1,195,857	31,778,775
Net book value	₱492,229	₱668,524	₱5,255,896	₱198,031	₱6,614,680

Cost of fully depreciated assets still in use amounted to ₱23,332,218, ₱17,836,276 and ₱17,134,057 as of December 31, 2018, 2017 and 2016, respectively.

8. Accounts Payable and Accrued Expenses

	2018	2017	2016
Trade payables:			
Third parties	**₱35,794,933**	₱59,917,133	₱22,510,846
Related parties (Notes 9 and 19)	**12,177,558**	16,396,954	18,808,706
Accrued expenses:			
Interest (Notes 9 and 19)	**59,903,586**	59,903,586	59,903,586
Others	**22,454,270**	11,563,299	8,432,065
Deferred output VAT	**25,320,246**	14,954,494	9,265,728
Withholding tax payable	**1,001,869**	1,331,793	721,643
	₱156,652,462	₱164,067,259	₱119,642,574

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

9. Related Party Transactions

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

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

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

Related Party	**Category**	**Amount**
Thumbmob	Advances	₱14,344,369
Holycow	Advances, Loans and Interest	11,616,220
Softweb	Trade receivables	34,372,311
	Loans and Interest	714,000
	Advances - net	483,228
IBI	Advances	15,567,752
	Interest	12,263,401
Porteon	Loans	2,160,300

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

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

On June 25, 2010, both parties agreed to extend the maturity of the loan from August 30, 2010 to August 30, 2012. On August 31, 2012, both parties agreed to further extend the maturity of the loan up to August 30, 2015, with the interest rate further reduced to 3% per annum starting January 1, 2013. On August 31, 2015, both parties agreed to extend the maturity of the loan to five (5) years ending August 30, 2020. Interest was retained at 3% per annum.
On September 27, 2018, the loan and the corresponding interest was transferred to Joyce Link which effectively terminated the loan agreement between the parties.

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

c. As of December 31, 2018, 2017 and 2016 the Group has outstanding liabilities to Emerald Investment, Inc. (EII) amounting to ₱2,902,918 which arose from the Group’s sub-lease agreement with EII that ended in 2011.

d. On January 1, 2013, the Parent Company renewed its service agreement with KPSC for a period of four (4) years beginning January 1, 2013 to December 31, 2016. On January 3, 2017, the Parent Company renewed its service agreement with KPSC for a period of five (5) years beginning January 3, 2017 up to January 2, 2022.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Notes 4 and 19)	Due to related parties	Trade and other payables (Note 8 and 19)	Advances to affiliates (Note 6)	Terms	Conditions
Shareholders										
Velarde, Inc.	**Advances**	**2018**	**₱113,286,593**	**₱–**	**₱–**	**₱254,613,559**	**₱–**	**₱–**	**On demand**	**Unsecured**
		2017	₱73,004,050	₱–	₱–	₱141,326,966	₱–	₱–	On demand	Unsecured
		2016	₱73,626,954	₱–	₱–	₱68,322,816	₱–	₱–	On demand	Unsecured
	Management fee	**2018**	**240,000**	**–**	**1,920,000**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2017	240,000	–	1,680,000	–	–	**–**	On demand	Unsecured, no impairment
		2016	240,000	–	1,440,000	–	–	–	On demand	Unsecured, no impairment
	Interest	**2018**	**–**	**–**	**–**	**–**	**59,903,586**	**–**	**On demand**	**Unsecured**
		2017	–	–	–	–	59,903,586	–	On demand	Unsecured
		2016	–	–	–	–	59,903,586	–	On demand	Unsecured
GHI	**Advances**	**2018**	–	**2,000**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured**
		2017	2,000	2,000	–	–	–	–	On demand	Unsecured
		2016	–	–	–	–	–	–	On demand	Unsecured
EII	**Advances**	**2018**	**–**	**40,848**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2017	–	40,848	–	–	–	–	On demand	Unsecured, no impairment
		2016	–	40,848	–	–	–	–	On demand	Unsecured, no impairment
	Leases	**2018**	**–**	**–**	**–**	**2,902,918**	**–**	**–**	**On demand**	**Unsecured**
		2017	–	–	–	2,902,918	–	–	On demand	Unsecured
		2016	–	–	–	2,902,918	–	–	On demand	Unsecured

(Forward)

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Notes 4 and 19)	Due to related parties	Trade and other payables (Note 8 and 19)	Advances to affiliates (Note 6)	Terms	Conditions
Joyce Link	**Advances**	**2018**	**₱91,521,581**	**₱91,521,581**	**₱–**	**₱–**	**₱–**	**₱–**	**Due within 1 year**	**Secured**
		2017	₱–	₱–	₱–	₱–	₱–	₱–	–	–
		2016	₱–	₱–	₱–	₱–	₱–	₱–	–	–
	Interest	**2018**	**980,802**	**980,802**	–	–	–	–	**Due within 1 year**	**Secured**
		2017	–	–	–	–	–	–	–	–
		2016	–	–	–	–	–	–	–	–
Affiliates										
NOW Telecom	**Advances**	**2018**	**91,008,956**	**154,754,395**	**–**	**878,208**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		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
	Services	**2018**	**32,800,000**	**–**	**40,486,900**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2017	7,800,000	–	13,102,508	–	–	–	On demand	Unsecured, no impairment
		2016	7,500,000	–	8,400,000	–	–	–	On demand	Unsecured, no impairment
KPSC	**Advances**	**2018**	**–**	**209,708**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured**
		2017	5,000	209,708	–	–	–	–	On demand	Unsecured
		2016	–	204,708	–	–	–	–	On demand	Unsecured
	Outside services	**2018**	**26,650,140**	**–**	**–**	**–**	**8,819,096**	**–**	**On demand**	**Unsecured**
		2017	41,998,319	–	–	–	13,038,492	–	On demand	Unsecured
		2016	50,716,312	–	–	–	15,450,244	–	On demand	Unsecured

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Notes 4 and 19)	Due to related parties	Trade and other payables (Note 8 and 19)	Advances to affiliates (Note 6)	Terms	Conditions
(Forward)										
IBI	**Advances**	**2018**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**Due within 5 years**	**Unsecured, no impairment**
		2017	₱–	₱15,567,752	₱–	₱–	₱–	–	Due within 5 years	Unsecured, no impairment
		2016	₱–	₱15,567,752	₱–	₱–	₱–	–	Due within 5 years	Unsecured, no impairment
	Interest	**2018**	**333,409**	**–**	**–**	**–**	**–**	**–**	**Due within 5 years**	**Unsecured, no impairment**
		2017	467,033	11,929,992	–	–	–	–	Due within 5 years	Unsecured, no impairment
		2016	467,033	11,462,959	–	–	–	–	Due within 5 years	Unsecured, no impairment
Asian Institute of	**Advances**	**2018**	**81,087**	**570,196**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
Journalism and		**2017**	18,048	489,109	–	–	–	–	On demand	Unsecured, no impairment
Communication		**2016**	1,039	471,061	–	–	–	–	On demand	Unsecured, no impairment
	Management fee	**2018**	**240,000**	–	**240,000**	–	–	–	**On demand**	**Unsecured, no impairment**
		2017	–	–	–	–	–	–		
		2016	–	–	–	–	–	–		
Paradiso Verde,	**Advances**	**2018**	**–**	**–**	**–**	**–**	**3,358,462**	**–**	**On demand**	**Unsecured**
Inc.		**2017**	–	–	–	–	3,358,462	–	On demand	Unsecured
		2016	–	–	–	–	3,358,462	–	–	Unsecured
	Services	**2018**	–	–	–	**₱605,212**	–	–	**On demand**	**Unsecured, no impairment**
		2017	–	–	–	605,212	–	–	On demand	Unsecured, no impairment
		2016	–	–	–	605,212	–	–	On demand	Unsecured, no impairment

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Notes 4 and 19)	Due to related parties	Trade and other payables (Note 8 and 19)	Advances to affiliates (Note 6)	Terms	Conditions
(Forward)										
	Revenue	**2018**	**₱11,700,000**	**₱–**	**₱11,700,000**	**₱–**	**₱–**	**₱–**	**On demand**	**Unsecured**
		2017	₱–	₱–	₱–	₱–	₱–	₱–		
		2016	₱–	₱–	₱–	₱–	₱–	₱–		
Porteon	**Loans**	**2018**	**–**	**–**	–	–	–	–	**On demand**	**Unsecured, no impairment**
		2017	–	2,160,300	–	–	–	–	On demand	Unsecured, no impairment
		2016	–	2,160,300	–	–	–	–	On demand	Unsecured, no impairment
Newsnet	**Advances**	**2018**	**13,638,233**	**32,999,144**	**–**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		2017	8,623,951	19,360,911	–	–	–	–	On-demand	Unsecured, no impairment
		2016	4,669,416	10,736,960	–	–	–	–	–	–
	Services	**2018**	**10,000,000**	**–**	**48,681,799**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		2017	25,600,000	–	53,441,589	–	–	–	On-demand	Unsecured, no impairment
		2016	15,450,000	–	28,504,000	–	–	–	–	–
GHT	**Advances**	**2018**	**2,338,894**	**6,475,917**	**–**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		2017	2,411,588	8,588,889	–	–	–	–	On-demand	Unsecured, no impairment
		2016	1,177,121	6,177,301	–	–	–	–	–	–

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Notes 4 and 19)	Due to related parties	Trade and other payables (Note 8 and 19)	Advances to affiliates (Note 6)	Terms	Conditions
	Services	**2018**	**22,000,000**	**–**	**65,332,304**	**–**	**–**	**–**	**On-demand**	**Unsecured, no impairment**
		2017	20,600,000	–	44,032,048	–	–	–	–	Unsecured, no impairment
		2016	15,450,000	–	28,504,000	–	–	–	–	–

(Forward)

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Notes 4 and 19)	Due to related parties	Trade and other payables (Note 8 and 19)	Advances to affiliates (Note 6)	Terms	Conditions
Holycow	**Loans**	**2018**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**On demand**	**Unsecured, no impairment**
		2017	₱–	₱–	₱2,211,771	₱–	₱–	₱–	On demand	Unsecured, no impairment
		2016	₱–	₱–	₱2,211,771	₱–	₱–	₱–	On demand	Unsecured, no impairment
	Interest	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2017	–	156,000	–	–	–	–	On demand	Unsecured, no impairment
		2016	–	156,000	–	–	–	–	On demand	Unsecured, no impairment
	Advances	**2018**	**–**	–	–	–	–	–	**On demand**	**Unsecured, no impairment**
		2017	–	–	–	–	–	9,248,449	On demand	Unsecured, no impairment
		2016	–	–	–	–	–	9,248,449	On demand	Unsecured, no impairment
Thumbmob	**Advances**	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2017	–	–	–	–	–	14,344,369	On demand	Unsecured, no impairment
		2016	–	–	–	–	–	14,344,369	On demand	Unsecured, no impairment

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Notes 4 and 19)	Due to related parties	Trade and other payables (Note 8 and 19)	Advances to affiliates (Note 6)	Terms	Conditions
I-College	**Advances**	**2018**	**11,241**	**11,961**	–	–	–	–	**On demand**	**Unsecured, no impairment**
		2017	–	720	–	–	–	–	On demand	Unsecured, no impairment
		2016	–	720	–	–	–	–	–	–
	Lease	**2018**	**930,313**	**–**	**–**	**6,667,238**	**–**	**–**	**On demand**	**Unsecured**
		2017	930,313	–	–	5,736,925	–	–	On demand	Unsecured
		2016	930,313	–	–	4,806,612	–	–	On demand	Unsecured
(Forward)										
	Loans	**2018**	**₱59,631**	**₱–**	**₱183,435**	**₱–**	**₱–**	**₱–**	**On demand**	**Unsecured, no impairment**
		2017	₱44,837	₱–	123,804	₱–	₱–	₱–	On demand	Unsecured, no impairment
Associate										
Softweb	**Advances**	**2018**	–	–	–	**–**	**–**	**–**	**On demand**	**Unsecured**
		2017	–	487,344	2,380,860	4,116	–	–	On demand	Unsecured
		2016	–	487,344	2,380,860	4,816	–	–	On demand	Unsecured
	Loans	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2017	–	714,000	–	–	–	–	On demand	Unsecured, no impairment
		2016	–	714,000	–	–	–	–	On demand	Unsecured, no impairment
	Sales	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**

Related parties	Category	Year	Transaction amount	Due from related parties	Trade and other receivables (Notes 4 and 19)	Due to related parties	Trade and other payables (Note 8 and 19)	Advances to affiliates (Note 6)	Terms	Conditions
		2017	–	–	16,401,451	–	–	–	On demand	Unsecured, no impairment
		2016	5,412,232	–	16,401,451	–	–	–	On demand	Unsecured, no impairment
	Management fee	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**On demand**	**Unsecured, no impairment**
		2017	–	–	15,590,000	–	–	–	On demand	Unsecured, no impairment
		2016	–	–	15,590,000	–	–	–	On demand	Unsecured, no impairment
		2018		**₱287,566,552**	**₱156,844,438**	**₱265,667,135**	**₱72,081,144**	**₱–**		
		2017		₱123,453,012	₱148,964,031	₱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		

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**	**2018**	**₱240,000**	**₱–**	**₱–**
		2017	₱240,000	₱–	₱–
		2016	₱240,000	₱–	₱–
NOW Telecom	**Management fee**	**2018**	**32,800,000**	**–**	**–**
		2017	7,800,000	–	–
		2016	–	–	–
	Services	**2018**	–	–	–
		2017	–	–	–
		2016	7,500,000	–	–
	Cost of data services	**2018**	**–**	**3,922,957**	**–**
		2017	–	1,757,720	–
		2016	–	779,715	–
	Lease	**2018**	**–**	**–**	**120,000**
		2017	**–**	**–**	120,000
Newsnet	**Services**	**2018**	**10,000,000**	–	–
		2017	25,600,000	–	–
		2016	15,450,000	–	–
	Cost of data services	**2018**	–	**10,041,776**	–
		2017	–	1,364,054	–
		2016	–	1,696,912	–
GHT	**Services**	**2018**	**10,000,000**	–	–
		2017	20,600,000	–	–
		2016	15,450,000	–	–
	Management fee	**2018**	**12,000,000**	**–**	**–**
		2017	–	–	–
		2016	–	–	–
	Cost of data services	**2018**	–	**1,699,561**	–
		2017	–	–	–
		2016	–	–	–
IBI	**Interest**	**2018**	**333,409**	**–**	**–**
		2017	467,033	–	–
		2016	467,033	–	–
KPSC	**Outside services**	**2018**	**–**	**24,343,211**	**2,306,929**
		2017	–	39,355,462	2,642,857
		2016	–	43,226,619	7,489,693
Softweb	**Sales**	**2018**	**–**	**–**	**–**
		2017	**–**	–	–
		2016	5,412,232	–	–
Asian Institute of Journalism and Communication	**Management fee**	**2018**	**240,000**	**–**	**–**
		2017	–	–	–
		2016	–	–	–

Related parties	Category	Year	Revenues	Cost of sales and services	General and administrative expenses
Joyce Link	**Interest**	**2018**	**980,802**	–	–
		2017	–	–	–
		2016	–	–	–
(Forward)					
Paradiso Verde	**Revenue**	**2018**	**₱11,700,000**	**₱–**	**₱–**
		2017	–	–	–
		2016	–	–	–
I-College	**Lease**	**2018**	**–**	**–**	**930,313**
		2017	–	–	930,313
		2016	–	–	930,313
		2018	**₱78,294,211**	**₱40,007,505**	**₱3,357,242**
		2017	₱54,707,033	₱42,477,236	₱3,693,170
		2016	₱44,519,265	₱45,703,246	₱8,420,006

10. Lease Commitments

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

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

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

c. On April 1, 2017, the Group entered into a contract of lease with monthly rental fee of ₱23,067 for its principal office for one (1) year and may be renewed upon mutual agreement of both parties. On April 1, 2018, the lease agreement was renewed for another one (1) year. On April 1, 2019, the lease agreement was renewed for another one (1) year.

d. On January 1, 2017, the Group entered into a contract of lease with NOW Telecom with monthly rental fee of ₱10,000 for an office for five (5) years ending December 31, 2020.

e. The Group entered into contract of lease with various building owners for the common areas and facilities of the latter for the Group's fiber optic cable facilities and its value-added services for the period ranging from November 11, 2016 to December 31, 2022. The monthly rental payment ranges from ₱5,000 to ₱15,000 with annual escalation rate of 5% after the first and second year. Accrued rent amounting to ₱18,300 as of December 31, 2018 represents straight-line adjustment on rent.

Future minimum lease payment related to the lease as of December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Within one (1) year	**₱1,762,266**	₱1,179,514	₱917,365
After one (1) year but not more than five (5) years	**3,798,207**	1,900,572	–
	₱5,560,473	₱3,080,086	₱917,365

Total rent expense recognized in 2018, 2017 and 2016 amounted to ₱1,389,075, ₱1,739,036 and ₱1,728,730, respectively (see Note 16).

11. **Loans Payable**

	2018	2017	2016
Land Bank	**₱50,000,000**	₱–	₱–
PSBC	**47,591,893**	–	–
BDO	**351,614**	448,951	536,533
	97,943,507	448,951	536,533
Less current portion	**52,064,583**	97,337	87,426
Loans payable	**₱45,878,924**	₱351,614	₱449,107

Land Bank loan

On January 30, 2018, the Parent Company secured a short-term loan agreement with Land Bank of the Philippines amounting to ₱50,000,000 with an interest rate of 4.80% per annum. The loan, including the interests incurred, will mature on July 27, 2018. On the maturity date, the loan was renewed for six (6) months with the same terms and conditions with maturity date of January 23, 2019. On the maturity date, the loan was renewed for another six (6) months with the same terms and conditions with latest maturity date of July 23, 2019.

Interest expense recognized on this loan amounted to ₱2,299,212 in 2018.

Producers Savings Bank Corporation (PSBC) loan

On October 31, 2018, the Parent Company signed a five-year ₱50,000,000 loan agreement with PSBC maturing on October 31, 2023. The loan is secured by a real estate and carries an interest rate of 12.23% per annum.

Interest expense recognized including amortization of transaction cost on this loan amounted to ₱981,801 in 2018.

BDO loan

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

Interest expense recognized on this loan amounted to ₱43,711, ₱52,015 and ₱1,607 in 2018, 2017 and 2016, respectively.

Metropolitan Bank and Trust Company and Bank of Makati loan

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

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

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

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

12. **Retirement Benefits Obligation**

The Company has an unfunded non-contributory defined benefit plan covering substantially all of its qualified employees. The defined benefit obligation is determined using the projected unit credit method.

The amounts recognized in the statement of financial position and the components of retirement benefit expense recognized in the statement of comprehensive income are based on the latest actuarial valuation as of December 31, 2018.

The Group recognized retirement benefit in the statements of financial position amounting to ₱975,690 as of December 31, 2018.

Retirement benefit expense recognized in profit or loss consists of current service cost amounting to ₱459,808 in 2018 (see Note 16).

The component of the present value of the defined benefit obligation includes current service cost recognized in profit or loss amounting to ₱459,808 and actuarial loss arising from change in financial assumptions recognized in OCI amounting to ₱515,882 in 2018. As of December 31, 2018, the balance of defined benefit obligation amounts to ₱975,690.

The principal actuarial assumptions used in determining the projected benefit obligation for the Group in 2018 are as follows:

	2018
Discount rate	**7.38-7.46%**
Salary increase rate	**5.00%**

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2018, assuming if all other assumptions were held constant:

The maturity analysis of the undiscounted benefit payments as of December 31, 2018 are as follows:

	Increase/Decrease in Percentage Point	Increase (Decrease) in Define Benefit Obligation
Discount rate	+1%	(₱123,317)
	-1%	147,512
Salary increase rate assumption	+1%	₱148,898
	-1%	(127,711)
Less than 1 year		**₱–**
More than 1 to 10 years		**3,518,213**
More than 10 to 15 years		**11,087,065**
More than 15 years		**36,212,345**
Total		**₱50,817,623**

The average duration of the defined benefit payment as of December 31, 2018 is 18 years.

13. **Capital Stock**

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

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

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

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

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

On April 29, 2016, the Parent Company's BOD approved the increase in the authorized capital stock of the Parent Company from 2,120,000,000 shares at ₱1 par value per share to 3,000,000,000 shares at ₱1 par value per share. The BOD also approved the conversion into equity of the advances from Velarde, Inc. amounting to ₱264,000,000 at a conversion price of ₱1.22 per share computed based on the volume-weighted average price of the Parent Company's shares for a 30-day trading period ended April 14, 2016. On June 2, 2016, the stockholders of the Parent Company approved the said increase in the Parent Company's authorized capital stock. On July 22, 2016, the Parent Company filed with the SEC its application for the approval of the proposed increase in its authorized capital stock.
On March 15, 2018, the stockholders of the Parent Company approved the change in the conversion price of the advances from ₱1.22 per share to a range of ₱1.50 to ₱1.70 per share. As of December 31, 2018, the Group presented the deposit for future stock subscription amounting to ₱264,000,000 as part of liability since the conversion rate has not been finalized as of December 31, 2018. On March 8, 2019, the stockholders of the Parent Company approved the setting aside of the proposed increase in the authorized capital stock.

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

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

On May 21, 2018, the BOD approved and ratified the designation of the 5,000,000 redeemable convertible cumulative non-participating non-voting peso-denominated preferred shares as the Preferred "A" shares. On the same date, the BOD approved the offering of the 5,000,000 Preferred "A" shares with an oversubscription option of 5,000,000 Preferred "A" shares, with 25,000,000 underlying common shares and an additional 25,000,000 common shares upon the exercise of the oversubscription option, which common shares shall be issued upon conversion of the Preferred "A" shares, with detachable warrants.

On June 1, 2018, stockholders of the Group ratified and approved the features, terms, conditions and offering of the Preferred "A" shares. On June 22, 2018, the SEC issued the Certificate of Filing of Enabling Resolution for the Preferred "A" shares which approved the designation and offering of Preferred "A" shares. As of April 12, 2019, the PSE has yet to approve the offering of Preferred "A" shares in the exchange.

On December 28, 2018, the BOD approved the reduction of the par value of common shares of the Parent Company from ₱1.00 per share to ₱0.75 per share and the application of the resulting additional paid-in capital to eliminate the accumulated deficit of the Parent Company. As of
April 12, 2019, the equity restructuring is yet to be filed to the SEC.

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

	Number of shares		
	2018	2017	2016
Common stock, ₱1 par value	**2,060,000,000**	2,060,000,000	2,120,000,000
Preferred stock, ₱1 par value	**60,000,000**	60,000,000	–
Balance at end of the year	**2,120,000,000**	2,120,000,000	2,120,000,000

Issued and outstanding capital stock consist of 1,517,278,350 common stocks amounting to
₱1,517,278,350 as of December 31, 2018, 2017 and 2016.

14. Revenue

Set out below is the disaggregation of the Group's revenue from contracts with customers for the year ended December 31, 2018:

Type of contracts	Service fee	Sales	Total
Broadband service contracts	₱44,927,731	₱2,283,321	₱47,211,052
Management service contracts	65,280,000	–	65,280,000
Sale and/or installation of software licenses	38,960,513	31,158,281	70,118,794
Manpower augmentation service contracts	35,251,680	–	35,251,680
	₱184,419,924	₱33,441,602	₱217,861,526

Set out below, is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information for the year ended December 31, 2018:

	IT Manpower and Resource Augmentation	Software Licenses and Management services	Broadband services	Total
Revenue from:				
Broadband service contracts	₱–	₱–	₱47,211,052	₱47,211,052
Management service contracts	–	65,280,000	–	65,280,000
Sale and/or installation of software licenses	–	70,118,794	–	70,118,794
Manpower augmentation service contracts	35,251,680	–	–	35,251,680
	₱35,251,680	₱135,398,794	₱47,211,052	₱217,861,526

Broadband service contracts
Parent Company entered into various broadband service contracts with commercial and residential customers with contracts ranging from one (1) year to two (2) years as of December 31, 2018. These contracts are either offered separately or bundled with software license. Under these contracts, the Parent Company will provide broadband services to its customers based on a fixed monthly fee, which may also include delivery of bundled software license.

Sale and/or installation of software license
Parent Company entered into various short-term contract of sale with commercial customers to transfer software licenses. The Group also entered into various service contracts to install software licenses.

Management service contracts
Parent Company entered into various management service contracts with related parties to provide management services with contracts ranging from year to three (3) years to five (5) years as of December 31, 2018. Under these contracts, the Parent Company will provide management services to the customers based on a fixed monthly fee.

Manpower augmentation service contracts
IRCII entered into various manpower augmentation service contracts with commercial customers to provide manpower specializing on IT with contracts ranging from six (6) months to one (1) year as of December 31, 2018. Under these contracts, the entity will provide manpower to customers based on a fixed monthly fee.

15. Costs of Sales and Services

	2018	2017	2016
Cost of service:			
Software collaboration services (Note 9)	**₱77,496,806**	₱46,436,396	₱43,226,619
Cost of data services (Note 9)	**46,277,523**	7,386,191	3,204,621
Cost of sales	**24,549,264**	31,980,891	10,215,702
	₱148,323,593	₱85,803,478	₱56,646,942

16. General and Administrative Expenses

	2018	2017	2016
Salaries and other employee benefits (Note 12)	**₱12,639,969**	₱13,772,096	₱1,301,160
Advertising and promotion	**8,350,200**	2,367,961	4,524,439
Depreciation and amortization* (Note 7)	**7,309,611**	4,411,001	2,214,569
Entertainment, amusement and recreation	**5,822,950**	6,227,299	4,706,499
Communication	**5,244,439**	4,496,294	4,109,582
Transportation and travel	**4,612,457**	5,026,897	1,702,362
Taxes and licenses	**2,680,771**	4,095,999	1,068,636
Outside services (Note 9)	**2,436,996**	6,988,982	7,489,693
Professional fees	**1,776,658**	2,495,621	2,918,643
Rental (Note 10)	**1,389,075**	1,739,036	1,728,730
Office supplies	**1,359,932**	793,637	2,441,318
Provision for impairment loss on:			
Trade and other receivables (Note 4)	**724,729**	1,940	685,685
Advances to affiliate (Note 6)	–	–	5,000,000
Insurance	**309,151**	199,904	258,661
Utilities	**259,686**	284,014	982,225
Repairs and maintenance	**219,452**	180,576	1,008,292
Others	**2,692,701**	996,603	1,260,642
	₱57,828,777	₱54,077,860	₱43,401,136

**Includes amortization of software cost under “Other noncurrent asset” amounting to ₱725, ₱49,737 and ₱ 126,905 in 2018, 2017, and 2016, respectively*

17. Income Taxes

The Group’s provision for current income tax consists of the following:

	2018	2017	2016
RCIT with itemized deduction	**₱1,594,744**	₱1,590,187	₱2,193,264
MCIT	**174,657**	1,080,771	–
	₱1,769,401	₱2,670,958	₱2,193,264

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

	2018	2017	2016
Statutory income tax at 30%	**₱2,971,851**	₱2,688,352	₱1,407,532
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses	**253,950**	1,886,347	3,169,352
Interest income subjected to final tax	**(75,615)**	(1,468)	(1,157)
Movement of unrecognized deferred income tax assets	**(1,380,785)**	(1,902,273)	(2,382,463)
	₱1,769,401	₱2,670,958	₱2,193,264

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

The temporary differences are as follows:

	2018	2017	2016
Allowance for impairment on trade and other receivables	**₱33,854,838**	₱13,832,892	₱13,836,447
NOLCO	**1,167,833**	2,761,602	14,677,498
Retirement benefits	**459,808**	–	–
MCIT	**77,151**	2,312,359	1,713,165
Others	**1,794,605**	131,065	–
	₱37,354,235	₱19,037,918	₱30,227,110

As of December 31, 2018, NOLCO and MCIT can be claimed as deduction from future taxable income and income tax liabilities, respectively, are as follows:

Year Incurred	Year of Expiration	NOLCO	MCIT
2018	2021	₱–	12,999
2017	2020	602,209	64,152
2016	2019	565,624	–
		₱1,167,833	₱77,151

The following are the movements in NOLCO and MCIT:

	2018	2017	2016
NOLCO:			
Balances at beginning of year	**₱2,761,602**	₱14,677,498	₱60,886,089
Additions	**–**	602,209	565,624
Application	**–**	(11,199,273)	(13,432,651)
Expirations	**(1,593,769)**	(1,318,832)	(33,341,564)
Balances at end of year	**₱1,167,833**	₱2,761,602	₱14,677,498

	2018	2017	2016
MCIT:			
Balances at beginning of year	**₱2,312,359**	₱1,713,165	₱812,692
Additions	**12,999**	727,806	903,836
Applications	**(2,248,207)**	–	–
Expirations	**–**	(128,612)	(3,363)
Balances at end of year	**₱77,151**	₱2,312,359	₱1,713,165

18. Basic/Diluted EPS

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

	2018	2017	2016
Net income attributable to equity holders of the Parent (a)	**₱7,885,496**	₱6,792,056	₱2,500,433
Weighted average number of outstanding common shares for both basic and dilutive EPS (b)	**1,517,278,350**	1,517,278,350	1,517,278,350
Basic/dilutive earnings per share (a/b)	**₱0.0052**	₱0.0045	₱0.0016

As of December 31, 2018, 2017 and 2016, the Parent Company does not have any dilutive potential common shares.

19. Financial Risk Management Objectives and Policies

The Group's financial instruments are composed of cash, trade and other receivables, due from related parties, financial asset at FVOCI, accounts payable and accrued expenses, due to related parties, and loans payable.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework.

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

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

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

Credit Risk

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

Trade receivables

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

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix for the year ended December 31, 2018:

	Trade receivables					
		Days past due				
	Current	**<30 days**	**30-60 days**	**61-90 days**	**>91 days**	**Total**
Expected credit loss rate	**0.15%**	**0.74%**	**2.07%**	**4.51%**	**15.34%**	**14.14%**
Estimated total gross carrying amount at default (Note 4)	**₱2,057,893**	**₱27,164,416**	**₱2,803,405**	**₱63,186**	**₱ 207,351,065**	**₱ 239,439,965**
Expected credit loss	**₱3,008**	**₱201,468**	**₱58,102**	**₱2,847**	**₱33,589,413**	**₱33,854,838**

The following tables show the aging analysis of the Group's financial assets as of December 31, 2018, 2017 and 2016.

	2018			
	Neither past due nor impaired	**Past due but not impaired**	**Past due and impaired**	**Total**
Financial assets:				
Cash	**₱25,828,933**	**₱–**	**₱–**	**₱25,828,933**
Trade and other receivables	**2,057,893**	**203,527,234**	**33,854,838**	**239,439,965**
Due from related parties	**–**	**287,566,552**	**–**	**287,566,552**
Advances to employees	**1,828,959**	**–**	**–**	**1,828,959**
	₱29,715,785	**₱491,093,786**	**₱33,854,838**	**₱554,664,409**

	2017			
	Neither 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	2,211,771	164,322,857	13,832,892	180,367,520
Due from related parties	27,497,744	95,955,268	–	123,453,012
Advances to employees	1,408,596	–	–	1,408,596
	₱41,812,307	₱260,278,125	₱13,832,892	₱315,923,324

	2016			
	Neither 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	2,211,771	111,965,479	13,836,447	128,013,697
Due from related parties	27,030,711	72,495,743	–	99,526,454
Advances to employees	1,355,118	–	–	1,355,118
	₱34,994,019	₱184,461,222	₱13,836,447	₱233,291,688

As at December 31, 2018, 2017 and 2016, the Group's maximum exposure to credit risk is equal to the carrying amount of its financial assets.

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

The Group considers its financial assets that are neither past due nor impaired amounting to ₱29,715,785, ₱41,812,307 and ₱34,994,019 as of December 31, 2018, 2017 and 2016 as high grade financial assets.

The Group considers its financial assets that are past due but not impaired amounting to ₱491,093,786, ₱260,278,125 and ₱184,461,222 as of December 31, 2018, 2017 and 2016 as standard grade financial assets.

The Group has impaired trade and other receivables amounting to ₱33,854,838, ₱13,832,892 and ₱13,836,447 as of December 31, 2018, 2017 and 2016, respectively.

Concentration of Credit Risk
The Group's exposure to concentration of credit risk arises from the default of the counterparties, with a maximum exposure equal to the carrying amounts of the receivables from GHT Network, Inc., NOW Telecom, Newsnet (see Note 9).

The table below shows the risk exposure in respect to credit concentration of the Group as of December 31, 2018, 2017 and 2016:

Trade receivable from:	**2018**	2017	2016
GHT Network, Inc.	**₱65,332,304**	₱44,032,048	₱28,504,000
Newsnet	**48,681,799**	53,441,589	28,504,000
NOW Telecom	**40,486,901**	13,102,508	8,400,000
Total credit concentration risk	**₱154,501,004**	₱110,576,145	₱65,408,000
Total receivables	**₱207,414,086**	₱167,943,224	₱115,532,368
Credit concentration percentage	**74.49%**	65.84%	56.61%

Interest Rate Risk Table
The following tables provide for the effective interest rates and interest payments by period of maturity of the Group's long-term debts:

	2018					
	Interest Rates	Within 1 Year	More than 1 year but less than 4 years	More than 4 Years but less than 5 Years	More than 5 Years	Total
Fixed Rate						
PBS ₱50,000,000 Loan	**12.23%**	**₱4,055,556**	**₱ 11,500,000**	**₱4,055,556**	**₱–**	**₱ 19,611,112**
BDO ₱706,000 Loan	**10.79%**	**29,081**	**23,939**	**–**	**–**	**53,020**
Landbank ₱50,000,000 Loan	**5.61%**	**2,805,000**	**–**	**–**	**–**	**2,805,000**

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

The tables summarize the maturity profile of the Group's financial liabilities as of December 31, 2018, 2017 and 2016, based on contractual undiscounted cash flows. The tables also analyze the maturity profile of the Group's financial assets that can be used to finance maturing financial obligations. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity dates.

2018

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				
Cash	**₱25,828,933**	**₱–**	**₱–**	**₱25,828,933**
Trade and other receivables	**205,585,127**	**–**	**–**	**205,585,127**
Due from related parties	**195,064,169**	**92,502,383**	**–**	**287,566,552**
Advances to employees	**1,828,959**	**–**	**–**	**1,828,959**
	₱428,307,188	**₱92,502,383**	**₱–**	**₱520,809,571**
Financial liabilities:				
Accounts payable and accrued expenses*	**₱130,330,347**	**₱–**	**₱–**	**₱130,330,347**
Due to related parties	**265,667,135**	**–**	**–**	**265,667,135**
Future interest on loans payable	**–**	**4,084,637**	**15,579,495**	**19,664,132**
Loans payable	**–**	**52,064,583**	**45,878,924**	**97,943,507**
	₱395,997,482	**₱56,149,220**	**₱61,458,419**	**₱513,605,121**

**Excluding government payables*

2017

	On demand	Within 1 year	More than 1 year	Total
Financial assets:				
Cash	₱10,694,196	₱–	₱–	₱10,694,196
Trade and other receivables	166,534,628	–	–	166,534,628
Due from related parties	95,955,268	–	27,497,744	123,453,012
Advances to employees	1,408,596	–	–	1,408,596
	₱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

	On demand	Within 1 year	More than 1 year	Total
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	83,921,798	30,255,452	–	114,177,250
Due from related parties	72,495,743	–	27,030,711	99,526,454
Advances to employees	1,355,118	–	–	1,355,118
	₱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*

Fair Value of Financial Instruments
Set out in the following table is a comparison of carrying amounts and fair values of the Company's financial instruments as of December 31, 2018, 2017 and 2016 other than those with carrying amounts that are reasonable approximations of fair values.

	2018		2017		2016	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets						
Due from related parties - noncurrent	**₱–**	**₱–**	₱27,497,744	₱24,793,312	₱27,030,711	₱24,144,646
Financial Liabilities:						
Financial liabilities at amortized cost:						
Long-term debts	**₱97,943,507**	**₱89,889,124**	₱448,951	₱380,328	₱536,533	₱424,612

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

Cash and Cash Equivalents, Trade and Other Receivables, Due from Related Parties, Trade and Other Payables, Loans Payable and Due to Related Parties
The carrying amounts of cash, trade and other receivables, due from related parties, accounts payable and accrued expenses and due to related parties approximate their fair values due to the short-term maturity of these financial instruments.

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

Financial Asset at FVOCI
Fair value of unquoted equity security was determined using discounted cash flow based on market observable rates.

Due from Related Parties - Noncurrent
The fair value of noncurrent amounts due from related party were based on discounted value of future flows using applicable credit-adjusted risk-free rates of 6.98%, 5.7% and 5.9% as of December 31, 2018, 2017 and 2016, respectively (Level 3).

Long-term Debts
The fair values for the Company's long-term debts are estimated using the discounted cash flow methodology with the applicable rates ranging from 6.98% to 7.04%, 5.70% and 5.90% as of December 31, 2018, 2017 and 2016.

The following tables show the fair value information of financial instruments classified under financial assets at FVOCI and financial liabilities at amortized cost and analyzed by sources of inputs on fair valuation as follows:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

	2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial Assets				
Financial assets at FVOCI	**₱1,337,638,090**	**₱–**	**₱–**	**₱1,337,638,090**
Financial Liabilities				
Long-term at amortized cost	**97,943,507**	**–**	**97,943,507**	**–**

As of December 31, 2017 and 2016, fair value of long-term debts amounts to ₱380,328 and ₱424,612, respectively and falls under level 2 of the fair value hierarchy. As of December 31, 2017 and 2016, due from related parties - noncurrent amounts to ₱24,793,312 and ₱24,144,646, respectively, and falls under level 3 of the fair value hierarchy.

For the years ended December 31, 2018, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The following table demonstrates the sensitivity of a reasonably possible change in interest rates for the year ended December 31, 2018, with all other variables held constant, in the Group's comprehensive income before income tax:

	Increase (Decrease) in Basis points	Increase (Decrease) on Income Before Income Tax
December 31, 2018	**+100**	**(₱656,715,728)**
	-100	**859,431,515**
December 31, 2017	+100	(₱18,968)
	-100	18,968
December 31, 2016	+100	(₱673)
	-100	673

The Group classifies its financial instruments in the following categories.

	2018		
	Amortized Cost	***Financial Asset at FVOCI***	***Total***
Financial Assets			
Cash and cash equivalents	**₱25,828,933**	**₱–**	**₱25,828,933**
Trade and other receivables	**205,585,127**	**–**	**205,585,127**
Due from a related party	**287,566,552**	**–**	**287,566,552**
Advances to employees	**1,828,959**	**–**	**1,828,959**
Financial assets at FVOCI	**–**	**1,337,638,090**	**1,337,638,090**
Total financial assets	**₱520,809,571**	**₱1,337,638,090**	**₱1,858,447,661**

	2018		
	Amortized Cost	***Financial Asset at FVOCI***	***Total***
Financial Liabilities			
Accounts payable*	**₱130,330,347**	**₱–**	**₱130,330,347**
Accrued interest on long-term debts	**19,664,132**	**–**	**19,664,132**
Due to related parties	**265,667,135**	**–**	**265,667,135**
Long-term debts	**97,943,507**	**–**	**97,943,507**
Total financial liabilities	**₱513,605,121**	**₱–**	**₱513,605,121**

**Excluding statutory liabilities to the Government*

	2017		
	Amortized Cost	AFS	Total
Financial Assets			
Cash and cash equivalents	₱10,694,196	₱–	₱10,694,196
Trade and other receivables	166,534,628	–	166,534,628
Due from a related party	274,592,688	–	274,592,688
Advances to employees	1,408,596	–	1,408,596
AFS - equity investments	–	1,312,871,168	1,312,871,168
Total financial assets	₱453,230,108	₱1,312,871,168	₱1,766,101,276
Financial Liabilities			
Accounts payable*	₱147,780,972	₱–	₱147,780,972
Accrued interest on long-term debts	92,156	–	92,156
Due to related parties	151,454,345	–	151,454,345
Long-term debts	448,951	–	448,951
Total financial liabilities	₱299,776,424	₱–	₱299,776,424

**Excluding statutory liabilities to the government*

	2016		
	Amortized Cost	AFS	Total
Financial Assets			
Cash and cash equivalents	₱4,396,419	₱–	₱4,396,419
Trade receivables	114,177,250	–	114,177,250
Due from a related party	99,526,454	–	99,526,454
Advances to employees	1,355,118	–	1,355,118
AFS - equity investments	–	1,312,871,168	1,312,871,168
Total financial assets	₱219,455,241	₱1,312,871,168	₱1,532,326 ,409
Financial Liabilities			
Accounts payable*	₱109,655,203	₱–	₱109,655,203
Accrued interest on long-term debts	155,502	–	155,502
Due to related parties	77,520,582	–	77,520,582
Long-term debts	536,533	–	536,533
Total financial liabilities	₱187,867,820	₱–	₱187,867,820

**Excluding statutory liabilities to the government*

The table below demonstrates the income, expense, gains or losses of the Group's financial instruments for the years ended December 31, 2018, 2017 and 2016:

	2018		2017		2016	
	Effect on Profit or Loss Increase (Decrease)	**Effect on Equity Increase (Decrease)**	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)	Effect on Profit or Loss Increase (Decrease)	Effect on Equity Increase (Decrease)
Amortized cost						
Interest income on:						
Cash in banks (Note 6)	**₱251,561**	**₱–**	₱4,894	₱–	₱3,857	₱–
Provision for impairment losses (Note 16)	**(724,729)**	**(19,297,217)**	(1,940)	–	(685,685)	–
	(₱473,168)	**(₱ 19,297,217)**	₱2,954	₱–	(₱681,828)	₱–
Financial assets at FVOCI						
Equity investments:						
Unrealized gain on financial asset at FVOCI	**₱–**	**₱48,359,740**	₱–	₱–	₱–	₱–
Financial liabilities at amortized cost						
Interest expense on (Note 11):						
Long-term debts, including amortization of transaction costs	**(₱3,324,724)**	**₱–**	(₱52,015)	₱–	(₱572,962)	₱–

Capital Management

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

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

On October 28, 2010, PSE issued a memorandum regarding the rule for the minimum public ownership for all listed companies. Based on the memorandum, listed companies shall, at all times, maintain a minimum percentage of listed securities held by the public of ten percent (10%) of the listed companies' issued and outstanding shares, exclusive of any treasury shares or as such percentage that may be prescribed by the PSE. The Group has complied with the minimum public ownership as of December 31, 2018, 2017 and 2016.
The Group considers the equity attributable to the equity holders of the Parent Company as presented in the consolidated statement of financial position as its core capital.

As of December 31, 2018, 2017 and 2016, the Group was able to meet its capital management objectives.

20. Business Segment Information

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

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

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

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

2018

	IT Manpower and Resource Augmentation	Software Licenses and Services	Broadband Services	Total
Service fees	**₱35,251,680**	**₱104,240,513**	**₱44,927,731**	**₱184,419,924**
Sales	**–**	**31,158,281**	**2,283,321**	**33,441,602**
Total revenue	**₱35,251,680**	**₱135,398,794**	**₱47,211,052**	**₱217,861,526**
Segment expenses	**₱26,231,183**	**₱75,814,887**	**₱46,277,523**	**₱148,323,593**
General and administrative expenses	**7,011,168**	**–**	**–**	**7,011,168**
Unallocated expenses	**–**	**–**	**–**	**50,817,609**
Unallocated other charges	**–**	**–**	**–**	**1,802,986**
Provision for income tax	**622,238**	**1,129,935**	**17,228**	**1,769,401**
Net income (loss)	**1,387,091**	**58,453,972**	**916,301**	**8,136,769**
Other information				
Capital expenditures	**182,705**	**5,985,567**	**4,115,559**	**10,283,831**
Segment assets	**22,160,442**	**544,926,966**	**9,204,376**	**576,291,784**
Unallocated Financial asset at FVOCI	**–**	**–**	**–**	**1,337,638,090**
Segment liabilities	**27,315,708**	**757,923,086**	**–**	**785,238,794**
Depreciation and amortization	**118,098**	**2,293,928**	**4,897,585**	**7,309,611**

2017

	IT Manpower and Resource 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
Total revenue	₱42,274,212	₱81,576,983	₱24,513,069	₱148,364,264
Segment expenses	₱31,568,240	₱46,849,047	₱7,386,191	₱85,803,478
General and administrative expenses	6,524,463	–	–	6,524,463
Unallocated expenses	–	–	–	47,553,397
Provision for income tax	1,590,187	1,080,771	–	2,670,958
Net income (loss)	2,591,322	33,647,165	17,126,878	6,290,216
Other information				
Capital expenditures	83,572	1,285,658	5,088,817	6,458,047
Segment assets	18,318,317	335,499,397	5,088,817	358,906,531
Unallocated AFS financial asset				1,312,871,168
Segment liabilities	19,207,375	296,763,180	–	315,970,555
Depreciation and amortization	90,535	1,150,261	3,170,205	4,411,001
Unallocated other income	–	–	–	478,248

2016

	IT Manpower and Resource 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
Total revenue	₱43,412,235	₱54,279,066	₱5,981,141	₱103,672,442
Segment expenses	₱36,610,332	₱16,831,989	₱3,204,621	₱56,646,942
General and administrative expenses	6,456,689	–	–	6,456,689
Unallocated expenses	–	–	–	636,944,447

	2016			
	IT Manpower and Resource Augmentation	Software Licenses and Services	Broadband services	Total
Provision for income tax	1,289,428	903,836	–	2,193,264
Net income (loss)	(944,214)	36,543,241	2,776,520	2,498,509
Other information				
Capital expenditures	133,928	970,358	4,347,551	5,451,837
Segment assets	2,456,753	228,347,368	3,442,034	234,246,155
Unallocated AFS financial asset	–	–	–	1,312,871,168
Segment liabilities	32,070,469	162,269,220	–	194,339,689
Depreciation and amortization	39,062	1,269,990	905,517	2,214,569
Unallocated other income	–	–	–	1,067,409

21. Notes to Consolidated Statements of Cash Flows

In 2016, the noncash financing activity involves the conversion of ₱264,000,000 advances from Velarde, Inc. to the Parent Company's common shares. As of December 31, 2018, the Group presented the deposit for future stock subscription amounting to ₱264,000,000 as part of liability since the since the conversion rate has not been finalized as of December 31, 2018. (see Note 13).

Changes in liabilities arising from financing activities:

	January 1, 2018	**Cash inflow**	**Cash outflows**	**Others**	**December 31, 2018**
Due to related parties	**₱151,454,345**	**₱133,442,010**	**(₱19,229,220)**	**₱–**	**₱265,667,135**
Loans payable	**448,951**	**97,287,870**	**(194,674)**	**401,360**	**97,943,507**
Total liabilities from financing activities	**₱151,903,296**	**₱230,729,880**	**(₱19,423,894)**	**₱401,360**	**₱363,610,642**

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

	January 1, 2016	Cash inflow	Cash outflow	Others	December 31, 2016
Due to related parties	₱238,078,380	₱160,557,798	(₱57,115,596)	(₱264,000,000)	₱77,520,582
Loans payable	44,500,000	44,500,000	(43,963,467)	(44,500,000)	536,533
Total liabilities from financing activities	₱282,578,380	₱160,557,798	(₱(101,079,063)	(₱264,000,000)	₱78,057,115

22. Other Matter

Land Bank loan

On January 23, 2019, the Parent Company extended the loan agreement with Land Bank of the Philippines amounting to ₱50,000,000 with an interest rate of 4.80% per annum for another six (6) months with latest maturity date on July 23, 2019.

Equity restructuring

On March 8, 2019, the stockholders of the Parent Company approved the reduction of par value of the common shares of the Parent Company from ₱1.00 per share to ₱0.75 per share and the application of the resulting additional paid-in capital to eliminate the accumulated deficit of the Parent Company. For this purpose, the BOD and stockholders of the Parent Company approved the amendment of the Articles of Incorporation for the reduction of the par value. As of April 12, 2019, the equity restructuring is yet to be filed to the SEC.

Conversion of Velarde, Inc.

On March 8, 2019, the stockholders of the Parent Company approved the conversion into equity of the advances from Velarde, Inc. amounting to ₱209,000,000. As of April 12, 2019, the conversion is yet to be filed to the SEC.

Broadband Business Partnerships
In December 2018, the Parent Company entered into various business partnership agreements with third party businesses for a period of five years starting 2019.

NOW CORPORATION AND SUBSIDIARIES

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

Deficit, as adjusted to available for dividend distribution, beginning	(₱431,831,234)
Net income during the period	5,241,673
Deficit	(₱426,589,561)

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

- Total consolidated revenues in the first quarter of 2019 is Php49.903 Million, increased by 47% or Php16.058 Million from last year's first quarter revenue of Php33.845 Million. Service Revenue increase by Php22.317 million from last year figure of Php19.958 million to Php42.276 million in 2019 first quarter. Service revenues mainly pertains to Broadband Services and fees or income earned from the deployment by the Company of professionals to its clients to render IT-related solutions and services. The increase of Service Revenues was due to an increase in Broadband Revenue from Php9.599 Million last year, it goes up to Php17.078 Million this year.

- Cost and Expenses for the first quarter of 2018 is Php42.309 Million, which is an increase from last year's cost and expense of Php28.852 Million. This was brought about by an increase in cost of sales and services of Php11.897 Million from Php9.063 Million in 2018 to Php20.960 in 2019. Other expenses which has a significant increase are Interest and Other Charges which has a Php2.067 Million increase and Advertising and Promotion which has an increase of Php1.814 Million.

- As of March 31, 2019, the total consolidated assets of the Company stood at Php1.934 Billion compared with last year's Php1.749 Billion or an increase of Php184.727 Million. Current Assets increased by Php187.524 Million or 47% from Php394.970 Million in 2018 to Php582.495 Million in 2019. This was due to the increase in Trade and other receivables by Php25.108 Million, from last year's Php183.076 Million to this year's Php208.184 Million, Due from related parties increased by Php170.811 Million from last year's Php140.309 increased to this year's Php311.120 Million. Other current assets decreased by Php7.072 Million. Non-Current Assets decreased to Php1.351 Billion from last year's Php 1.354 Billion.

- Current liabilities increased by Php96.305 Million or 25% from Php388.179 Million in 2018 to Php484.484 Million in 2019. Accounts Payable and accrued expenses increased by Php11.560 Million or 9%, from Php130.320 Million in 2018, it increased to Php141.920 Million in 2019. Loans payable – current portion increased by Php12.065 Million due to a short term loan with a private investor amounting to Php10.000 million received during March, 2019.

- Non-current Liabilities increased from Php1.362 million to Php50.598 million which was due to Php50.000 million term loan availed from a local bank. Deposit for future subscription amounting to Php264.000 million was classified as part of equity since as at the Special Meeting of the Board of Directors held on April 23, 2019, the Board finalized and approved the conversion price at Php1.70 per share of the conversion of advances into equity of the amount of Php264.000 million.

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

- On January 2018, the Company availed a short term loan amounting to Php50 million with an interest rate of 4.80% from a local universal bank to be used in operations. The loan was last renewed on April 24, 2019 with maturity for both interest and principal payments on October 18, 2019.

- On October 2018, the Company obtained a term loan of Php50 Million with 8% fixed interest rate from a local universal bank for use in acquisition of capital assets. The loan requires monthly repayments of principal and interest until October 2023.

- As of March 31, 2019, the total Assets stood at Php1.934 Billion, Liabilities at Php535.082 Million and Equity at Php1.399 Billion.

- Current assets and Current Liabilities Increased by 47% and 25% respectively resulting to an increase of the Company's Liquidity Ratio wherein Current Ratio stood at 1.2023:1 and 1.0175:1, while Acid Test Ratio stood at 1.1058 and 0.8828 for the First Quarter of 2018 and 2017 respectively.

- The Company's Return on Equity for the first quarter, 2018 and 2017 was at 0.38% and 0.26% respectively.

- A further analysis indicates that NOW Corp.'s Asset to Debt Ratio stood at 3.6137x and 4.4896x; while its Debt to Asset Ratio stood at 0.2767x and 0.2227x for the first quarter of 2018 and 2017 respectively.

Part II. Other Information

Item 1. Financial Soundness Indicators

See **Annex "A"**.

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

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

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

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

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

There is no seasonality or 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 **25 April 2019**

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

Signature and Title **Chief Financial Officer**
Date **25 April 2019**

UBSCRIBED AND SWORN TO ME BEFORE THIS ____ DAY O
APR 25 2019 IN CITY OF MAKATI METRO MLA. PHILIPPIN
FIANT EXHIBITING HIS/HER COMPETENT ID ____
SUED IN ____ ON ____

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SERIES OF 2019

ATTY. HOBERT N. LUZ
NOTARY PUBLIC
Until December 31 2019
Appt No M-102 Makati City
IBP #058192 for 2019 - RSM
PTR #7328679 Jan 03 2019-Makati
S.C Roll No 59597
MCLE Compliance No V-0015459; 9 March 2016
Unit 301 3rd Flr Campos Rueda Bldg.
101 Urban Avenue, Brgy Pio del Pilar
Makati City

ANNEX "A"

Schedule of Financial Indicators
For the Quarter Ending 31 March 2019 and 2018

Category	Financial Ratio	YTD JAN TO MAR	
		2019	2018
Liquidity	Current Ratio	1.2023	1.0175
	Acid Test Ratio	1.1058	0.8828
Solvency	Debt to Equity Ratio	0.3826	0.2866
	Asset to Debt Ratio	3.6137	4.4896
	Debt to Asset Ratio	0.2767	0.2227
Equity	Asset to Equity Ratio	1.3826	1.2866
Interest	Interest Rate Coverage Ratio	4.3173	23.4463
Profitability	Profit Margin	58.00%	73.22%
	Return on Assets	0.27%	0.20%
	Return on Equity	0.38%	0.26%
	Book Value per share	0.9217	0.8959
	Earnings per share	0.0035	0.0023

The Financial Indicators are computed as follows:

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

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

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

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

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