

# COVER SHEET

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COMPANY NAME

[illegible]

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

[illegible]

Form Type

1	7	-	A
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Department requiring the report

S	E	C	
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Secondary License Type, If Applicable

N	/	A	
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## COMPANY INFORMATION

Company's Email Address

**info@now-corp.com**

Company's Telephone Number

(632) 7750-0461 /  
(632) 7750-0211 /  
(632) 7750-0224

Mobile Number

**N/A**

No. of Stockholders

70

Annual Meeting (Month / Day)

## First Thursday of June

Fiscal Year (Month / Day)

12/31

## CONTACT PERSON INFORMATION

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

Name of Contact Person

**Angeline L. Macasaet**

Email Address

angeline.macasaet@now  
-corp.com

Telephone Number/s

**7750-0211**

Mobile Number

**N/A**

## CONTACT PERSON's ADDRESS

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

**NOTE1 :** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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

SEC FORM 17-A

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

1. For the fiscal year ended December 31, 2019
2. SEC Identification Number A199600179 3. BIR Tax Identification No. 004-668-224
4. Exact name of issuer as specified in its charter NOW CORPORATION
5. METRO MANILA, PHILIPPINES  (SEC Use Only)  
Province, Country or other jurisdiction of Industry Classification Code:  
incorporation or organization
7. Unit 5-I, 5<sup>th</sup> Floor, OPL Building, 100 C. Palanca Street, Legaspi Village, Makati City, Philippines  
Address of principal office Postal Code 1229
8. +632 750-0211  
Issuer's telephone number, including area code
9. N/A  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA
- | Title of Each Class | Number of Shares of Common Stock Outstanding<br>and Amount of Debt Outstanding |
|---------------------|--|
| <u>Common Stock</u> | <u>1,672,572,468</u>   |
11. Are any or all of these securities listed on a Stock Exchange.
- Yes [ / ] No [ ]
- If yes, state the name of such stock exchange and the classes of securities listed therein:
- |                                  |                     |
|----------------------------------|---------------------|
| <u>Philippine Stock Exchange</u> | <u>Common Stock</u> |
|----------------------------------|---------------------|
12. Check whether the issuer:
- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);
- Yes [ / ] No [ ]
- (b) has been subject to such filing requirements for the past ninety (90) days.
- Yes [ / ] No
13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the

date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

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

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

Yes [ ]

No [ / ]

**PART I - BUSINESS AND GENERAL INFORMATION**

**Item 1. Business**

**A. Description of Business**

**(1) Business Development.**

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

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

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

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

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

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

On September 19, 2006, the Securities and Exchange Commission (SEC) approved the increase in the authorized capital stock of Cashrounds to Php1.320 billion with corresponding increase of its paid-up

capital to Php1,317,278,350 as well as the change of the corporate name from Cashrounds, Inc. to Information Capital Technology Ventures, Inc.

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

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

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

On February 20, 2009, the PSE issued a circular informing the investing public of the Company's listing of additional 1,289,278,350 common shares effective February 24, 2009. This is to cover the share-for-share swap transactions with the shareholders of NOW Telecom, namely, Top Mega Enterprises Limited, Gamboa Holdings, Inc., Emerald Investments, Inc., Joyce Link Holdings Limited and Food Camp Industries and Marketing, Inc., at a swap price of ₱1.00 per share.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At the 29 April 2016 Special Meeting of the Board of Directors, the Board approved the increase of the authorized capital stock of the Company from Php2.120B to Php3.0B. The Board likewise approved the conversion into equity of the 264M advances accumulated since year 2011 from a shareholder, Velarde, Inc., at a conversion price of Php1.22/share computed/ based on the daily average of the volume-weighted average price of NOW shares for a 30-day trading period ending 14 April 2016; Finally, the Board approved the listing of 216M shares that will be issued out of the said conversion and increase in authorized capital stock.

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

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

Convertible, Non-Participating, and Non-Voting Preferred Shares with or without Detachable Warrants with a par value of One Peso (Php1.00) per share.

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

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

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

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

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

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

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

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.

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) with the conversion price computed based on the Volume Weighted Average Price (VWAP) of the 30-day trading period ending 11 October 2018.

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

At the Special Stockholders' Meeting of NOW Corporation held on 08 March 2019, the stockholders unanimously approved 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 stockholders unanimously approved the amendment of Article Seventh of NOW's Articles of Incorporation to reduce the par value of common shares from One Peso (Php1.00) per share to Seventy Centavos (Php0.70) per share, and the resulting decrease of NOW's authorized capital stock from Php2,120,000,000.00 divided into 2,060,000,000 common shares with par value of One Peso (Php1.00) each to Php1,442,000,000 divided into 2,060,000,000 common shares with par value of Seventy Centavos (Php0.70) each.

Likewise, the stockholders unanimously approved the conversion of advances into equity of its shareholder Velarde, Inc. in the amount of Two Hundred Nine Million Pesos (Php209,000,000.00) with the conversion price computed based on the Volume Weighted Average Price (VWAP) of the 30-day trading period ending 11 October 2018 or at Php6.50 per share, and the listing of additional shares resulting from the said conversion. The waiver by a majority vote representing the outstanding shares held by the minority shareholders present of the conduct of a Rights or Public Offering of the Shares to be subscribed to by Velarde, Inc. was likewise affirmed/confirmed. In the same meeting, the stockholders also approved the revision of the earlier approval made during the Annual Stockholders' Meeting held on 07 June 2018 to increase the authorized capital stock of the Company within a range between Php600M and Php700M in connection with the earlier conversion of another tranche of advances made by Velarde, Inc. to NOW Corporation in the amount of Php264 Million. Only the conversion into equity of Velarde, Inc.'s advances in the amount of Php264M based on the adjusted conversion price range between Php1.50 and Php1.70 per share as well as the listing of additional shares resulting from the said



conversion are approved and affirmed for implementation. The contemplated increase in authorized capital stock is deemed set aside.

On September 6, 2019 The Securities and Exchange Commission approved the Company's application for equity restructuring and the decrease in its authorized capital and par value per share, wiping out the deficit as of 31 December 2018 in the amount of Php402,105,543.00 against the reduction surplus of Php455,183,505.00.

With the amendment of Article Seventh of NOW's Articles of Incorporation, the resulting authorized capital stock of the Company is One Billion Five Hundred Two Million Pesos (Php1,502,000,000.00), Philippine Currency, and said capital stock is divided into Two Billion Sixty Million (2,060,000,000) common shares, with a par value of Seventy Centavos (Php0.70) each and Sixty Million (60,000,000) Redeemable, Convertible, Non-Participating, and Non-Voting Preferred Shares with or without Detachable Warrants with a par value of One Peso (Php1.00) per share.

The equity restructuring did not reduce the number of issued, outstanding and listed shares and will not change a stockholder's interest in the Company. Furthermore, the Php1.00 par value per share of the existing preferred shares will not change.

On 06 November 2019, the Securities and Exchange Commission issued a Certificate of Approval of Valuation confirming the valuation of shareholder Velarde, Inc.'s advances in the amount of Php264M as payment for the additional issuance of 155,294,118 common shares worth Php108,705,882.60 (with par value of Php 0.70 per share) out of the unissued portion of the present authorized capital stock of NOW Corporation, based on the conversion price of Php1.70 per share as approved by at least majority of the stockholders and Board of Directors at their respective meetings held on 08 March 2019.

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

Pursuant to its new primary purpose, the Company has recently shifted its operations into Telecommunications, Media and Technology (TMT). Its new primary purpose is primarily engaged in the business of providing telecommunications, media and information technology products and services under its three key operating business segments, namely: (i) Software Licenses and Services; (ii) IT Manpower and Resource Augmentation; and (iii) Broadband and Wireless Cable TV Services. The Company's diverse products and services portfolio include software application development and maintenance, collaboration software solutions, web integration, web and mobile applications development, technical and maintenance services, IT manpower and resource augmentation, project implementation and management, managed services outsourcing, and fixed wireless broadband services, among others. The Company also offers value-added services through partnerships with companies licensed to provide wired and wireless, fixed and mobile communications and cable TV services.

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

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

Mbps, which may be further increased to up to 700 Mbps, depending on the clients' bandwidth requirements. The Company positions its fixed wireless broadband service either as primary, alternative or as an auxiliary link to existing broadband service providers.

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

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

### Business Partners

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

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

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

### Brands

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

### Products and Services

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

- IBM Collaboration Solutions

In partnership with IBM, the Company provides IBM collaborations solutions such as provision of software and IT-enabled services aimed at developing business solutions and applications to ease business

operations and boost productivity of business enterprises. The Company has been categorized as a premier business partner of IBM as an affirmation of its superior skills and market success. The Company resells essential IBM tools and products that are designed to enable new capabilities that improve business processes and help engage clients and employees in new ways. These IBM tools and products include software for instant messaging that facilitates integrated team collaboration accessible by the client's employees across all applications and devices; file sharing and enterprise electronic mails which the client can integrate in its business application allowing enterprises to have easy use real-time connections and communication within their office space; and IBM Ustream video platform which can be utilized by enterprises to distribute content via video.

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

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

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

- **Cloud Hosting Services**

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

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

- **Virtual Private Networks**

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

- **Cloud-based Multimedia Conferencing Services**

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

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

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

- **Digital Media Production**

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

The Company offers its web development through WebsiteExpress.Biz. The Company has established the brand WebsiteExpress.Biz as its vehicle in delivering quality and globally compliant websites catering to micro and medium-sized enterprises. WebsiteExpress.Biz is a one-stop website development service operator that provides development, domain, hosting, secure sockets layer certificates, shopping cart, electronic mail, among others, without engaging multiple service providers. It operates at a subscription model, providing micro and medium-sized enterprises and individual subscribers quality, affordable and efficient websites in a span of five (5) days. One of the key features of WebsiteExpress.Biz is its responsive web design which allows a website to be responsive in all mobile devices without developing a dedicated mobile application for each kind of device.

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

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

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

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

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

- **IT Staff Augmentation**

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

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

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

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

- **Managed Services**

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

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

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

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

- Search and Select

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

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

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

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

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

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

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

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

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

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

## **Competition**

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

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

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

## **Suppliers**

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

## **Customers**

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

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

## **Transactions With and/or Dependence on Related Parties**

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

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

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

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

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

### **Research and Development Activities**

The Company did not allocate an amount for research and development in years 2015 and 2014. In the year 2013, the Company spent the amount of Php3.4K on research and development activities, which is .0044 % of its revenues. For the year 2012 and 2011, the Company did not allocate an amount for research and development activities.

### **Governmental Regulations and Environmental Laws**

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

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

### **Employees**

The Company has a total workforce of ninety-five (167) employees, of which one hundred seven(107) are regular employees, nine (9) are probationary employees and Fifty One (51) are project-based employees. The following shows the breakdown of the manpower complement of the Company according to business function:

Executive	6
Managerial	11
Administrative	28
Operation	122
<b>Total</b>	<b>167</b>

### **Major Risks**

1. Competition. New and existing competitors can erode the Company and its subsidiaries' competitive advantage through the introduction of new products and services, improvement of product quality, increase in production efficiency, new and updated technologies and costs reductions. To manage all these, the Company and its subsidiaries continuously come up with new and exciting products and improve product propositions.
2. Third Party Services. The Company's social media services have a dependence on 3rd parties such as developers and internet providers. Maintaining and sustaining a satisfactory relationship with third party service providers is critical in ensuring technical support for the Company's social media services. Failure to do so may negatively impact the Company's business since we rely on them for content upgrades, localization and technical support. To mitigate this risk, the Company is constantly in search for the right partners.

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

## **Item 2. Properties**

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

In April 2014, the Company renewed its lease agreement covering its principal office for another one (1) year period, renewable upon mutual agreement of the parties. In March 2015, the Company informed the lessor of the former's interest to renew the lease agreement to cover the period commencing on April 1, 2015 up to March 31, 2016, renewable subject to mutual agreement of the parties, for a monthly rental rate of Php19,384.04 (excluding EVAT). The lease was renewed for another year in April 2016. Thereafter, the lease was renewed for another year in April 2017.

In 2019, the lease of NOW Corporation's office located at Unit 5-I, 5<sup>th</sup> Floor, OPL Building, 100 C. Palanca Street, Legaspi Village, Makati City was renewed for another year.

## **Item 3. Legal Proceedings**

The Company is not a party to any administrative, civil or criminal litigation or proceeding pending or threatened against or relating to the Company in any of the courts in the Philippines or abroad.

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

None.

# **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

## **Item 5. Market for Issuer's Common Equity and Related Stockholder Matters**

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

On July 23, 2002, the Board of Directors and stockholders approved the offer of up to 28,000,000 shares from the Company's unissued common stock through initial public offering (IPO). The application for the IPO of the Company was approved by the PSE and the Securities and Exchange Commission (SEC), on June 11 and July 30, 2003, respectively. The Company was listed in the PSE on July 23, 2003. Issue manager and underwriter was Abacus Capital & Investment Company. The following table is the summary of the Company's stock prices from first quarter of 2016 up to the 1<sup>st</sup> quarter of 2020:



Year	Quarter	High	Low	Close
2016	1 <sup>st</sup>	1.140	0.580	1.100
	2 <sup>nd</sup>	3.000	2.900	2.900
	3 <sup>rd</sup>	3.490	3.400	3.440
	4 <sup>th</sup>	2.540	2.430	2.490
2017	1 <sup>st</sup>	2.980	2.900	2.900
	2 <sup>nd</sup>	2.630	2.580	2.610
	3 <sup>rd</sup>	2.370	2.300	2.340
	4 <sup>th</sup>	2.880	2.800	2.820
2018	1 <sup>st</sup>	8.200	7.560	8.190
	2 <sup>nd</sup>	12.160	6.850	9.030
	3 <sup>rd</sup>	9.970	7.000	7.310
	4 <sup>th</sup>	8.150	1.850	3.440
2019	1 <sup>st</sup>	4.300	2.440	2.550
	2 <sup>nd</sup>	2.830	1.960	2.530
	3 <sup>rd</sup>	4.780	2.060	2.710
	4 <sup>th</sup>	3.700	2.300	2.490
2020	1 <sup>st</sup>	2.680	1.000	1.410
	April	1.980	1.410	1.920

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

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

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

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

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

On September 27, 2006, the Company submitted to the PSE a listing application of additional 1,289,278,350 common shares to cover its share-for-share swap transaction with NOW Telecom

shareholders. Following the Company's re-application for listing of the same shares in October 2008, the PSE approved the same and were listed on February 24, 2009.

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

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

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

The movement in the number of shares and capital stock amount for the year ended December 31, 2019, 2018 and 2017 are as follows :

Balance at beginning of year	2019		2018		2017	
	Number of Shares	Amount	Number of shares	Amount	Number of shares	Amount
	1,517,278,350	1,517,278,350	1,517,278,350	1,517,278,350	1,517,278,350	1,517,278,350
Increase in number of shares as a result of reduction in par value	0 -	-	-	-	-	-
Issuance during the year	155,294,118	-	-	-	-	-
	<b>1,672,572,468</b>	<b>1,170,800,728</b>	<b>1,517,278,350</b>	<b>1,517,278,350</b>	<b>1,517,278,350</b>	<b>1,517,278,350</b>

No party or person holds any voting trust over any of the Company's shares. There are approximately 70 Holders of Common Stock as of 31 March 2020. The Top Twenty (20) Holders of Common Stock as of 31 March 2020 are as follows:

Name	Nationality	No. of shares	Percentage
PCD Nominee Corporation	Filipino	905,083,223	54.11%
Top Mega Enterprises Limited	Chinese	341,046,855	20.39%
Velarde, Inc.	Filipino	355,865,668	21.28%
Emerald Investments, Inc	Filipino	271,154,360	16.21%
Joyce Link Holdings Limited	British V.I.	86,208,552	5.15%
Food Camp Industries and Marketing, Inc.	Filipino	72,361,472	4.27%
Gamboa Holdings, Inc.	Filipino	217,875,577	13.03%
Alejandro , Jose S.	Filipino	1,000,010	0.0598%
Chua Co Kiong, William N.	Filipino	145,000	0.0087%
Cuan, Rowell D.	Filipino	26,000	0.0016%
Arias, Ma. Purificacion Bugho	Filipino	10,000	0.0006%
Bulaag, Ernesto V.	Filipino	10,000	0.0006%
Chua, Paul Vincent	Filipino	10,000	0.0006%
Cometa, Roel B.	Filipino	10,000	0.0006%
Bocabil, Alben B.	Filipino	10,000	0.0006%
De Leon, Jose Mari	Filipino	10,000	0.0006%
Dela Cuesta, Karlo S.	Filipino	10,000	0.0006%
Atienza, Ma. Nenita Robosa	Filipino	10,000	0.0006%
Alvarez Jr., Servando B.	Filipino	10,000	0.0006%
Dela Cruz, Melanio C.	Filipino	10,000	0.0006%
Harvey, Sarah Jean	Filipino	10,000	0.0006%

## **Dividends**

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

### **RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION**

**March 30, 2020**

**(Amounts are based on the Separate Financial Statements of the Parent Company)**

Unappropriated retained earnings (deficit), beginning of year	9,383,199
Adjustments	0
Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning of year	9,383,199
Net income Parent for the Quarter Ended March 31, 2020	2,858,982
Total unappropriated retained earnings available for dividend declaration at end of year	12,242,181

### **RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION**

**DECEMBER 31, 2019**

**(Amounts are based on the Separate Financial Statements of the Parent Company)**

	Amount
Unappropriated retained earnings (deficit), beginning of year	(P402,105,543)
Effect of equity restructuring	402,105,543
Net income actually earned during the year:	
Net income during the year closed to retained earnings	9,383,199
Total unappropriated retained earnings available for dividend declaration at end of year	P9,383,199

#### **Reconciliation:**

Unappropriated retained earnings as shown in the financial statements at end of year	P9,383,199
Total unappropriated retained earnings available for dividend declaration at end of year	P9,383,199

## **Recent Sale of Unregistered Securities**

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

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

### **Plans and Prospects for 2020**

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

The Company continues to expand its Fiber in the Air business as it continues to penetrate enterprises, commercial and residential buildings. The Company continues to also utilize new technologies in order to provide more capacity to its current and prospective customers. The Company has cemented its position as the largest fixed wireless access provider in the country providing guaranteed broadband internet to enterprises, commercial buildings, and residential

buildings. The Company's portfolio of clients include industries such as hospitality, banking, government agencies, media, education, e-sports, and business process outsourcing companies.

#### *Expansion to New Geographical Areas*

The Company continues to expand its Fiber in the Air business to new geographical areas in order to penetrate enterprises, commercial and residential buildings. The geographic areas are considered priority areas due to the growth of broadband internet requirement.

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

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

#### *Expansion to Special Economic Clusters*

The Company shall expand its Fiber in the Air service to special economic clusters such ecozones, industrial parks, and other economic clusters perfect for broadband connectivity service to be provided by the Company.

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

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

#### *Preferred Shares Offering*

With the quasi-reorganization approved by the Securities and Exchange Commission on September 6, 2019, NOW aims to continue the public issuance of up to 10 Million Preferred Shares as part of its Follow-On Offering, a continuing effort since 2017.

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

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

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

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

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

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

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

#### *Quasi-Reorganization*

At the special meeting of the Board of Directors of NOW Corporation held on 28 December 2018, the Board approved the Company's equity restructuring plan by reducing the par value of the common shares

of stock of the Company and by applying the resulting additional paid-in capital to eliminate its accumulated deficit.

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

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

## **Plans and Prospects for 2018**

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

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

### *High-Speed Broadband Internet Connection*

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

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

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

## **Plans and prospects for 2017**

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

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

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

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

On top of its Broadband connectivity service, the Company intends to continue bundling high-value TMT services such as cloud hosting service, virtual private networks, multimedia content, online gaming, web hosting, cloud-based multimedia conference, cloud-based mail and messaging service, electronic

communications network and services. This is the Company's forward-looking strategy whereby it shall capitalize in using new technologies that will cater to the changing needs of the sophisticated enterprise and consumer market.

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

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

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

The company intends to undergo an equity restructuring, in order to meet capital requirements for the issuance of securities, such as the aforementioned preferred equity issuance, by applying the additional paid in capital created by the Offer, subject to the approval of the SEC, to wipe out the capital deficit which may be currently impairing the ability of the Company to declare and pay dividends. Once the Company obtains the necessary approvals and implements the equity restructuring plan, the Company can resume paying dividends from future cash flows as they no longer have to use the same to eliminate retained earnings debit balances. This will also allow management the flexibility to invest the surplus cash back to grow the business.

#### **Plans and prospects for 2016**

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

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

#### **Key Performance Indicators**

Financial Soundness Indicators		December 31	
		2019	2018
Liquidity	Current Ratio	1.99	1.18
	Acid Test Ratio	1.84	1.10

Solvency	Debt to Equity Ratio	0.36	0.70
	Asset to Debt Ratio	3.80	2.44
	Debt to Asset Ratio	0.26	0.41
Equity	Asset to Equity Ratio	1.36	1.70
Interest	Interest Rate Coverage Ratio	2.48	3.98
Profitability	Profit Margin	45.63%	31.92%
	Return on Assets	0.55%	0.45%
	Return on Equity	0.71%	0.72%
	Book Value per share	1.04	0.75
	Earnings per share	0.0070	0.0052

The Financial Indicators are computed as follows:

Liquidity:	$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$ $\text{Acid Test} = (\text{Current Assets} - \text{Inventory} - \text{Prepayments}) / \text{Current Liabilities}$
Solvency:	$\text{Debt to Equity Ratio} = \text{Total Liabilities} / \text{Total Stockholders' Equity}$ $\text{Debt to Asset Ratio} = \text{Total Liabilities} / \text{Total Assets}$ $\text{Asset to Debt Ratio} = \text{Total Assets} / \text{Total Liabilities}$
Equity:	$\text{Asset to Equity Ratio} = \text{Total Assets} / \text{Total Stockholders' Equity}$
Interest:	$\text{Interest Rate Coverage Ratio} = \text{Earnings Before Interest and Taxes} / \text{Interest Expense}$
Profitability:	$\text{Profit Margin \%} : \text{Profit margin} = \text{Gross Profit} / \text{Total Revenue} \times 100$ $\text{Return on Assets \%} : \text{Return on assets} = \text{Net Income} / \text{Total Assets} \times 100$ $\text{Return on Equity \%} = \text{Net Income} / \text{Total Stockholders' Equity} \times 100$ $\text{Book Value per share} = \text{Total Stockholders' Equity} / \text{Average Outstanding Shares}$ $\text{Earning per share} = \text{Net Income} / \text{Average Outstanding Shares}$

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

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

#### Information on Independent Accountant

During the June 6, 2019 Annual Stockholders' meeting, the auditing firm of Reyes Tacandong & Co was appointed external auditor of the Company for the calendar year 2019, replacing Sycip Gorres

Velayo & Co. ("SGV & Co."), the latter being the external auditor of the Company for the last eight (8) years.

There had been no disagreements by and among the Company, the former external auditor SGV & Co., and the current external auditor Reyes Tacandong & Co., regarding accounting policies and financial disclosures of the Company.

### **Audit and Audit Fees**

The aggregate fees billed for the current fiscal year ended 2019 for professional services rendered by the Reyes Tacandong & Co. for the audit of the Company annual financial statements is Php700,000.00.

The aggregate fees billed for each of the last two (2) fiscal years for professional services rendered by the SGV & Co. for the audit of the Company annual financial statements is Php700,000.00 for 2018 and Php650,000 for 2017.

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

### **Results of operations**

#### **Year 2019**

- The consolidated revenue for the year 2019 is Php220.762 million, there is an increase of Php2.901 million or 1.30% from last year's Php217.863 million. The increase is mainly due to the increase in revenue from broadband services which amounted to Php81.671 million in 2019, representing an increase of 72.99% from Php47.211 million in 2018. Company's sales from IT manpower and resource augmentation has decreased by Php4.479 million or 12.71% from Php32.252 million in 2018. Revenue from Software Licenses and other management services for 2019 amounted to Php108.319 million for 2019 which has a decrease of Php27.079 million or 20.00% from revenue in 2018 which amounted to Php135.399 million.
- Cost of sales and services during the year amounted to ₱120.035 million, lower by 19.07% or Php28.288 million compared to the Php148.324 million cost of sales and services level posted for the year ended December 31, 2018. While there is an increase of cost of data services during the year amounting to Php48.454 million compared to the amount last year of Php19.212 million. Costs relating to software licenses and other services decreased in 2019 from Php52.365 million to Php2.848 million in 2018. The General and administrative expenses for the year 2019 increased to Php81.530 million or 40.99% increase from last year's Php57.829 million. This increase in 2018 was mainly due to 144% increase in salaries and other benefits from Php12.640 million in 2018 to Php30.833 million in 2019. In 2019, professional fees and taxes and licenses also increased by 75.03% and 72.16% respectively. While the communication and advertising expense decreased in 2019 by 44.16% and 38.64% respectively.
- The Net income after tax for the year ended December 31, 2019 increased by 39.06% to Php11.315 million or Php3.178 million higher compared with last year's Net Income of Php8.137 million. This was brought about by increase in gross profit of P31.190 million or 44.85% from last year's Php69.538 million to Php100.727 million.
- As of December 31, 2019, the total consolidated assets of the Company stood at Php2.177 billion compared with last year's Php1.914 billion, an increase by Php262.836 million or 13.73%. Current Assets increased by Php60.555 million or 10.77%, from Php562.140 million in 2018 to Php622.695 million in 2019. The increase in Current assets was mainly due to the increase in trade receivables from Php207.414million in 2018 to Php227.103 million in 2019 and an increase also in Due from Related Parties from Php287.567 million in 2018 to Php336.978 million in 2019. Non-current Assets increased by 14.96% or by Php202.281 million in 2019.



- Current liabilities decreased by Php162.101 million or 34.17%, from Php474.384 million in 2018 to Php312.283 million in 2019. This was brought by the decrease by 63.62% of the Due to Related party from Php265.668 million in 2018 to Php96.637 million in 2019. The Parent company availed of unsecured loans aggregating to Php14.00 Million from a third party with an interest rate of 8% per annum.
- Noncurrent Liabilities decreased from Php310.855 million in 2018 to P260.387 million in 2019. The decrease was due to the approval on November 6, 2019 by the Securities and Exchange Commission of the Debt to Equity Conversion of Php264M classified as deposit for future stock subscription in 2018. The deposit for future subscription decreased by 20.83% in the year 2019.
- On December 22, 2016, the Company availed a chattel mortgage amounting to Php564K from a local universal bank for the purchase of a vehicle, which serves as the property mortgage. The new loan requires 60 monthly repayments until November 23, 2021.
- On January 30, 2018, the Parent Company secured a short-term loan agreement with Land Bank of the Philippines amounting to ₱50,000,000 with an interest rate of 4.80% per annum. The loan, including the interests incurred, will mature on July 27, 2018. On the maturity date, the loan was renewed for six (6) months with the same terms and conditions with maturity date of January 23, 2019. On the maturity date, the loan was renewed for another six (6) months with the same terms and conditions with latest maturity date of June 11, 2020.
- On October 31, 2018, the Parent Company signed a five-year ₱50,000,000 loan agreement with PSBC maturing on October 31, 2023. The loan is secured by a real estate and carries an interest rate of 12.23% per annum.
- Total consolidated assets as of December 31, 2019 stood at Php2.177 billion, with Liabilities at Php572.670 million and Equity at Php1.604 billion.
- Current assets increased by 10.77% and current liabilities decreased by 34.17% resulting to an increase of the Company's Liquidity Ratio wherein Current Ratio stood at 1.99:1 and 1.99:1, while Acid Test Ratio stood at 1.84 and 1.10 for the years 2019 and 2018 respectively.
- The Company's Return on Equity for the year ended, 2019 and 2018 was at 0.71% and 0.72% respectively.
- A further analysis indicates that NOW Corp.'s Asset to Debt Ratio stood at 3.80x and 2.44x; while its Debt to Asset Ratio stood at 0.26x and 0.41x for the year 2019 and 2018 respectively

### **Year 2018**

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

Cost of sales and services during the year amounted to ₱148.326 million, higher by 72.86% or Php62.521 million compared to the Php85.803 million cost of sales and services level posted for the year ended December 31, 2017. This was primarily attributed to the increase of cost data services during the year amounting to Php46.278 million compared to the amount last year of Php7.386 million. Cost for Software collaboration services also increased by Php31.060 million from Php46.636 Million in 2017. Costs relating to sales decreased from Php31.981 million to Php24.549 million when comparing amounts from those of December 31, 2017 to those of December 31, 2018.

The General and administrative expenses for the year 2018 slightly increased to Php57.829 million or 6.94% increase from last year's Php54.078 million. This slight increase in 2018 was mainly due to increase in advertising and promotion amounting to Php8.350 million as compared to Php2.368 million in 2017.

The Net income for the year ended December 31, 2018 is Php8.137 million or Php1.847 million higher compared with last year's Net Income of Php6.290 million. This was brought about by a higher increase in revenue during the year as compared to the increase in cost of sales and services and operating expenses.

As of December 31, 2018, the total consolidated assets of the Company stood at Php1.914 billion compared with last year's Php1.672 billion, an increase by Php242.152 million or 14.48%. Current Assets increased by Php240.182 million or 74.60%, from Php321.958 million in 2017 to Php562.140 million in 2018. The increase in Current assets was mainly due to the increase in trade receivables from Php167.943 million in 2017 to Php207.414 million in 2018 and an increase also in Due from Related Parties from Php95.955 million in 2017 to Php287.567 million in 2018. Non-current Assets slightly increased by Php1.970 million in 2018.

Current liabilities increased by Php158.765 million or 50.30%, from Php315.619 million in 2017 to Php474.384 million in 2018. The increase was due to Php50.000M short term loan payable from Land Bank of the Philippines. Noncurrent Liabilities increased from Php0.351 million in 2017 to P310.854 million in 2018. The increase was due to a Php50 Million Term loan agreement with Producers bank and to the reclassification of the Php264M deposit for future stock subscription to Liability account.

Total consolidated assets as of December 31, 2018 stood at Php1.914 billion, with Liabilities at Php785.239 million and Equity at Php1.129 billion

#### **Year 2017**

The consolidated revenue for the year 2017 is Php148.364 million, there is an increase of Php44.692million or 43.11% from last year's Php103.672million. The increase is mainly due to the increase in revenue from software licenses and services which amounted to Php81.577 million in 2017, representing an increase of 50.29% from Php54.279million in 2016. Company's sales from IT manpower and resource augmentation slightly decreased to Php42.274 million from Php43.412 million in 2016. Revenue from Broadband services for 2017 amounted to Php24.513 million for 2017 which has an increase of Php18.532 million or 309.84% from revenue in 2016 which amounted to Php5.981 million.

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

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

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

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

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

#### **Year 2016**

The consolidated revenue for the year 2016 is Php103.672million, there is a slight decrease of Php10.767 million or 9.41% from last year's Php114.439million. The decrease is mainly due to the shifting of the Company's main business from software licenses to broadband. Revenue from software licenses and services decreased to Php54.279million in 2016 from Php75.018 million in 2015. Company's sales from IT manpower and resource augmentation increased to Php43.412 million in 2016 from Php39.421 million in 2015. Broadband sales for 2016 amounted to Php5.981 million.

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

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

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

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

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

#### **Item 7. Financial Statements**

The audited consolidated financial statements are attached as **Annex "A"**.

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

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

### PART III - CONTROL AND COMPENSATION INFORMATION

#### Item 9. Directors and Executive Officers of the Issuer

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

#### Board of Directors

**Thomas G. Aquino**, age 71, Filipino, Chairman of the Board of Directors. He is a Senior Fellow at the Center for Research and Communication, a multidisciplinary policy group of the University of Asia and the Pacific (UA&P). He is currently the President of NOW Telecom Company, Inc. (formerly Next Mobile, Inc.). He is also a member of the Board of Directors of Philippines National Construction Corporation, Zamboanga Development and Management Corporation, and iCollege of the Philippines, Inc. Dr. Aquino served as Senior Undersecretary of the Philippine Department of Trade and Industry and supervised the country's international trade promotion, trade negotiations under the World Trade Organization (WTO) and the ASEAN Free Trade Area (AFTA), as well as bilateral trade talks with the country's major economic trading partners. He also served as overall lead country negotiator for the Philippines in the Japan-Philippines Economic Partnership Agreement and was country representative to the High Level Task Force on Asean Economic Integration. For his government service, Dr. Aquino was conferred the Presidential Service Award (or Lingkod Bayan) for extraordinary contribution of national impact on public interest, security and patrimony and was a recipient of the Gawad Mabini Award with the rank of Grand Cross (or Kamanong) for distinguished service to the country both at home and abroad. Dr. Aquino obtained a Doctorate in Business Administration in 1980 from the IESE Business School University of Navarre in Spain, an MS in Industrial Economics in 1972 from the University of Asia and the Pacific, and an AB in Economics in 1970 from the School of Economics of the University of the Philippines.

**Mel V. Velarde**, age 56, Filipino, President, Chief Executive Officer and Member of the Board of Directors, was previously elected Vice Chairman of the Company's Board of Directors on June 2, 2006 and served as such until March 22, 2007 when he was elected as Chairman of the Board of Directors. On January 21, 2008, he resigned from his chairmanship and was again elected as Vice Chairman of the Board until June 2, 2011. He was elected as President of the Company on June 13, 2011. He is also the Chairman of the Asian Institute of Journalism and Communication. He served as Philippine Commissioner to the United Nations Educational, Scientific and Cultural Organizations ("UNESCO") and Chairperson of the Committee on Science and Technology. Mr. Velarde has built a career in broadcasting, cable TV, telecommunications and information communications technology. He was former Executive Vice President and General Manager of SkyCable, a cable TV company that became the largest in the Philippines. He obtained his Bachelor of Arts in Liberal Studies Major in Interdisciplinary Studies (Summa Cum Laude) at Boston University, Massachusetts, US. He completed the Owner/President Management Program at the Harvard Business School, Harvard University, Cambridge, Massachusetts. He has also completed courses leading to a Masters Degree in Business Economics at the University of Asia and the Pacific. He has taken Strategic Planning, Marketing and Finance at the Asian Institute of Management.

In addition, he took up the following executive courses: Wealth Management at Wharton Business School, University of Pennsylvania; Strategic Finance, University of Michigan; Corporate Restructuring and Business Transformation at Harvard Business School; Digital Marketing at Harvard Business School; Managing Businesses in China, Tsinghua University and Harvard Business School; Directing Documentaries at the London School of Film and Television; Broadcasting and Cable Television, Satellite Communications, Data and Internet Communications at the United States Telecommunications Training Institute (USTTI); Cybersecurity: Planning, Implementing and Auditing of Critical Security Controls (SANS, Washington D.C.); and Advanced and Competitive Sailing Certifications at the Swain Sailing School at Tortola, the British Virgin Islands, Caribbean.

**Jose S. Alejandro**, age 85, Filipino, Vice Chairman and member of the Board of Directors, served as Chairman of the Board of Directors of the Company on June 2, 2006 until March 22, 2007 when he resigned from said position and was elected as the Company's President. He served as President until January 21, 2008. Mr. Alejandro has also been a Member of the Board of Directors of NOW Telecom Company, Inc. (formerly Next Mobile, Inc.) since 1989 and he now serves as the Board's Chairman. He is a business and management professional and leader with over 25 years of corporate experience. He was the former President and CEO of East Asia Power Resources, a local publicly-listed independent power producer during the period of local economic crisis (1997-1999), Country Manager for the Power Systems Business of General Electric Co. (1987-1995), and Vice President - Marketing at GE Philippines, Inc. and General Manager of GE Appliance Co. In these capacities, he led the growth and success of this leading U.S. global diversified corporation in the Philippines. He holds a Bachelor of Arts and Bachelor of Law degrees from the Ateneo de Manila University and had taken post graduate courses leading to Master in Business Administration in the same school and Business Policies, Manpower and Marketing Strategies at the GE Management Institute in NY, USA. He is a member of the Philippine Bar.

**Vicente Martin W. Araneta III**, age 56, Filipino, Director, He also serves as Director and President of Facilities, Inc. and as Chairman of Real Properties, Inc., the holding company of Facilities, Inc. and owner of the Palladium Subdivision. He is also a member of the Board of Directors and Chief Financial Officer of ActivAsia, Inc., a 360-degree marketing services company specializing in Out-of-Home, events, point-of-sale and channel activation, tourism marketing, sports marketing and creative services. He is an incorporator, founding member, Treasurer and Director of the Philippine Chamber of Commerce and Industry – Pasig City, Inc.. He serves as director and chief financial officer of Algo-Rhythm Communications, Inc., Arribadigital, Inc. and ActivCare Home Health Solutions, Inc. He is currently the chief financial officer of Awesome Lab, Inc.. He is also a member (on-leave) of the Management Association of the Philippines and of the Chamber of Real Estate and Builders Associations, Inc. Mr. Araneta is a member of the Ateneo Alumni Association, Inc. and served as a member of its Board of Directors for the period 2005-2007 and 2009-2012. He is also the President of Ateneo, Inc. and a member since 2011 of the Philippine Association of Congress Exhibitors/ Organizers & Suppliers, Inc. (PACEOS). He is the incorporator of the Mandaluyong Business Foundation. Mr. Araneta also served as Director for the period 2004 to 2005 of the Philippine Science High School Foundation.

**Gerard Bnn R. Bautista**, age 56 Filipino, Director, was elected as a member of the Board of Directors on June 2, 2016. He is also currently the Chairman of the University of Baguio Foundation. He is a partner in Bnn Bautista Associates, an Architecture & Planning firm. He is also a Charter Member of the Rotary Club of Makati, Greenbelt. He is a member of various associations, namely, the Harvard Architectural and Urban Society, the Harvard Club of the Phils., the Harvard Alumni Alliance for the Environment, the Harvard Alumni Entrepreneurs, the Philippine Jaycees Senate, Rockwell Club, Porsche Club Philippines, and the Baguio Country Club. He served as President of the Makati Jaycees. He also obtained a degree in BS Architecture at the University of the Philippines. Thereafter, he studied Information Technology at the Ateneo Grad School of Business and Financial Forecasting at the University of Asia and the Pacific. He also studied Finance for Senior Executives and Management of Family Corporations at the Asian Institute of Management. Moreover, he studied Actuarial Planning at the Kennedy School of Government at Harvard and School Planning and Design in the Graduate School of Design of Harvard as well.

**Marlou Buenafe Ubano**, 47 years old, Filipino, Independent Director, has been in practice of law for fifteen years. He is the Founding Partner of the Ubano Sianghio & Lozada Law Offices which was established in June 2002. He is currently a Governor of Integrated Bar of the Philippines – Western Visayas Region. He served as Assistant Secretary for Legal Affairs of the Philippine Department of Transportation and Communications from 2011 to 2013. He was the Commissioner of the Commission on Bar Discipline, Integrated Bar of the Philippines from 2005 to 2007. He also served as President of the Integrated Bar of the Philippines - Capiz Chapter from 2007 to 2009 and again in 2011, and as Deputy Governor of the Integrated Bar of the Philippines – Western Visayas Region from 2011 to 2013. Atty. Ubano was awarded the Presidential Plaque of Merit from the IBP National President in 2007, and a Plaque of Recognition as the Most Outstanding IBP Capiz President in 2009. Atty. Ubano is a Member of

the Asean Law Association and the Intellectual Property Association of the Phils., Inc. He obtained his Bachelor's Degree in Law and Political Science in the University of the Philippines.

**Ramon Guillermo R. Tuazon**, age 61, *Filipino, Director*, is also the president of the Asian Institute of Journalism and Communication (AIJC) and secretary general of Asian Media Information and Communication Centre (AMIC). Mr. Tuazon is chairman of the Philippines Commission on Higher Education (CHED) Technical Committee for Communication (TCC) and member of the CHED Technical Panel for Social Sciences and Communication. He is also a member of the CHED NCR Regional Quality Assurance Team (RQAT). He has served UNESCO in various capacities including Media Development Specialist for UNESCO Myanmar (November 2012- January 2014). Mr. Tuazon served as consultant/team leader to over 30 public information and communication programs and projects. He also participated in 15 international and about 40 national research projects in diverse areas such as mass media, communication, formal and non-formal education, literacy, children's rights, judicial reform and rule of law, etc. He has provided research and consultancy services in other countries including Maldives, Lao PDR, Myanmar, Bhutan, Indonesia, and France. He has co-authored six books, co-edited 15 books/monographs, written over 10 handbooks/ modules, published numerous articles in international and national books, journals, and monographs. Mr. Tuazon completed his Master in Communication Management from the AIJC and Bachelor of Science in Commerce from University of Santo Tomas where he also took graduate work in advertising.

**Winnita V. Ysog**, age 55, *Filipino, Director*, was elected as member of the Board of Directors on 02 September 2016. She served as Marketing Manager of Wizard Academy, a school which offered preparatory education. She also served as Managing Director of Altimax Broadcasting, Inc. In 2004, she served as Vice-Chairman of the Executive Committee and Vice-President of the Human Resource and Quality Administration of Next Mobile, Inc. In 2009, she ventured into the beauty and wellness business and set-up Vanilla Spice. She is the President of Jonahs and Seths Holdings, Inc. She obtained her Bachelor of Science, Major in Tourism degree from the University of the Philippines, Diliman, where she received an award of Proficiency in French. She also obtained her Masters in Management from the Asian Institute of Management, Makati City. She is now the owner and founder of Mabuhay Ako - Bag of Life 360 and currently, the President of Rotary Club of Kamuning East, Rotary International District 3780.

**Domingo B. Bonifacio**, age 66, *American, Independent Director*, was elected as Independent Director on 20 January 2017. He is currently the Executive Vice President & General Manager of Automated Technology (Phil) Inc. (ATEC) Connectivity Division. From 2014-2015, he was President of Cirtek Advanced Technologies and Solutions, Inc. From 2005-2014, he served as President and CEO of REMEC Broadband Wireless International, Inc. and from 2005-2014, was the President and CEO of REMEC Manufacturing Philippines, Inc. He obtained his B.S. Electronics and Communications degree from the University of Santo Tomas and passed the Electronics and Communication Engineering Licensure Examination in 1977. He continued his education in 1978-1979 by enrolling in the University of California, Berkley, CA.

**Jesus Pedro S. Adan II**, age 69, *Filipino, Independent Director Nominee*, He was Vice President and Chief Finance Officer, Chief Audit Executive and Risk Officer Marsman Drysdale Group, Chief Audit Executive and Risk; Compliance Officer of Camarines Minerals, Inc., Mr. Adan worked as Chief Financial Officer for the International Operations of the Binladin Group of Companies in Los Angeles, California from 1985 to 1994 and in 1995 was employed with Steel Corporation of the Philippines as Vice President for Finance and Administration at Philnico Mining. He was Director for Manufacturing Services for Pepsi Cola International in New York, USA, MIS and Budget Director for Richardson-Vicks Corporation and Director at the Development Academy of the Philippines. Mr. Adan received his B.S. in Accounting and Political Science from the Manuel L. Quezon University and the University of the Philippines, and went on to pursue his Master in Business Administration, also at UP. He took up EMBA at I/AME – Warnborough University and graduated with highest distinction and has double doctorate degrees in Strategic Management and Political Economy. He is a professorial lecturer at I/AME and the University of London, a Fellow at the Institute of Strategic and International Studies and a Harvard-trained case facilitator. He has also published numerous professional articles in various magazines and was the Editor-in-Chief of the Philippine Management Magazine.

**Angeline L. Macasaet**, age 47, Filipino, Corporate Secretary, Acting Compliance Officer and Member of the Board of Directors, is a member of the Philippine Bar. She is also currently the Corporate Secretary and Chief Information Officer of the Company. She is also the Corporate Secretary of the various companies under the Velarde Group such as Velarde, Inc., Gamboa Holdings, Inc., Food Camp Industries and Marketing, Inc., Emerald Investments, Inc., as well as enfranchised companies such as NOW Telecom Company, Inc., GHT Network, Inc., News and Entertainment Network, Inc., among many others. She ensures the compliance of these companies with all regulatory requirements as well as the legal requirements involving specific transactions. Her extensive engagement involves all forms of litigation and in all fora. She also has extensive practice in the Securities and Exchange Commission, Philippine Stock Exchange, and the National Telecommunications Commission. In addition to litigation, Ms. Macasaet has corporate practice all the way to the more complex engagements of management buy-outs, corporate mergers and share swap.

**Diana M. Luna**, age 55, Filipino, Treasurer and Chief Finance Officer. Ms. Diana Luna was appointed as the Treasurer and Chief Finance Officer of Now Corporation on September 16, 2019. Ms. Luna has a master's degree in Business Management from the Asian Institute of Management and has a Bachelor of Arts degree in Economics from the Ateneo de Manila University. She is a seasoned banker, starting her career at Citibank N.A. Manila branch and became the first female scholar of Citibank to the Asian Institute of Management. She established the global operations of JP Morgan Chase in the Philippines in 2009 for the Treasury and Securities Services global operations. In that role, she was the first Filipina to be promoted to Managing Director. She is an experienced operations, treasury, and finance manager with global and local experience.

**D. Enrique O. Co**, age 51, Filipino, Legal Counsel, is the Legal Counsel of the Company from January 2002 up to the present. He also served as the Corporate Secretary of the Company from 10 June 2004 until 30 August 2005 and from 01 November 2006 up to 21 January 2008. He is currently serving as Director and/or Corporate Secretary of several Philippine corporations. He is also the Managing Partner of Co Ferrer & Ang-Co Law Offices and an Associate Professorial Lecturer at Kalayaan College. Atty. Co obtained his BS Business Administration (*cum laude*) and Law Degrees from the University of the Philippines.

**Jozolly O. Ramos**, age 35, Filipino, Chief Audit Executive. She was appointed as Chief Audit Executive of Now Corporation on June 18, 2018. Ms. Ramos has 14 years' experience in Corporate Finance, Risk Management and Compliance. She started as the Junior Accountant of HDI Securities, Inc. She stepped up her career in HDI Securities when she became a Certified Associated Person by passing the Five Module Exam given by the Securities and Exchange Commission. In 2010, She became the Associated Person for Operation of Nieves Securities, Inc and in 2013 of Luys Securities Co., Inc. She imparts her knowledge in her profession as a part time faculty in Emilio Aguinaldo College since 2008. She is a Certified Public Accountant. She graduated Cum Laude from the Eastern Visayas State University in 2005 and Finished her Master's in Business Administration with specialization in Capital Markets at the Lyceum of the Philippines University in 2012.

### **Independent Directors**

Marlou B. Ubano, Domingo B. Bonifacio and Jesus Pedro S. Adan II are the three (3) independent directors of the Company.

### **Management Team**

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

Thomas G. Aquino	Chairman of the Board
Jose S. Alejandro	Vice Chairman of the Board
Mel V. Velarde	President and Chief Executive Officer

Diana M. Luna	Treasurer and Chief Finance Officer
Rene L. Rosales	Chief Technology Officer
Elena H. Dimailig	Head of Operations
Kristian Noel A. Pura	Managing Director of Business Development and Strategy and Marketing
Jozolly O. Ramos	Chief Audit Executive
Angeline L. Macasaet	Chief Legal Counsel, Corporate Secretary, Acting Compliance Officer

### Identity of Significant Employees

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

### Family Relationship

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

### Involvement in Certain Legal Proceeding

The Company is not a party to any administrative, civil or criminal litigation or proceeding pending or threatened against or relating to the Company in any of the courts in the Philippines or abroad.

### Item 10. Executive Compensation

The aggregate compensation of executive officers and directors of the Company for the year 2019 and 2018, and the estimated compensation for the year 2020 are as follows:

ACTUAL	2019			2018
	COMPENSATION	OTHERS	TOTAL	TOTAL
A. Five (5) most highly compensated Executive Officers	9,129,431	1,502,153	10,631,583	8,459,010
All directors and executive officers as a Group unnamed	3,170,569	275,000	3,445,569	1,840,990

PROJECTED	2020		
	COMPENSATION	OTHERS	TOTAL
A. Five (5) most highly compensated Executive Officers	10,551,007	1,539,386	12,090,393
All directors and executive officers as a Group unnamed	3,170,569	440,000	3,610,569

The following are the 5 highest compensated directors / executive officers of the Company for the year 2018:

1. Rene L. Rosales
2. Mel V. Velarde
3. Angeline L. Macasaet
4. Diana M. Luna
5. Neil Shane P. Tumagan.



### Standard Arrangement

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

### Other Arrangement

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

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

None.

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

None.

### Item 11. Security Ownership of Certain Beneficial Owners and Management

#### Voting Securities and Principal Holders Thereof

The Company has outstanding common shares totaling 1,672,572,468 shares as of 31 March 2020. All outstanding shares as of record date are entitled to notice and to vote, on a one-share-one vote basis.

#### Security Ownership of Certain Record and Beneficial Owners (More than 5% as of 31 March 2020)

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with the Record Owner	Citizenship	No. of Shares Held	Percentage
Common	PDC Nominee Corporation *	-	Filipino	905,083,223	54.11
Common	Top Mega Enterprises Limited Room 503 Fu Fai Commercial Centre, Hillier St., Sheungwan, Hong Kong	Romeo C. Escobar, Jr. - stockholder	Chinese	341,046,855	20.39
Common	Velarde, Inc. Unit 5-I, 5th Floor, OPL Building, 100 C. Palanca St., Legaspi Village, Makati City	Amparo V. Velarde, - Stockholder	Filipino	355,865,668	21.28
Common	Emerald Investments, Inc. Unit 5-I, 5th Floor, OPL Building, 100 C. Palanca St., Legaspi Village, Makati City	Amelito V. Velarde - stockholders	Filipino	277,154,360	16.21
Common	Joyce Link Holdings Limited Room 503 Fu Fai Commercial Centre, Hillier Street, Sheungwan, Hong Kong	Jonah Kasthen V. Rosero - stockholder	British VI	86,208,552	5.15
Common	Gamboja Holdings, Inc. Unit 5-I, 5th Floor,	Winnita V. Ysog - stockholder	Filipino	217,875,577	13.03

	OPL Building, 100 C. Palanca St., Legaspi Village, Makati City				
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### Security Ownership of Directors and Management as of 31 March 2020

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

Title Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of class
Common	Thomas G. Aquino	1 (Direct)	Filipino	<.01
Common	Jose S. Alejandro	1,000,010 (Direct)	Filipino	<.01
Common	Mel V. Velarde	10 (Direct)	Filipino	<.01
Common	Vicente Martin W. Araneta III	1 ((Direct)	Filipino	<.01
Common	Gerard Bnn R. Bautista	1 (Direct)	Filipino	<.01
Common	Ramon Guillermo R. Tuazon	1 (Direct)	Filipino	<.01
Common	Marlou B. Ubano	1 (Direct)	Filipino	<.01
Common	Domingo B. Bonifacio	1 (Direct)	American	<.01
Common	Winnita V. Ysog	1 (Direct)	Filipino	<.01
Common	Jesus Pedro S. Adan III	1 (Direct)	Filipino	<.01
Common	Angeline L. Macasaet	10 (Direct)	Filipino	<.01
	Diana M. Luna (Treasurer and Chief Finance Officer)	0	Filipino	0

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

### Item 12. Certain Relationships and Related Transactions

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

In the normal course of business, the following transactions have been entered into with related parties affecting consolidated statements of income:

	Nature of Transaction	Transactions during the Year		Outstanding Balances	
		2019	2018	2019	2018
<b>Trade and other receivables</b>					
Stockholders	Management fees	<b>₱366,000</b>	₱240,000	<b>₱2,286,000</b>	₱1,920,000
Entities under common control	Infrastructure build-up services	<b>90,000,000</b>	25,000,000	<b>125,834,695</b>	99,975,211
	Management fees	<b>13,914,000</b>	45,040,000	<b>46,191,116</b>	54,765,792
	Loans	<b>—</b>	59,631	<b>—</b>	183,435
				<b>₱174,311,811</b>	<b>₱156,844,438</b>
<b>Due from related parties</b>					
Stockholders	Advances	<b>₱1,199,934</b>	₱88,653,378	<b>₱89,894,159</b>	₱88,694,225
	Interest	<b>7,092,270</b>	980,802	<b>8,073,072</b>	980,802
Entities under common control	Advances	<b>49,676,313</b>	107,078,411	<b>236,254,739</b>	195,135,623
	Interest	<b>—</b>	333,409	<b>—</b>	—
Associate	Advances	<b>—</b>	—	<b>2,755,902</b>	2,755,902
				<b>₱336,977,872</b>	<b>₱287,566,552</b>

	Nature of Transaction	Transactions during the Year		Outstanding Balances	
		2019	2018	2019	2018
<b>Accounts payable and other current liabilities</b>					
Stockholders	Interest	<b>P–</b>	<b>P–</b>	<b>P59,903,586</b>	<b>P59,903,586</b>
Entities under common control	Outside services	<b>2,779,258</b>	21,283,690	<b>7,297,329</b>	8,819,096
	Advances	<b>1,734,822</b>	–	<b>5,935,238</b>	3,358,462
				<b>P73,136,153</b>	<b>P72,081,144</b>
<b>Due to related parties</b>					
Stockholders	Advances	<b>P89,875,200</b>	P133,442,010	<b>P85,751,153</b>	<b>P254,613,559</b>
	Leases	<b>–</b>	–	<b>2,902,918</b>	2,902,918
Entities under common control	Advances	<b>–</b>	–	<b>878,207</b>	878,207
	Services	<b>–</b>	–	<b>605,212</b>	605,212
	Leases	<b>–</b>	930,313	<b>6,499,227</b>	6,667,239
				<b>P96,636,717</b>	<b>P265,667,135</b>

### **Trade and Other Receivables**

- a. *Infrastructure Build-up Services.* On January 4, 2016, the Parent Company entered into separate service agreements with NOW TEL, NOW Cable and NewsNet effective from January 1, 2016 to December 31, 2018 for the Parent Company to provide infrastructure build-up and technology design services, which includes the provision of project management, design, planning, and installation services, to NOW TEL, NOW Cable and NewsNet. The service agreements were renewed on January 5, 2019 for another three (3) years.

Service revenue recognized related to infrastructure build-up totaled P90.0 million in 2019 (P25.0 million and P45.0 million in 2018 and 2017, respectively).

- b. *Technical Services.* Part of the service agreements discussed above is to provide technical consultancy services for a period of ten (10) years with a monthly fee of P50,000 each for NOW Cable and NewsNet. The parties mutually agreed to defer this arrangement since no technical services related to the project was provided to NOW Cable and NewsNet in 2019 (and 2018). Service revenue amounted to P0.6 million and P0.5 million for NOW Cable and NewsNet, respectively, in 2017.
- c. *Management Services.* The Parent Company entered into a contract with the Asian Institute of Journalism and Communication (AIJC) to provide management services beginning January 1, 2018 to December 31, 2020 for a monthly fee. Service revenue from management services to AIJC amounted to P0.2 million in 2019 (P0.2 million in 2018).

In 2019, the Parent Company entered into an agreement with NOW TEL for the assistance provided for the registration and application of permits needed for NOW TEL's site and communication equipment for P6.0 million.

In 2018, the Parent Company also entered into a contract with NOW Cable for the assistance to renew NOW Cable's Provisional Authority to Operate, and with NOW TEL for the assistance to renew NOW TEL's congressional franchise and to participate in the selection of a new major player (NMP) in the public telecommunications market, as spearheaded by the NTC. Service revenue recognized from these contracts aggregated P37.0 million in 2018.

The Parent Company also entered into a contract with NOW TEL to provide day-to-day management services beginning January 2017 to January 2020. Service revenue from this contract amounted to P7.8 million in 2019 (P7.8 million in 2018 and 2017).

The Parent Company also charges VI management fees for performing accounting and administrative functions of VI. Management fees charged to VI amounted to P0.4 million in 2019 (P0.2 million in 2018 and 2017).

### **Due from Related Parties**

- a. In 2018, the Parent Company entered into a deed of sale with Joyce Link to sell certain advances to and receivables from other related parties to Joyce Link in exchange for a one-year

promissory note amounting to ₱88.7 million with interest of 8% per annum. The promissory note is convertible to common stock at the option of the holder. No gain or loss was recognized on the transaction.

Interest income earned amounting to ₱7.1 million in 2019 (₱1.0 million in 2018) from the promissory note was recognized as part of the advances to Joyce Link (see Note 4).

- b. The Group has advances to Softweb amounting to ₱5.0 million which pertains to a deposit for stock subscription. This amount was already fully provided with allowance for impairment loss as at December 31, 2019 (and 2018) (see Note 7).

#### **Accounts Payable and Other Current Liabilities**

- a. VAS. The Parent Company has separate agreements with NOW TEL, NOW Cable and NewsNet to interconnect their respective networks for the Parent Company to provide VAS to the public, such as cloud hosting services, online game services, cloud-based multimedia conferencing services, web hosting and cloud-based mail and messaging services (VAS contracts).

Pursuant to the VAS contracts, the Parties agreed on: (a) revenue sharing on the Parent Company's revenue from broadband services, (b) charging the Parent Company on a cost-plus-margin arrangement for the actual usage of the bandwidth, and (c) charging the Parent Company a connectivity fee for the use of the site and communication equipment of NOW TEL, NOW Cable and NewsNet. Total cost of VAS contracts presented under the "Cost of sales and services" account are as follows (see Note 16):

	2019	2018	2017
Bandwidth costs	<b>₱22,822,290</b>	₱8,097,294	₱3,121,774
Network connectivity fees	<b>19,607,500</b>	7,567,000	—
Cost of VAS	<b>6,024,474</b>	3,547,662	2,743,549
	<b>₱48,454,264</b>	₱19,211,956	₱5,865,323

- b. On January 3, 2017, the Parent Company renewed its service agreement with Knowledge Professionals Service Cooperative (KPSC) for a period of five (5) years beginning January 13, 2017 to January 2, 2022. Under the service agreement, KPSC shall provide consultancy and manpower services depending on the services specifically required by the Group.

Outside services incurred by the Group for the services previously provided by KPSC amounted to ₱2.8 million in 2019 (₱5.4 million and ₱4.1 million in 2018 and 2017, respectively).

Amounts owed to KPSC arising from this service agreement amounted to ₱7.3 million as at December 31, 2019 (₱8.8 million as at December 31, 2018).

- c. I-Resource entered into a service agreement with KPSC covering consultancy and manpower services depending on the services specifically required by the Company. The Company renewed the service agreement several times, with the last renewal from March 1, 2018 to March 1, 2020.

Outside services amounted to ₱2.8 million in 2019 (₱21.3 million and ₱37.0 million in 2018 and 2017, respectively) (see Note 16 and 17).

#### **Due to Related Parties**

- a. The Parent Company has interest-bearing advances due to VI for working capital and investment requirements. In 2015, VI waived the interest accruing on the remaining balance and subsequent advances to be received from VI.

In 2016, the Parent Company's stockholders approved the conversion into equity of the advances from VI amounting to ₱264.0 million. This was approved by the SEC on November 6, 2019 (see Note 11).

In 2018, the Parent Company's BOD approved the additional conversion of the advances from VI amounting to ₱209.0 million into equity. The conversion was approved by the Parent Company's stockholders on March 8, 2019 and was filed with the SEC on December 6, 2019. Pending the

SEC approval, these advances were presented as “deposits for stock subscription” in the consolidated statement of financial position (see Note 11).

Total advances due to VI amounted to ₱85.8 million as at December 31, 2019 (₱254.6 million as at December 31, 2018). Outstanding accrued interest amounting to ₱59.9 million in 2019 (and 2018) were recorded as part of “Accounts payable and other current liabilities” account in the consolidated statement of financial position (see Note 9).

- b. The Group has other advances from related parties under common control for working capital purposes.

#### **Terms and Conditions of Transactions with Related Parties**

Outstanding balances are unsecured, noninterest-bearing and are collectible/payable either on demand or settled on 30 to 60 days term, except for due from and to related parties which do not have definite repayment terms. There were no guarantees provided or received for any related party receivables.

No ECL was recognized on trade and other receivables from related parties in 2019 (2018 and 2017).

#### **Compensation of Key Management Personnel**

Compensation of key management personnel presented as part of “Salaries and employee benefits” under “Operating expenses” account in the consolidated statement of income consists of short-term employee benefits amounting to ₱12.3 million in 2019 (₱10.3 million and ₱9.1 million in 2018 and 2017, respectively).

There are no post-employment benefits, share-based payment, termination benefits and other long-term benefits provided to the key management personnel of the Group.

#### **Approval Requirements and Limits on the Amount and Extent of Related Party Transactions**

All individual material related party transactions (MRPT) and those involving directors and/or officers shall be approved by at least two-thirds (2/3) vote of the BOD, with at least a majority of the independent directors voting to approve the MRPT. In case that a majority of the independent directors’ vote is not secured, the MRPT may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.

Aggregate related party transactions within a 12-month period that meets or breaches the materiality threshold shall require the same BOD approval mentioned above.

### **PART IV – CORPORATE GOVERNANCE**

#### **Item 13. Corporate Governance**

Per SEC Memorandum Circular No. 15 Series of 2017, the Integrated Annual Corporate Governance Report shall be due on or before 30 May 2020, hence not yet included in this report.

### **PART V - EXHIBITS AND SCHEDULES**

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

##### **(a) Exhibits**

The audited consolidated financial statements are attached as “**Annex A**”. The Secretary’s Certificate certifying the authorized signatories for the Statement of Management Responsibility is attached as **Annex “B”**.

**(b) Reports on SEC Form 17-C**

The following were the reports on SEC Form 17-C filed during the year 2019 until 1<sup>st</sup> Quarter of 2020:

DATE	PARTICULARS
15 January 2019	At the special meeting of the Board of Directors of NOW Corporation held on 15 January 2019, the Board approved the setting of the Special Stockholders' Meeting to be on 08 March 2019 with record date of 15 February 2019.
08 March 2019	<p>At the Special Stockholders' Meeting of NOW Corporation held on 08 March 2019, the stockholders unanimously approved Company's equity restructuring plan by reducing the par value of the common shares of stock of the Company and by applying the resulting additional paid-in capital to eliminate its accumulated deficit. The Php1.00 par value per share of the existing preferred shares will not change. For this purpose, the stockholders unanimously approved the amendment of Article Seventh of NOW's Articles of Incorporation to reduce the par value of common shares from One Peso (Php1.00) per share to Seventy Centavos (Php0.70) per share, and the resulting decrease of NOW's authorized capital stock from Php2,120,000,000.00 divided into 2,060,000,000 common shares with par value of One Peso (Php1.00) each to Php1,442,000,000 divided into 2,060,000,000 common shares with par value of Seventy Centavos (Php0.70) each.</p> <p>Likewise, the stockholders unanimously approved the conversion of advances into equity of its shareholder Velarde, Inc. in the amount of Two Hundred Nine Million Pesos (Php209,000,000.00) with the conversion price computed based on the Volume Weighted Average Price (VWAP) of the 30-day trading period ending 11 October 2018 or at Php6.50 per share, and the listing of additional shares resulting from the said conversion. The waiver by a majority vote representing the outstanding shares held by the minority shareholders present of the conduct of a Rights or Public Offering of the Shares to be subscribed to by Velarde, Inc. was likewise affirmed / confirmed.</p> <p>Finally, the stockholders approved the revision of the earlier approval made during the Annual Stockholders' Meeting held on 07 June 2018 to increase the authorized capital stock of the Company within a range between Php600M and Php700M in connection with the earlier conversion of another tranche of advances made by Velarde, Inc. to NOW Corporation in the amount of Php264 Million. Only the conversion into equity of Velarde, Inc.'s advances in the amount of Php264M based on the adjusted conversion price range between Php1.50 and Php1.70 per share as well as the listing of additional shares resulting from the said conversion are approved and affirmed for implementation. The contemplated increase in authorized capital stock is deemed set aside.</p>
23 April 2019	At the Special Meeting of the Board of Directors, the Board finalized and approved the conversion price at Php1.70 per share of the conversion of advances into equity of the amount of Php264M from a shareholder, Velarde, Inc. Previously during the 07 June 2018 Annual Stockholders' Meeting, the Board of Directors was given the delegated authority to finalize the terms and other details pertaining to the setting of the conversion price within the Php1.50 per share to Php1.70 per share range.
06 June 2019	<p>The following were elected as Directors during the Annual Meeting of the Stockholders held on 06 June 2019:</p> <p>Thomas G. Aquino Jose S. Alejandro Mel V. Velarde Vicente Martin W. Araneta III</p>

Gerard Bnn R. Bautista  
Ramon Guillermo R. Tuazon  
Marlou B. Ubano, as independent director  
Domingo B. Bonifacio, as independent director  
Jesus Pedro S. Adan, as independent director  
Winnita V. Ysog  
Angeline L. Macasaet.

The shareholders present, in person or by proxy, approved/ratified the following items;

1. Minutes of the Special Stockholders' Meeting held on 08 March 2019;
2. 2018 President's Report and 2018 Audited Financial Statements;
3. Acts of and Resolutions of the Board of Directors and Officers of the Corporation since the last Special Stockholders' Meeting;
4. Appointment of Reyes Tacandong & Co. as External Auditor;
5. Creation of Employee Stock Option Plan (ESOP) and authorizing the Board to finalize the features, terms and conditions of the ESOP; and
6. Share-for-Share swap transaction with the shareholders of NOW Telecom Company, Inc. for an additional eleven percent (11%) equity in NOW Telecom and to likewise authorize the Board to finalize the swap price per share of the said transaction

At the Joint Organizational and Regular Meeting of the Board of Directors, the following were elected as officers and members of the following committees:

OFFICERS:

Dr. Thomas G. Aquino - Chairman  
Atty. Jose S. Alejandro - Vice-Chairman  
Mr. Mel V. Velarde – President and Chief Executive Officer  
Mr. Vicente I. Penanueva -Treasurer and Chief Finance Officer  
Ms. Jozolly O. Ramos – Chief Audit Executive  
Atty. Marlou B. Ubano – Chief Risk Officer  
Atty. Angeline L. Macasaet - Corporate Secretary and Acting Compliance Officer

Nomination and Election Committee:

Mr. Vicente Martin W. Araneta III, Chairman  
Atty. Jose S. Alejandro- Member  
Atty. Marlou B. Ubano - Member

Audit and Risk Management Committee:

Atty. Marlou B. Ubano, Chairman  
Arch. Gerard Bnn R. Bautista - Member  
Mr. Ramon Guillermo R. Tuazon - Member

Compensation and Remuneration Committee:

Dr. Thomas G. Aquino, Chairman  
Atty. Marlou B. Ubano - Member  
Ms. Winnita V. Ysog - Member

Related Party Transactions Committee

Mr. Jesus Pedro S. Adan II, Chairman  
Mr. Domingo B. Bonifacio – Member  
Mr. Vicente Martin W. Araneta III – Member

Corporate Governance Committee

Atty. Marlou B. Ubano, Chairman

	<p>Mr. Domingo B. Bonifacio Mr. Jesus Pedro S. Adan II – Member</p> <p><u>Management Committee:</u> Dr. Thomas G. Aquino, Chairman Mr. Mel V. Velarde - Member Atty. Angeline L. Macasaet – Member</p>
11 February 2020	<p>The Board set the record date on 04 May for the Annual Stockholders' Meeting scheduled on 04 June 2020.</p> <p>The Board approved the delegation of authority to the Audit and Risk Management Committee to review, and the Chairman of the Board, the President and the Chief Finance Officer, to approve the release of the 2019 Audited Financial Statements of the Company as audited by its external auditor Reyes Tacandong &amp; Co.. In addition, the Board likewise authorized the Chairman of the Board, the President and CEO and the Chief Finance Officer to sign the Statement of Management Responsibility in connection with the Company's Audited Consolidated Financial Statements and the Audited Parent Company's Financial Statements for the period ending 2019, 2018 and 2017. The Board approved the delegation to the Chairman, the President, and the Chief Finance Officer, the authority to approve the release of the 2017 Audited Financial Statements of the Corporation.</p>

Quarterly Financial Reports (Form 17-Q) were submitted to the SEC for the quarter ending March, June and September 2019.




### SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in Makati City on \_\_\_\_ May 12, 2020

By:



**MEL V. VELARDE**  
President and CEO



**DIANA M. LUNA**  
Chief Finance Officer



**ANGELINE L. MACASAET**  
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_ day of May 2020 affiants exhibiting to me their respective competent evidence of identity, as follows:

<b>NAMES</b>	<b>Competent Evidence of Identity</b>	<b>Expiry Date</b>
Mel V. Velarde	Philippine Passport No. P8333779A7	12 August 2028
Diana M. Luna	Driver's License N02-88-081610	17 September 2022s
Angeline L. Macasaet	Philippine Passport No. P3600193A	05 July 2022

Doc. No. \_\_\_\_\_;

Page No. \_\_\_\_\_;

Book. No. \_\_\_\_\_;

Series of 2020

for  
AUDITED FINANCIAL STATEMENTS

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## COMPANY INFORMATION

**info@now-corp.com**

**(02) 7-750-0211**

N/a
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70

Any Date in April
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December 31

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

**Ms. Diana M. Luna**

**diana.luna@now-corp.com**

**(02) 7-750-0211**

N/a
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CONTACT PERSON'S ADDRESS	
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Unit 5-1, 5<sup>th</sup> Floor, OPL Building, 100 C. Palanca St., Legaspi Village, Makati City

**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 shall not excuse the corporation from liability for its deficiencies.**

## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
NOW Corporation and Subsidiaries  
Unit 5-1, 5th Floor, OPL Building  
100 C. Palanca St., Legaspi Village  
Makati City

### *Opinion*

We have audited the accompanying consolidated financial statements of NOW Corporation and Subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

### *Emphasis of Matter*

As discussed in Note 1 to the financial statements, the country is currently experiencing a pandemic virus crisis resulting in a slowdown in the Philippine economy because of mandated lockdowns all over the country. While the financial impact is considered a non-adjusting subsequent event as at December 31, 2019, the effect on the Group's operations and financial performance, however, cannot be reasonably determined as at our report date. Nonetheless, the Group strongly believes that it can remain a going concern given the essential nature of its industry and its access to short-term and long-term funding.

Our opinion is not modified in respect of this matter.

### *Basis for Opinion*

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

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at and for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Valuation of Investment in NOW Telecom Company, Inc. (NOW TEL)

As at December 31, 2019, the Group has 19% equity investment in NOW TEL amounting to ₱1.54 billion, which represents 70.6% of the Group's total assets. This unquoted equity investment is classified as a financial asset at fair value through other comprehensive income.

The determination of the fair value of the investment in NOW TEL is significant to our audit because (a) the amount is material to the consolidated financial statements, and (b) the Group applied significant judgment in selecting the appropriate valuation technique and assumptions used in the valuation. Any changes to the valuation technique and these assumptions could significantly affect the fair value of the investment.

We reviewed the valuation technique and key assumptions applied by management in estimating future cash flows and other factors affecting the determination of the valuation such as NOW TEL's franchise term, current industry trends, future technological changes and other relevant external data.

We also reviewed the disclosures in Notes 2, 3, 7 and 21 to the consolidated financial statements related to the valuation of the investment in NOW TEL.

*Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

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

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

*Other Matter*

The consolidated financial statements of the Group as at December 31, 2018 and for the years ended December 31, 2018 and 2017 were audited by another auditor whose report dated April 12, 2019 expressed an unmodified opinion on those consolidated financial statements.



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

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

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

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

*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.



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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Belinda B. Fernando.

**REYES TACANDONG & Co.**

**BELINDA B. FERNANDO**

Partner

CPA Certificate No. 81207

Tax Identification No. 102-086-538-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 81207-SEC Group A

Valid until January 29, 2025

BIR Accreditation No. 08-005144-004-2019

Valid until October 16, 2022

PTR No. 8116474

Issued January 6, 2020, Makati City

May 12, 2020

Makati City, Metro Manila

**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2019**  
**(With Comparative Figures for 2018)**

	Note	2019	2018
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	4	₱11,312,632	₱25,828,933
Trade and other receivables	5	227,102,656	207,414,086
Contract assets	15	1,413,165	1,520,541
Due from related parties	12	336,977,872	287,566,552
Other current assets	6	45,888,216	39,809,721
Total Current Assets		622,694,541	562,139,833
<b>Noncurrent Assets</b>			
Investments	7	1,537,716,362	1,337,638,090
Property and equipment	8	9,126,983	11,686,408
Right-of-use (ROU) assets	14	5,041,047	–
Other noncurrent assets	6	2,186,535	2,465,543
Total Noncurrent Assets		1,554,070,927	1,351,790,041
		₱2,176,765,468	₱1,913,929,874
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and other current liabilities	9	₱145,655,025	₱156,652,462
Due to related parties	12	96,636,717	265,667,135
Current portion of loans payable	10	65,837,110	52,064,583
Current portion of lease liabilities	14	4,153,740	–
Total Current Liabilities		312,282,592	474,384,180
<b>Noncurrent Liabilities</b>			
Deposits for stock subscription	11	209,000,000	264,000,000
Loans payable - net of current portion	10	47,916,273	45,878,924
Lease liabilities - net of current portion	14	1,899,195	–
Retirement liability	13	1,568,097	975,690
Deferred tax liability	18	3,166	–
Total Noncurrent Liabilities		260,386,731	310,854,614
Total Liabilities		572,669,323	785,238,794
<b>Equity</b>			
Equity attributable to equity holders of the Parent Company:			
Common stock	11	1,170,800,728	1,517,278,350
Additional paid-in capital	11	208,372,079	–
Equity reserve	1	(1,978,794)	(1,978,794)
Deficit		(19,361,578)	(432,343,009)
Other comprehensive income		249,060,701	48,970,466
		1,606,893,136	1,131,927,013
Non-controlling interest		(2,796,991)	(3,235,933)
Total Equity		1,604,096,145	1,128,691,080
		₱2,176,765,468	₱1,913,929,874

See accompanying Notes to Consolidated Financial Statements.

**NOW CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF INCOME**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

**(With Comparative Figures for 2018 and 2017)**

	Note	2019	2018	2017
<b>REVENUE</b>	15			
Service fees		<b>₱216,723,520</b>	₱184,419,924	₱126,666,201
Sale of goods		<b>4,038,959</b>	33,441,602	21,698,063
		<b>220,762,479</b>	217,861,526	148,364,264
<b>COST OF SALES AND SERVICES</b>	16	<b>(120,035,127)</b>	(148,323,593)	(85,803,478)
<b>GROSS PROFIT</b>		<b>100,727,352</b>	69,537,933	62,560,786
<b>OPERATING EXPENSES</b>	17	<b>(81,530,518)</b>	(57,828,777)	(54,077,860)
<b>OTHER INCOME (CHARGES)</b>				
Interest expense	10	<b>(10,634,361)</b>	(3,324,724)	(52,015)
Interest income	4	<b>7,147,063</b>	1,566,262	472,507
Foreign exchange gain (loss) - net		<b>10,552</b>	9,478	(3,084)
Others		<b>(13,866)</b>	(54,002)	60,840
		<b>(3,490,612)</b>	(1,802,986)	478,248
<b>INCOME BEFORE INCOME TAX</b>		<b>15,706,222</b>	9,906,170	8,961,174
<b>PROVISION FOR INCOME TAX</b>	18			
Current		<b>4,388,226</b>	1,769,401	2,670,958
Deferred		<b>3,166</b>	—	—
		<b>4,391,392</b>	1,769,401	2,670,958
<b>NET INCOME</b>		<b>₱11,314,830</b>	₱8,136,769	₱6,290,216
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company		<b>₱10,875,888</b>	₱7,885,496	₱6,792,056
Non-controlling interest		<b>438,942</b>	251,273	(501,840)
		<b>₱11,314,830</b>	₱8,136,769	₱6,290,216
<b>Basic/Diluted Earnings Per Share</b>	19	<b>₱0.0070</b>	₱0.0052	₱0.0045

*See accompanying Notes to Consolidated Financial Statements.*



**NOW CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

**(With Comparative Figures for 2018 and 2017)**

	Note	2019	2018	2017
<b>NET INCOME</b>		<b>₱11,314,830</b>	<b>₱8,136,769</b>	<b>₱6,290,216</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Items not to be subsequently reclassified to profit or loss:</i>				
Changes in fair value of investment in equity securities	7	<b>200,078,272</b>	(136,498,637)	—
Remeasurement loss on retirement liability	13	—	(515,882)	—
<i>Item to be subsequently reclassified to profit or loss -</i>				
Cumulative translation adjustments		<b>11,963</b>	(26,355)	12,528
		<b>200,090,235</b>	(137,040,874)	12,528
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>₱211,405,065</b>	<b>(₱128,904,105)</b>	<b>₱6,302,744</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>				
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company		<b>₱210,966,123</b>	(₱129,155,378)	₱6,804,584
Non-controlling interest		<b>438,942</b>	251,273	(501,840)
		<b>₱211,405,065</b>	<b>(₱128,904,105)</b>	<b>₱6,302,744</b>

*See accompanying Notes to Consolidated Financial Statements.*

**NOW CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

**(With Comparative Figures for 2018 and 2017)**

	Note	2019	2018	2017
<b>CAPITAL STOCK</b>	11			
Balance at beginning of year		<b>₱1,517,278,350</b>	₱1,517,278,350	₱1,517,278,350
Effect of equity restructuring		<b>(455,183,505)</b>	—	—
Debt to equity conversion		<b>108,705,883</b>	—	—
Balance at end of year		<b>1,170,800,728</b>	1,517,278,350	1,517,278,350
<b>ADDITIONAL PAID-IN CAPITAL</b>	11			
Balance at beginning of year		—	—	—
Debt to equity conversion		<b>155,294,117</b>	—	—
Effect of equity restructuring		<b>53,077,962</b>	—	—
Balance at end of year		<b>208,372,079</b>	—	—
<b>EQUITY RESERVE</b>				
Balance at beginning and end of year	1	<b>(1,978,794)</b>	(1,978,794)	(1,978,794)
<b>DEFICIT</b>				
Balance at beginning of year, as previously reported		<b>(432,343,009)</b>	(421,158,169)	(427,950,225)
Effect of PFRS 15, <i>Revenue from Contracts with Customers</i>		—	(19,297,217)	—
Effect of PFRS 9, <i>Financial Instruments</i>		—	226,881	—
Balance at beginning of year, as restated		<b>(432,343,009)</b>	(440,228,505)	(427,950,225)
Effect of equity restructuring	11	<b>402,105,543</b>	—	—
Net income		<b>10,875,888</b>	7,885,496	6,792,056
Balance at end of year		<b>(19,361,578)</b>	(432,343,009)	(421,158,169)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>Cumulative unrealized gain on fair value changes on investment in equity securities</b>	7			
Balance at beginning of year		<b>48,359,740</b>	—	—
Unrealized gain (loss) on fair value changes		<b>200,078,272</b>	(136,498,637)	—
Effect of PFRS 9		—	184,858,377	—
Balance at end of year		<b>248,438,012</b>	48,359,740	—
<b>Cumulative translation adjustments</b>				
Balance at beginning of year		<b>1,126,608</b>	1,152,963	1,140,435
Exchange differences on translation of foreign operations		<b>11,963</b>	(26,355)	12,528
Balance at end of year		<b>1,138,571</b>	1,126,608	1,152,963
<b>Cumulative remeasurement loss on retirement liability</b>	13			
Balance at beginning of year		<b>(515,882)</b>	—	—
Remeasurement loss		—	(515,882)	—
Balance at end of year		<b>(515,882)</b>	(515,882)	—
		<b>249,060,701</b>	48,970,466	1,152,963
		<b>1,606,893,136</b>	1,131,927,013	1,095,294,350

	Note	2019	2018	2017
<b>NON-CONTROLLING INTEREST</b>				
Balance at beginning of year		<b>(P3,235,933)</b>	(P3,487,206)	(P5,132,960)
Net income attributable to non-controlling interest		<b>438,942</b>	251,273	(501,840)
Sale of shareholdings in a subsidiary	1	–	–	2,147,594
Balance at end of year		<b>(2,796,991)</b>	(3,235,933)	(3,487,206)
		<b>P1,604,096,145</b>	P1,128,691,080	P1,091,807,144

*See accompanying Notes to Consolidated Financial Statements.*

**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
**(With Comparative Figures for 2018 and 2017)**

	Note	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>₱15,706,222</b>	₱9,906,170	₱8,961,174
Adjustments for:				
Depreciation and amortization	8	<b>11,181,531</b>	7,309,611	4,411,001
Interest expense	10	<b>10,634,361</b>	3,324,724	52,015
Interest income	4	<b>(7,147,063)</b>	(1,566,262)	(472,507)
Operating income before working capital changes		<b>30,375,051</b>	18,974,243	12,951,683
Decrease (increase) in:				
Trade and other receivables		<b>(19,688,570)</b>	(58,768,079)	(52,410,856)
Other current assets		<b>(6,078,495)</b>	7,555,200	(16,065,878)
Contract assets		<b>107,376</b>	(1,293,660)	–
Increase (decrease) in:				
Accounts payable and other current liabilities		<b>(10,981,943)</b>	(7,414,797)	20,784,855
Retirement liability		<b>592,407</b>	459,808	–
Net cash used for operations		<b>(5,674,174)</b>	(40,487,285)	(34,740,196)
Interest received		<b>54,793</b>	252,050	5,474
Income taxes paid		<b>(4,388,226)</b>	(1,769,401)	(2,670,958)
Net cash used in operating activities		<b>(10,007,607)</b>	(42,004,636)	(37,405,680)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Increase in:				
Due from related parties		<b>(42,319,050)</b>	(139,232,865)	(23,446,997)
Other noncurrent assets		<b>(347,866)</b>	(1,726,553)	(354,465)
Additions to property and equipment	8	<b>(5,496,473)</b>	(10,283,831)	(6,458,047)
Cash used in investing activities		<b>(48,163,389)</b>	(151,243,249)	(30,259,509)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Increase in due to related parties		<b>39,969,582</b>	114,212,790	73,933,763
Proceeds from loan availment	24	<b>14,000,000</b>	97,287,870	–
Payments of:				
Interest		<b>(8,425,043)</b>	(3,118,038)	(139,597)
Lease liabilities	14	<b>(1,889,844)</b>	–	–
Sale of shareholdings in a subsidiary		–	–	168,800
Net cash provided by financing activities		<b>43,654,695</b>	208,382,622	73,962,966
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>(14,516,301)</b>	15,134,737	6,297,777
<b>CASH AT BEGINNING OF YEAR</b>		<b>25,828,933</b>	10,694,196	4,396,419
<b>CASH AT END OF YEAR</b>		<b>₱11,312,632</b>	₱25,828,933	₱10,694,196

(Forward)

		2019	2018	2017
<b>NONCASH FINANCIAL INFORMATION</b>				
Equity restructuring	11	<b>P455,183,505</b>	<b>P—</b>	<b>P—</b>
Debt to equity conversion	11	<b>264,000,000</b>	—	—
Recognition of ROU assets	14	<b>5,171,364</b>	—	—
Recognition of lease liabilities	14	<b>5,141,364</b>	—	—

*See accompanying Notes to Consolidated Financial Statements.*

**NOW CORPORATION AND SUBSIDIARIES**

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**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
**(With Comparative Information for 2018 and 2017)**

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**1. Corporate Information**

NOW Corporation (the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 5, 1996 to initially engage in the purchase and sale of securities. In 2000, the Parent Company's primary purpose was changed to engage in the business of securities brokerage through the use of information technology (IT).

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

On August 25, 2011, the SEC approved the amendment in its Articles of Incorporation (AOI) to include the following secondary purpose:

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

On December 21, 2016, the Parent Company's Board of Directors (BOD) approved the filing of the Registration Statement, Listing Application and the terms and conditions and such other relevant acts in connection with the intended public offering of the Parent Company's preferred shares. On June 22, 2018, the SEC issued the Certificate of Filing of Enabling Resolution which approved the designation and offering of the Preferred "A" shares. As at December 31, 2019, the PSE has yet to approve the offering of Preferred "A" shares in the exchange (see Note 11).

On March 8, 2019, the Parent Company's Stockholders approved the reduction of the Parent Company's authorized common stock from ₱2,060.0 million equivalent to 2,060,000,000 common stock at ₱1.00 par value a share to ₱1,442.0 million equivalent to 2,060,000,000 common stock at ₱0.70 par value a share. The resulting additional paid-in capital (APIC) of ₱455.2 million was used to eliminate the Parent Company's accumulated deficit of ₱402.1 million as at December 31, 2018. This was approved by the SEC on September 6, 2019 (see Note 11).

The Parent Company has the following subsidiaries:

Company Name	Nature of Business	Percentage of Effective Ownership		
		2019	2018	2017
J-Span IT Services, Inc. (JSIT)	Service	100	100	100
Porteon SEA, Inc. (Porteon)	Manufacturing	100	100	100
I-Resource Consulting International, Inc. (I-Resource)	Service	100	100	100
I-Professional Search Network, Inc. (I-Professional)	Service	75	75	100
SoftrIGGER Interactive, Inc.	Service	67	67	67

The Parent Company and its subsidiaries are collectively referred hereinto as “the Group”. All the subsidiaries were incorporated in the Philippines, except for JSIT, which was incorporated in Japan.

On January 25, 2017, Velarde, Inc. (VI) entered into a subscription agreement with I-Professional for the subscription of 6,750 common shares of the latter, representing 25% interest, thereby reducing the ownership of the Parent Company in I-Professional from 100% to 75%. This resulted to an equity reserve amounting to ₱2.0 million in 2017.

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

The consolidated financial statements of the Group as at and for the year ended December 31, 2019 (with comparative figures and information for 2018 and 2017) were approved and authorized for issue by the BOD on May 12, 2020.

#### **Certificates and Agreements**

On November 27, 2015, the National Telecommunications Commission (NTC) issued a Certificate of Registration (CoR) to the Parent Company that will authorize it as a value-added services (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 Company, Inc. (NOW TEL), NOW Cable, Inc. (formerly GHT Network, Inc.) (NOW Cable) and News and Entertainment Network Corporation (NewsNet) (the Parties), wherein the Parties mutually agreed to interconnect their respective networks for the Parent Company to provide VAS to the public (VAS contracts) (see Note 12).

#### **Event After the Reporting Period**

The country is currently experiencing a pandemic virus crisis resulting in a slowdown in the Philippine economy because of mandated lockdowns all over the country. While the financial impact is considered a non-adjusting event as at December 31, 2019, the effect on the Group operations and financial performance, however, cannot be reasonably determined as at May 12, 2020. Nonetheless, the Group strongly believes that it can remain a going concern given the essential nature of its industry and its access to short-term and long-term funding.

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## **2. Summary of Significant Accounting Policies**

### **Basis of Preparation**

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation from International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC, including SEC pronouncements.

### **Measurement Bases**

The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional currency. All values are stated in absolute amounts, unless otherwise indicated.

The consolidated financial statements of the Group have been prepared under the historical cost basis, except for the Parent Company's investment in equity securities which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and the fair value of consideration received in exchange for incurring a liability.

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

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

The principal or the most advantageous market must be accessible to the 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 best economic interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 date.



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

Further information about the assumptions made in measuring fair value is included in Note 21.

#### **Adoption of New and Amended PFRS**

The accounting policies adopted are consistent with those of reporting period, except for the adoption of the following new and amended PFRS which the Group adopted effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* – This standard replaced PAS 17, *Leases*, Philippine Interpretation on IFRIC 4, *Determining whether an Arrangement contains a Lease*, Standard Interpretations Committee (SIC)-15, *Operating Leases-Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard provides two recognition exemptions for lessees from this PFRS – leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, the lessee shall recognize a liability to make lease payments (i.e. lease liability) and an asset representing the right to use the underlying asset during the lease term [i.e. right-of-use (ROU) asset]. The lessee is required to recognize the interest on the lease liability and to amortize the ROU asset.

The lease liability shall be reviewed when there are changes in the lease term and other events affecting the lease, such as future lease payments resulting from a change in the index or rate used to determine those payments. The remeasurement of the lease liability should be recognized as an adjustment to the ROU asset.

Lessor accounting under PFRS 16 is substantially unchanged from accounting under PAS 17. The lessor shall continue to classify leases using the same classification principle as in PAS 17 to distinguish the two types of leases: operating and finance leases.

The Group adopted PFRS 16 using the modified retrospective approach which requires the recognition of the cumulative effect of applying the new standard at the beginning of the year of initial application. Accordingly, the comparative information presented for 2018 and 2017 were not restated.

The Group leases office spaces, parking slots and roof decks with terms ranging from one to five years. As allowed, the Group availed the exemption for short-term leases for leases with term of 12 months or less. Rental payments were recognized as expense on a straight-line basis.

For leases with more than 12 months term, the Group recognized ROU assets and lease liabilities. The lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate of 7.94% as at January 1, 2019. ROU assets were measured at the amount equal to the lease liabilities, adjusted by the amount of outstanding prepaid rent.

The following table summarizes the lease liabilities and ROU assets recognized as at January 1, 2019 (see Note 14):

Current portion of lease liabilities	₱1,781,129
Noncurrent portion of lease liabilities	3,360,235
<u>Lease liabilities as at January 1, 2019</u>	<u>₱5,141,364</u>
Lease liabilities as at January 1, 2019	₱5,141,364
Prepaid rent	48,300
Accrued rent	(18,300)
<u>Total ROU assets</u>	<u>₱5,171,364</u>

The table below outlines the reconciliation between the application of PAS 17 and PFRS 16:

Operating lease commitment as at December 31, 2018	₱5,809,795
Discounting impact using the incremental borrowing rate	(668,431)
<u>Lease liability as at January 1, 2019</u>	<u>₱5,141,364</u>

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes*, in particular (i) matters to be considered in accounting for uncertain tax treatments separately, (ii) assumptions for taxation authorities' examinations, (iii) determinants of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.
- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments clarify that a financial asset passes the “solely payments of principal and interest” criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which the party pays or receives reasonable compensation for the early termination of the contract. Consequently, financial assets with termination provisions can now be measured at amortized cost (or, depending on the business model, at fair value through other comprehensive income).
- Amendments to PAS 12, *Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity* – The amendments require entities to recognize the income tax consequences of dividends as defined in PFRS 9, *Financial Instruments*, when the liability to pay dividends are recognized. The income tax consequences of dividends are recognized either in profit or loss, other comprehensive income or equity, consistently with the transactions that generated the distributable profits. This requirement applies to all income tax consequences of dividends, such as withholding taxes.
- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures* – The amendments require entities to use PFRS 9 in accounting for its long-term interests (i.e., preference shares and long-term receivables or loans for which settlement is neither planned nor likely to occur in the foreseeable future) in an associate or joint venture in which the equity method under PAS 28 is not applied. The clarification is relevant because the expected credit loss model under PFRS 9 shall be applied to these long-term interests.

The adoption of the foregoing new and amended PFRS did not have any material effect on the consolidated financial statements of the Group, except for PFRS 16 as discussed above. Additional disclosures were included in the financial statements, as applicable.

#### **Amended PFRS Issued But Not Yet Effective**

Relevant amended PFRS, which are not yet effective as at December 31, 2019 and have not been applied in preparing the consolidated financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2020:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.
- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides a new definition of a “business” which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, ‘an integrated set of activities and assets’ must now include ‘an input and a substantive process that together significantly contribute to the ability to create an output’. The distinction is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets.
- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of “material” and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, an information is “material” if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Deferred effectivity -

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28 *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a conflicting provision under the two standards. It clarifies that a gain or loss shall be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing amended PFRS is not expected to have any material effect on the financial statements of the Group. Additional disclosures will be included in the financial statements, as applicable.

#### **Basis of Consolidation**

The consolidated financial statements of the Group comprise the financial statements of the Parent Company and its subsidiaries. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).

When the Parent Company has less than majority of the voting or similar rights of an investee, the Parent Company 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 arrangement; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company 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 Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income from the date the Parent Company gains control until the date the Parent Company 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 Company and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance.

Non-controlling interest represents the portion of net results and net assets not held by the Parent Company. These are presented in the consolidated statement of financial position within equity, apart from equity attributable to equity holders of the Parent Company and are separately disclosed in the consolidated statement of income and consolidated statement of comprehensive income.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company. Consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and losses, are eliminated.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity, if any;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of component previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

The assets and liabilities of JSIT are translated into the presentation currency of the Parent Company at the exchange rate as at reporting date while the income and expense accounts are translated at the weighted average exchange rates for the year. The resulting translation differences are presented as "Cumulative translation adjustments" under the equity account in the consolidated statement of financial position.

### **Financial Assets and Liabilities**

*Date of Recognition.* Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to those contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

*Initial Recognition and Measurement.* Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

*"Day 1" Difference.* Where the transaction 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. In cases where there is no observable data on inception, the Group deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference 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.

*Classification.* The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at amortized cost, (b) financial assets at fair value through other comprehensive income (FVOCI) and, (c) financial assets at FVPL. The classification of a financial asset largely depends on the Group's business model and its contractual cash flow characteristics. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost.

As at December 31, 2019 (and 2018), the Group does not have financial assets and liabilities at FVPL.

*Financial Assets at Amortized Cost.* A financial asset shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is 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.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

Cash (which includes cash on hand and cash in banks), trade and other receivables (excluding advances to officers and employees), contract assets, due from related parties and security deposits (included as part of "Other noncurrent assets" account) are classified under this category.

*Financial Assets Designated at FVOCI.* The Group may irrevocably designate an equity instrument that is not held for trading to be measured at FVOCI.

Financial assets at FVOCI are initially measured at fair value plus transaction costs.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the consolidated statement of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods. On disposal of these equity instruments, any cumulative valuation gains or losses will be reclassified to retained earnings.

Investment in equity securities are classified under this category.

*Financial Liabilities at Amortized Cost.* Financial liabilities are categorized as financial liabilities at amortized cost when 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 settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

Accounts payable and other current liabilities (excluding statutory payables), due to related parties, loans payable and lease liabilities are classified under this category.

### **Reclassification**

The Group reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

A financial asset that has been designated at FVOCI may no longer be reclassified to a different category.

### **Impairment of Financial Assets at Amortized Cost**

The Group recognizes an allowance for expected credit loss (ECL) 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. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables and contract assets, the Group has applied the simplified approach in measuring ECL. Simplified approach requires that ECL should always be based on the lifetime expected credit losses. 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 and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For other financial assets at amortized cost, which mainly comprise of cash in banks, due from related parties and security deposits, the Group applies the general approach in measuring the ECL. The ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group considers reasonable and supportable information, that is available without undue cost or effort, and that is indicative of significant increases in credit risk since initial recognition.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

The Group shall directly reduce the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

### **Derecognition of Financial Assets and Liabilities**

*Financial Assets.* A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

### **Classification of Financial Instrument between Liability and Equity**

A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- 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.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.



### **Offsetting of Financial Assets and Liabilities**

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 intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

### **Contract Balances**

*Contract Assets.* A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than a passage of time. Contract assets are reclassified to trade receivables when payment is due from the customers.

*Contract Liabilities.* A contract liability represents the Group's obligation to transfer goods to a customer for which the Group has received consideration from the customer. Contract liabilities are recognized as revenue when the Group performs its obligations under the contract.

### **Other Current Assets**

Other current assets mainly include prepayments, creditable withholding taxes (CWT), inventories, input value-added tax (VAT) and deferred input VAT.

*Prepayments.* Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to expense as these are consumed in operations or expire with the passage of time. Prepayments that are expected to be incurred no more than 12 months after the reporting date are classified as current assets. Otherwise these are classified as noncurrent assets.

*CWT.* CWT represent the amount withheld by the Group's customers in relation to its revenue. These are recognized upon collection of the related revenue and are utilized as tax credits against income tax due as allowed by the Philippine taxation laws and regulations. CWT are stated at their estimated net realizable value (NRV).

*Inventories.* Inventories are valued at the lower of cost and NRV. Cost is determined using the weighted average method. All costs directly attributable to acquisition such as the purchase price, transport cost and taxes that are not subsequently recoverable from tax authorities are included as part of the cost of inventories.

The NRV of inventories is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. In determining the NRV, the Group considers any adjustment necessary for obsolescence.

When the NRV of inventories is lower than its cost, the inventories are written down to its NRV and the excess of the cost over the NRV is charged to profit or loss.

*Input VAT.* Input VAT represents the net amount of VAT recoverable from the tax authorities. Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

*Deferred Input VAT.* Deferred input VAT includes the unamortized amount of input VAT on capital goods with an aggregate acquisition cost in each of the calendar months exceeding 1.0 million claimed and applied against output VAT over 60 months or the estimated useful lives of capital goods, whichever is shorter. Deferred input VAT also includes input VAT on the unpaid portion of availed services.

Deferred input VAT on capital goods is classified as current assets if it is expected to be claimed against output VAT over no more than 12 months after the reporting date. Otherwise these are classified as noncurrent assets.

#### **Investment in an Associate**

An associate is an entity in 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 investment in an associate is accounted for under the equity method in the consolidated financial statements, as provided for under PAS 28, *Investment in Associates*. Under the equity method, the investment in associate is initially recognized at cost. Subsequent to initial recognition, the Group recognizes income to the extent of its share in the profit or loss of the associate. Distributions received reduce the carrying amount of the investment.

The carrying amount of the investment is adjusted to recognize changes in the share of the Group in the net asset of the associate since the acquisition date.

The Group determines at the end of each reporting date whether there is any objective evidence that investment is impaired. If this is the case, the amount of impairment is calculated as the difference between the carrying amount of the investment and its recoverable amount and recognized 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 and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

#### **Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to expense in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated and amortized separately.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets as follows:

Category	Number of Years
Office and IT equipment	3 to 5
Transportation equipment	5
Furniture and fixtures	2 to 3
Leasehold improvements	5 or lease term, whichever is shorter

The estimated useful lives and depreciation and amortization methods are reviewed periodically to ensure that the periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation amortization are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

Fully-depreciated and amortized assets are retained as property and equipment until these are no longer in use.

#### **Computer Software**

Computer software is stated at cost less accumulated amortization and any impairment in value. The Group capitalizes computer software licensing costs which are being amortized, once available for its intended use, using the straight-line method over three years, the estimated finite useful life of the computer software. The amortization of the computer software is included under "Depreciation and amortization" account.

The estimated useful life and amortization method are reviewed regularly to ensure that the period and method of amortization are consistent with the expected pattern of economic benefits from the computer software.

An item of computer software is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss in the year the asset is derecognized.

The carrying amount of the computer software is recognized as part of "Other noncurrent assets" account in the consolidated statement of financial position.

#### **Impairment of Nonfinancial Assets**

Nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. 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 or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount,

the asset is considered impaired and is written down to its 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 profit or loss in those expense categories consistent with the function of the impaired 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After the reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### **Deferred Output VAT**

Deferred output VAT represents the VAT amount on credit sales that is not due to the tax authority until the corresponding amount of receivable is collected. This is recorded as part of "Statutory payables" under "Trade and other payables" account in the consolidated statement of financial position.

#### **Deposits for Stock Subscription**

Deposits for stock subscription represent funds received from existing or potential stockholders to be applied as payment for future issuance of capital stock. Deposits for stock subscription are recognized as equity if and only if, all of the following elements forth by the SEC are present as of end of the reporting period:

- The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract, unless the deposit is specific for a proposed increase in capital;
- There is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- There is stockholders' approval of said proposed increase; and
- The application for the approval of the proposed increase has been presented for filing or has been filed with the SEC.

If any or all of the foregoing elements are not present, the deposits for stock subscription are recognized as liability.

#### **Equity**

*Capital Stock and APIC.* Capital stock is measured at the par value for all shares issued. Proceeds or fair value of consideration received in excess of par value are recognized as APIC. Incremental costs, net of tax, incurred that are directly attributable to the issuance of new shares are recognized in equity as a reduction from related APIC or retained earnings.

*Equity Reserve.* Equity reserve pertains to the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration received as a result of change in the ownership interest of a subsidiary.

*Deficit.* Deficit represents the cumulative balance of the net income or loss, net of any dividend declaration.

*Other Comprehensive Income.* OCI comprises of items of income and expenses that are not recognized in profit or loss. OCI represents cumulative unrealized gain on investment in equity securities, cumulative translation adjustments, and cumulative remeasurement loss on retirement liability.

### **Revenue Recognition**

#### **Revenue from Contract with Customers**

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Group perform its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

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 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 as the customer simultaneously receives and consumes the benefits provided by the Group.

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.

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

Revenue is disaggregated and presented as "Service fees" and "Sale of goods" respectively, in the consolidated statement of income.

*Service Fees.* Fees are recognized when the related services have been rendered.

*Sale of Goods.* Sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue from sale of goods is measured at the fair value of the consideration received, excluding sales taxes, discounts, returns and rebates, if any.

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has assessed that it acts as a principal in all of its revenue sources.

### **Other Sources of Revenue**

*Interest Income.* Income is recognized as the interest accrues taking into account the effective yield on the assets.

*Other Income.* Income from other sources is recognized when earned.

### **Cost and Expense Recognition**

Costs and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability, other than distributions to equity participants, has arisen that can be measured reliably.

*Cost of Services.* Cost of services mainly pertains to the salaries of manpower rendering the broadband services and installation of licenses, as well as the salaries of deployed employees under the manpower augmentation contracts. These are recognized as the services are rendered.

*Cost of Sales.* Cost of sales mainly pertains to purchases of software licenses. These are generally recognized when related goods are sold.

*Operating Expenses.* Operating expenses constitute costs of administering the business and costs incurred to sell and market the services. These are expensed as incurred.

### **Employee Benefits**

*Short-term Benefits.* Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employees and the obligation can be estimated reliably.

*Retirement Benefits.* The Group has an unfunded, noncontributory defined benefit plan covering all qualified employees. The retirement liability is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Group recognizes service costs, comprising of current service costs and interest costs in profit or loss.

Interest on the retirement liability is the change during the period in the retirement liability that arises from the passage of time which is determined by applying the discount rate based on government bonds to the retirement liability. Interest is calculated by applying the discount rate to the retirement liability.

Remeasurements comprising actuarial gains and losses are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The present value of the defined benefit liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

### **Leases**

#### **Accounting policies applicable beginning January 1, 2019**

The Group assesses whether the contract is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified assets for a period of time, the Group assesses whether, throughout the period of use, it has both of the following:

- a) the right to obtain substantially all of the economic benefits from the use of the identified asset; and
- b) the right to direct the use of the identified asset.

If the Group has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term. The Group also assesses whether a contract contains a lease for each potential separate lease component.

*The Group as a Lessee.* At the commencement date, the Group recognizes ROU assets and lease liabilities for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value, in which case the lease payments associated with those leases are recognized as an expense in profit or loss on a straight-line basis.

*ROU Assets.* At commencement date, the Group measures ROU assets at cost, which is comprised of the following:

- a) the amount of the initial measurement of lease liabilities;
- b) any lease payments made at or before the commencement date less any lease incentives received;
- c) any initial direct costs; and
- d) an estimation of costs to be incurred by the Group in dismantling and removing the underlying asset, when applicable.

After the commencement date, the ROU assets are carried at cost less any accumulated amortization and accumulated impairment losses, and adjusted for any remeasurement of the related lease liabilities. The ROU assets are amortized over the shorter of the lease terms or the useful lives of the underlying assets.

*Lease Liabilities.* At commencement date, the Group measures a lease liability at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of a lease liability consist of the following:

- a) fixed payments, including in-substance fixed payments;
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- c) amounts expected to be payable by the lessee under residual value guarantees; and
- d) the exercise price under a purchase option that the Group is reasonably certain to exercise; lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

A lease liability is subsequently measured at amortized cost. Interest on the lease liability and any variable lease payments not included in the measurement of lease liability are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liability are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, the lease liability is remeasured using a revised discount rate after considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. The lease liability is also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

#### **Accounting policies applicable prior to January 1, 2019**

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

A reassessment is made after inception of the lease only if one of the following applies:

- a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d) there is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

*The Group as a Lessee.* Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

#### **Income Taxes**

*Current Tax.* Current tax is the expected tax payable on the taxable income for the year, using the tax rate enacted or substantively enacted at the reporting date.



*Deferred Tax.* Deferred tax is provided 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 tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carry forward benefits of unused tax credits from net operating loss carry-over (NOLCO) and excess of minimum corporate income taxes (MCIT) over regular corporate income tax (RCIT) to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax credits from NOLCO and excess of MCIT over RCIT can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws in effect at the reporting date.

Deferred tax is recognized in profit or loss, except to the extent that it relates to items directly recognized in OCI.

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

#### **Earnings Per Share (EPS) Attributable to the Equity Holders of the Parent**

Basic EPS is computed by dividing net income for the year attributable to common shareholders by the weighted average number of common stock outstanding during the year with retroactive adjustments for any stock dividends declared and stock split.

Diluted EPS is calculated by adjusting the weighted average number of common stock outstanding to assume conversion of all dilutive potential common stock.

Where the EPS effect of potential dilutive common stock would be anti-dilutive, basic and diluted EPS are stated at the same amount.

#### **Related Parties**

A related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity, or between, and/or among the reporting entity and its key management personnel, directors or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form.

A related party transaction is a transfer of resources, services or obligation between a reporting entity and a related party, regardless of whether a price is charged.

A related party transaction is considered material if the transaction/s, either individually, or in aggregate over a twelve-month period with the same related party, amounts to ten percent (10%) or higher of a Group's total consolidated assets based on its latest consolidated financial statements.

#### **Operating Segments**

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 23.

#### **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period these occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### **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 the rate at transaction date and the 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 the 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 exchange rates. The income and expense presented in profit or loss (including comparatives) are translated at the exchange rates at the dates of the transactions, where determinable, or at the weighted exchange average rate during the reporting period. The exchange differences arising from the translation to the presentation currency are recognized as a separate component of equity under the "Cumulative translation adjustment" account in the consolidated statement of financial position.

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

#### **Provisions and Contingencies**

Provisions 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.

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

#### **Events After the Reporting Date**

Post year-end events that provide additional information about the Group's consolidated financial position at the end of reporting year (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements when material.

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### **3. Significant Judgments, Accounting Estimates and Assumptions**

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, accounting estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. The judgments and accounting estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates. Such estimates will be adjusted accordingly when the results become determinable.

Judgments, accounting estimates and assumptions are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### **Judgments**

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

*Recognition of Revenue.* The Group applied the following judgments that significantly affect the determination of the amount and timing of revenue from contracts with customers:

1. *Identification of 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 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 sale broadband services and 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 allocates a portion of the transaction price to the broadband services and the software licenses based on relative stand-alone selling prices.

2. *Timing of 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 the customers simultaneously receive and consume the benefits as the Group provided the services. Other revenue sources are recognized at a point in time.

3. *Identification of the 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.

*Establishment of Control over Subsidiaries.* The Group determines that it has control over its subsidiaries by considering, among others, its power over 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. The following factors are also considered:

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

*Determination of Significant Influence over the Investee.* The Group determines that it has significant influence when it has a holding of 20% to 50% of the voting power of the investee, unless it can be clearly demonstrated that this is not the case. Conversely, a holding of less than 20% of the voting power is presumed not to give rise to significant influence, unless it can be clearly demonstrated that there is in fact significant influence.

The Group considers its 50% equity interest in Softweb Consulting, Inc. (Softweb) as an 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, such as the representation on the BOD of Softweb wherein the Group has two (2) representatives out of the five (5) BOD members. On this basis, the Group has determined that it has significant influence, but no control nor joint control, over the financial and operating policy decisions over Softweb.

*Determination of Functional Currency.* Management has determined that the functional and presentation currency of the Parent Company and its Philippine-based subsidiaries is the Philippine Peso, being the currency of the primary environment in which the Parent Company and its major subsidiaries operate. The functional currency of its foreign subsidiary was determined as the currency in the country where the subsidiary operates. For consolidation purposes, the foreign subsidiary's balances are translated to Philippine Peso.

*Classification of Lease Commitments – the Group as a Lessee.* The Group has entered into leases for office spaces, parking spaces and roof decks. Beginning January 1, 2019, the Group recognized lease liabilities on the Group's noncancellable leases, based on the present value of lease payments over the lease term using the Group's incremental borrowing rate, and ROU assets based on the amount of lease liabilities, adjusted by the amount of any prepaid or accrued rent.

The Group availed the exemption for short-term leases on its lease of parking spaces and certain office space and roof decks with terms of 12 months or less. Accordingly, lease payments on these short-term leases are recognized as expense on a straight-line basis over the lease term.

ROU assets and lease liabilities amounted to ₱5.0 million and ₱6.1 million, respectively, as at December 31, 2019 (see Note 14). Rent expense on short-term leases amounted to ₱0.3 million in 2019 (see Note 14).

Prior to January 1, 2019, the Group evaluated the terms and conditions of its lease agreements if there will be 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 were classified as operating leases.

Rent expense amounted to ₱5.2 million and ₱4.5 million in 2018 and 2017, respectively (see Note 14).

### **Estimates and Assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting year are discussed below.

*Assessment of the ECL on Financial Assets at Amortized Cost.* The Group estimates ECL on trade receivables and contract assets using a provision matrix that is based on days past due for groupings of various customer segments that have similar loss patterns. Depending on the diversity of its debtor's base, the Group uses its historical credit loss experience adjusted for forward-looking factors, as appropriate.

For other financial assets at amortized cost, the Group applies the general approach in measuring the ECL. The Group assessed that cash in banks are deposited with reputable counterparty banks that possess good credit ratings. For security deposits on lease contracts, the Group considered the financial capacity of the lessors to refund the deposits once the lease agreement has been terminated. For related party transactions, the Group considered the available liquid assets of the related parties, letter of support from the stockholders and the mitigation of credit exposure through legally enforceable rights.

The Group assesses that a financial asset is considered credit impaired when one or more events that have a detrimental effect on the estimated future cash flows of the asset have occurred, such as significant financial difficulty of the borrower.

The Group recognized provision for impairment on trade and other receivables amounting to ₱0.5 million in 2019 (₱0.7 million and ₱1,940 in 2018 and 2017, respectively) (see Note 5).

The carrying amounts of financial assets at amortized cost are as follows:

	Note	2019	2018
Cash in banks	4	<b>₱10,468,081</b>	₱25,696,217
Trade and other receivables (excluding advances to officers and employees)	5	<b>226,039,336</b>	205,585,127
Contract assets	15	<b>1,413,165</b>	1,520,541
Due from related parties	12	<b>336,977,872</b>	287,566,552
Security deposits (recorded as part of "Other noncurrent assets")	6	<b>941,432</b>	743,564

*Determination of the Fair Value of Financial Instruments.* PFRS requires certain financial assets and liabilities to be carried at fair value which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilized different valuation methodologies. Any changes in fair value of these financial assets and liabilities would affect profit or loss or OCI.

The valuation technique, assumptions and key inputs used by the Group in determining the fair value of the investment in NOW TEL are disclosed in Note 7.

*Determination of the NRV of Inventories.* The Group estimates the allowance for inventory losses related to telecommunication tools and supplies whenever the NRV of these inventories becomes lower than cost due to damage, physical deterioration or obsolescence.

No write-down for inventory losses was recognized in 2019 (in 2018 and 2017). Inventories at cost amounted to ₱4.9 million as at December 31, 2019 (₱2.1 million as at December 31, 2018) (see Note 6).

*Estimation of the Useful Lives of Property and Equipment, ROU Assets and Computer Software.* The useful lives of the Group's property and equipment, ROU assets and computer software are estimated based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed and updated if expectations differ from previous estimates.

There were no changes in the useful lives of the Group's property and equipment, ROU assets and computer software in 2019 (in 2018 and 2017).

Depreciation and amortization aggregated ₱11.2 million in 2019 (₱7.3 million and ₱4.4 million in 2018 and 2017, respectively). The carrying amounts of property and equipment, ROU assets and computer software aggregated ₱15.2 million as at December 31, 2019 (₱13.2 million as at December 31, 2018) (see Notes 6, 8 and 14).

*Assessment for the Impairment of Nonfinancial Assets.* The Group assesses impairment on its nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

Management has assessed that there are no indications of impairment on the nonfinancial assets in 2019 (in 2018 and 2017).

The carrying amounts of the nonfinancial assets are as follows:

	Note	2019	2018
Other current assets (excluding inventories)	6	<b>₱40,980,087</b>	₱37,680,280
Property and equipment	8	<b>9,126,983</b>	11,686,408
ROU assets	14	<b>5,041,047</b>	–
Other noncurrent assets (excluding security deposits)	6	<b>1,245,103</b>	1,721,979

*Estimation of the Retirement Liability.* The determination of the liability and costs of retirement benefits is dependent on the assumptions used by the actuary in calculating such amounts. Actual results that differ from the Group's assumptions are accumulated and recorded in OCI. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement liability.

Retirement expense amounted to ₱0.6 million in 2019 (₱0.5 million in 2018). The retirement liability amounted to ₱1.6 million as at December 31, 2019 (₱1.0 million as at December 31, 2018) (see Note 13).

*Assessment of the Realizability of Deferred Tax Assets.* The carrying amount of deferred tax assets at each reporting date are reviewed 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 tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenue and expenses.

The Group did not recognize deferred tax assets amounting to ₱11.1 million as at December 31, 2019 (₱11.6 million and ₱12.9 million as at December 31, 2018 and 2017, respectively) (see Note 18). The Group has assessed that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

#### 4. Cash

This account consists of:

	2019	2018
Cash on hand	<b>₱844,551</b>	₱132,716
Cash in banks	<b>10,468,081</b>	25,696,217
	<b>₱11,312,632</b>	₱25,828,933

Cash in banks earn interest at prevailing bank deposit rates.

Details of interest income recognized in profit or loss are presented below:

	Note	2019	2018	2017
Cash in banks		<b>₱54,793</b>	₱585,460	₱472,507
Due from related parties	12	<b>7,092,270</b>	980,802	—
		<b>₱7,147,063</b>	₱1,566,262	₱472,507

#### 5. Trade and Other Receivables

This account consists of:

	Note	2019	2018
Trade:			
Related parties	12	<b>₱174,311,811</b>	₱156,844,438
Third parties		<b>86,058,625</b>	82,595,527
Advances to officers and employees		<b>1,063,320</b>	1,828,959
		<b>261,433,756</b>	241,268,924
Less allowance for impairment loss		<b>34,331,100</b>	33,854,838
		<b>₱227,102,656</b>	₱207,414,086

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

Advances to officers and employees pertain to cash advances for use in day-to-day operations and are liquidated within one month from the date of grant of cash advance.

Movements in allowance for impairment loss are as follows:

	Note	2019	2018
Balance at beginning of year		<b>₱33,854,838</b>	₱33,130,109
Provision	17	<b>476,262</b>	724,729
Balance at end of year		<b>₱34,331,100</b>	₱33,854,838



## 6. Other Assets

### Other Current Assets

This account consists of:

	2019	2018
Prepayments	<b>₱20,015,531</b>	₱17,078,001
CWT	<b>17,731,703</b>	16,124,593
Inventories	<b>4,908,129</b>	2,129,441
Deferred input VAT	<b>1,983,807</b>	1,893,143
Input VAT	<b>380,840</b>	1,621,803
Others	<b>868,206</b>	962,740
	<b>₱45,888,216</b>	₱39,809,721

Prepayments include deferred transaction costs aggregating ₱14.6 million as at December 31, 2019 (₱13.4 million as at December 31, 2018) in connection with the Group's planned offering of redeemable, convertible, non-participating and non-voting Peso-denominated preferred shares.

Inventories, pertaining to telecommunication tools and supplies, are measured at cost. Cost of inventories charged to cost of sales and services amounted to ₱3.5 million in 2019 (₱1.3 million and ₱1.4 million in 2018 and 2017, respectively).

### Other Noncurrent Assets

This account consists of:

	Note	2019	2018
Computer software		<b>₱1,075,781</b>	₱1,549,124
Security deposits	14	<b>941,432</b>	743,564
Trademarks		<b>75,210</b>	75,210
Others		<b>94,112</b>	97,645
		<b>₱2,186,535</b>	₱2,465,543

Movements in the computer software are as follows:

	Note	2019	2018
<b>Cost</b>			
Balance at beginning of year		<b>₱2,722,956</b>	₱1,173,832
Additions		—	1,549,124
Balance at end of year		<b>2,722,956</b>	2,722,956
<b>Accumulated Amortization</b>			
Balance at beginning of year		<b>1,173,832</b>	1,173,107
Amortization	8	<b>473,343</b>	725
Balance at end of year		<b>1,647,175</b>	1,173,832
<b>Carrying Amount</b>		<b>₱1,075,781</b>	₱1,549,124

In 2019, the Group started using the computer software in its operations.

## 7. Investments

The Group has the following investments:

	2019	2018
Investments in:		
Equity securities	<b>₱1,537,716,362</b>	₱1,337,638,090
Associate	<b>6,000,000</b>	6,000,000
Total	<b>1,543,716,362</b>	1,343,638,090
Less cumulative share in net losses of an associate	<b>6,000,000</b>	6,000,000
	<b>₱1,537,716,362</b>	₱1,337,638,090

### Investments in Equity Securities

The Group has the following investments in equity securities:

	2019	2018	2017
NOW TEL	<b>₱1,537,716,362</b>	₱1,337,638,090	₱1,289,278,350
Thumbmob Philippines, Inc. (Thumbmob) and Holy Cow Animation, Inc. (Holy Cow)	—	—	23,592,818
	<b>₱1,537,716,362</b>	₱1,337,638,090	₱1,312,871,168

### **NOW TEL**

The Parent Company has 2,656,580 shares equivalent to ₱1,289.3 million or 19% equity share in NOW TEL.

On February 22, 2018, NOW TEL secured an extension of its congressional franchise for a period of 25 years or until 2043 under Republic Act No. 10972. The franchise allows NOW TEL to operate a radio paging systems and mobile communication services, cellular phone systems, personal communication network and any other similar systems in or outside the country. On September 5, 2019, NOW TEL's provisional authority to operate a cellular mobile telephony system was extended until March 6, 2022.

On June 6, 2019, the Parent Company's stockholders approved to increase its equity share in NOW TEL to 30% by way of a share swap transaction between the Parent Company and NOW TEL's stockholders, and delegated the finalization of the share swap price and other terms to the Parent Company's BOD. As at May 11, 2020, the share swap price and other terms of the transaction has not yet been finalized.

### *Valuation using Discounted Cash Flow Method*

The Parent Company's investment in NOW TEL was valued using the discounted cash flow (DCF) method, which is an example of an income approach of determining fair value and measured at Level 3 (significant unobservable inputs). In DCF, the fair value is determined by estimating future cash flows arising from the asset for a specified period and discounting them using the weighted average cost of capital (WACC).

The following are the key inputs used for the valuation of the investment in NOW TEL using DCF:

- a. *Prospective financial information.* Management-prepared prospective financial information for NOW TEL's future cash flows from revenues, costs, capital expenditures and earnings for 25 years, or the term of NOW TEL's franchise approved in 2018. The prospective financial information include future cash flows arising from the mobile and fixed broadband services to be offered by NOW TEL.
- b. *Growth rate estimates.* Growth rate is based on the forecasted compounded annual growth rate of the mobile data and fixed broadband service industry in the Philippines, as estimated by a market research company. The long-term growth rate used to extrapolate the future cash flows from the investment in NOW TEL excludes expansions and possible acquisitions in the future.
- c. *WACC.* This discount rate reflects management's estimate of risks within the cash-generating units. This is the benchmark used by the management to assess operating performance. In determining appropriate discount rates, regard has been given to various market information, including but not limited to, ten-year government bond yield, bank lending rates and market risk premium.

*Sensitivity analysis.* An increase (a decrease) in the prospective financial information arising from future cash flows would result to an increase (a decrease) in the fair value of the investment. An increase (a decrease) in growth rate estimates would result to an increase (a decrease) in the fair value of the investment. An increase (a decrease) in WACC estimates would result to a decrease (an increase) in the fair value of the investment.

A summary of the significant unobservable inputs used in DCF is as follows:

	2019	2018
Prospective financial information (average future cash flows over the duration of NOW TEL's franchise)	<b>₱3,753,501,927</b>	₱2,953,245,457
Growth rate	<b>4.09%</b>	6.00%
WACC	<b>8.77%</b>	14.25%

Movements in the cumulative unrealized gain on fair value of investment in equity instruments are as follows:

	2019	2018
Balance at beginning of year	<b>₱48,359,740</b>	₱184,858,377
Unrealized gain (loss) on fair value changes	<b>200,078,272</b>	(136,498,637)
Balance at end of year	<b>₱248,438,012</b>	₱48,359,740

#### **Thumbmob and Holy Cow**

Holy Cow is a full service animation studio that produces animation and special effects for the media and entertainment business, while Thumbmob is a games and applications developer and distributor for social networking and mobile environments.

In 2018, the Group sold its equity interest in Thumbmob and Holy Cow at a selling price of ₱23.6 million, which is equal to the carrying amount of the investments. No gain or loss was recognized on the sale.

Movements in the investments in equity securities are as follows:

	2019	2018
Balance at beginning of year	₱1,337,638,090	₱1,497,729,545
Unrealized gain (loss) on fair value changes	200,078,272	(136,498,637)
Sale of equity instruments	—	(23,592,818)
Balance at end of year	₱1,537,716,362	₱1,337,638,090

#### **Investment in an Associate**

The Group has an investment amounting to ₱6.0 million equivalent to 50% equity interest in Softweb. Softweb specializes in Lotus consulting and training services.

The Group's share in the losses of Softweb has already exceeded the cost of its investment. Accordingly, the carrying amount of investment in Softweb as at December 31, 2019 (and December 31, 2018 and 2017) is nil. The unrecognized share in net loss amounted to ₱7.1 million as at December 31, 2019 (and 2018). The Group does not have any legal or constructive obligation to make payments on behalf of Softweb.

The Group also has advances amounting to ₱5.0 million pertaining to a deposit for stock subscription. This amount was already fully provided with allowance for impairment loss as at December 31, 2019 (and 2018) (see Note 12).

## **8. Property and Equipment**

Movements in this account are as follows:

	2019				
	Office and IT Equipment	Transportation Equipment	Furniture and Fixtures	Leasehold Improvements	Total
<b>Cost</b>					
Balance at beginning of year	₱28,923,016	₱19,825,008	₱1,449,863	₱4,937,446	₱55,135,333
Additions	5,444,255	—	52,218	—	5,496,473
Balance at end of year	34,367,271	19,825,008	1,502,081	4,937,446	60,631,806
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of year	21,134,048	16,073,361	1,304,070	4,937,446	43,448,925
Depreciation and amortization	7,120,185	920,684	15,029	—	8,055,898
Balance at end of year	28,254,233	16,994,045	1,319,099	4,937,446	51,504,823
<b>Carrying Amount</b>	<b>₱6,113,038</b>	<b>₱2,830,963</b>	<b>₱182,982</b>	<b>₱—</b>	<b>₱9,126,983</b>

	2018				
	Office and IT Equipment	Transportation Equipment	Furniture and Fixtures	Leasehold Improvements	Total
<b>Cost</b>					
Balance at beginning of year	₱22,531,141	₱15,989,027	₱1,393,888	₱4,937,446	₱44,851,502
Additions	6,391,875	3,835,981	55,975	—	10,283,831
Balance at end of year	28,923,016	19,825,008	1,449,863	4,937,446	55,135,333
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of year	14,656,989	15,337,824	1,264,779	4,880,447	36,140,039
Depreciation and amortization	6,477,059	735,537	39,291	56,999	7,308,886
Balance at end of year	21,134,048	16,073,361	1,304,070	4,937,446	43,448,925
<b>Carrying Amount</b>	<b>₱7,788,968</b>	<b>₱3,751,647</b>	<b>₱145,793</b>	<b>₱—</b>	<b>₱11,686,408</b>

Cost of fully depreciated property and equipment that are still used in operations amounted to ₱32.5 million as at December 31, 2019 (₱23.3 million as at December 31, 2018).

Depreciation and amortization recognized as part of “Operating expenses” in the consolidated statement of income is presented below (see Note 17):

	Note	2019	2018	2017
Property and equipment		<b>₱8,055,898</b>	₱7,308,886	₱4,361,264
ROU assets	14	<b>2,652,290</b>	—	—
Computer software	6	<b>473,343</b>	725	49,737
		<b>₱11,181,531</b>	<b>₱7,309,611</b>	<b>₱4,411,001</b>

## 9. Accounts Payable and Other Current Liabilities

This account consists of:

	Note	2019	2018
Trade:			
Third parties		<b>₱20,479,027</b>	₱35,794,933
Related parties	12	<b>13,232,567</b>	12,177,558
Accrued expenses:			
Interest	12	<b>59,903,586</b>	59,903,586
Others		<b>16,458,576</b>	22,454,270
Deferred output VAT		<b>33,099,297</b>	25,320,246
Statutory payables		<b>2,481,972</b>	1,001,869
		<b>₱145,655,025</b>	<b>₱156,652,462</b>

Trade payables to third parties include amounts due to suppliers of software licenses, materials and supplies and other services directly related to operations. These are noninterest-bearing and are generally on a 30 to 60 days term.

Other accrued expenses pertain to accruals for professional fees, outside services and other operating expenses. These are unsecured, noninterest-bearing and are normally settled within the next reporting year.

Statutory payables include output VAT payable, withholding taxes payable and payables to various government agencies which are normally settled within the following month.

## 10. Loans Payable

This account consists of:

	2019	2018
Land Bank of the Philippines (Land Bank)	<b>₱50,000,000</b>	₱50,000,000
Producers Savings Bank Corporation (PSBC)	<b>49,550,594</b>	47,591,893
Third party	<b>14,000,000</b>	—
BDO Unibank, Inc. (BDO)	<b>202,789</b>	351,614
	<b>113,753,383</b>	97,943,507
Current portion	<b>65,837,110</b>	52,064,583
Noncurrent portion	<b>₱47,916,273</b>	₱45,878,924

### Land Bank Loan

In 2018, the Parent Company secured short-term loans with Land Bank aggregating ₱50.0 million. The loans carry annual interest rates ranging from 4.80% to 7.35% in 2019 (4.80% to 6.74% in 2018) and have maturity dates ranging between three (3) months and six (6) months. The loan maturity was extended until June 11, 2020.

### PSBC Loan

On October 31, 2018, the Parent Company obtained a five-year ₱50.0 million loan agreement with PSBC maturing on October 31, 2023. The loan carries an interest rate of 12.23% per annum.

### Loans from a Third Party

In 2019, the Group availed of unsecured loans aggregating ₱14.0 million from a third party, mainly to fund its working capital requirements. The loans have a term of six (6) months and carry an interest rate of 8.00% per annum. On March 22, 2020, the maturities of the loans were further extended up to September 22, 2020.

### BDO Loan

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

### Interest Expense

Details of interest expense recognized in profit or loss are as follows:

	Note	2019	2018	2017
Interest expense on:				
Loans payable				
PSBC		<b>₱6,011,767</b>	₱981,801	₱—
Land Bank		<b>3,326,922</b>	2,299,212	—
Third party		<b>863,554</b>	—	—
BDO		<b>32,676</b>	43,711	52,015
Lease liabilities	14	<b>399,442</b>	—	—
		<b>₱10,634,361</b>	₱3,324,724	₱52,015

## 11. Capital Stock

### Common Stock

Movements in common stock are as follows:

	2019		2018		2017	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
<b>Authorized</b>						
Balance at beginning of year	2,060,000,000	₱2,060,000,000	2,060,000,000	₱2,060,000,000	2,120,000,000	₱2,120,000,000
Decrease in par value	—	(618,000,000)	—	—	—	—
Reclassification to preferred stock	—	—	—	—	(60,000,000)	(60,000,000)
<b>Balance at end of year</b>	<b>2,060,000,000</b>	<b>₱1,442,000,000</b>	<b>2,060,000,000</b>	<b>₱2,060,000,000</b>	<b>2,060,000,000</b>	<b>₱2,060,000,000</b>
<b>Issued and outstanding</b>						
Balance at beginning of year	1,517,278,350	₱1,517,278,350	1,517,278,350	₱1,517,278,350	1,517,278,350	₱1,517,278,350
Decrease in par value	—	(455,183,505)	—	—	—	—
Debt to equity conversion	155,294,118	108,705,883	—	—	—	—
<b>Balance at end of year</b>	<b>1,672,572,468</b>	<b>₱1,170,800,728</b>	<b>1,517,278,350</b>	<b>₱1,517,278,350</b>	<b>1,517,278,350</b>	<b>₱1,517,278,350</b>

### Debt-to-Equity Conversion

On April 23, 2019, the Parent Company's stockholders approved the conversion of the advances from VI of ₱264.0 million to equity at ₱1.70 a share. The SEC approved the conversion on November 6, 2019. The excess resulting from the conversion was classified as APIC.

On March 8, 2019, the Parent Company's stockholders approved another conversion of advances from VI amounting to ₱209.0 million into equity at a conversion price of ₱6.50 a share. The application for the conversion was filed with the SEC on December 6, 2019 (see Note 12).

### Quasi-Reorganization

On March 8, 2019, the Parent Company's stockholders approved the reduction in the par value of the Parent Company's authorized common stock from ₱1.00 par value a share to ₱0.70 par value a share, setting aside an earlier plan to increase its authorized common stock to ₱3,000.0 million. The resulting APIC of ₱455.2 million was used to eliminate the Parent Company's accumulated deficit of ₱402.1 million as at December 31, 2018 and the excess of ₱53.1 million was added to APIC. This was approved by the SEC on September 6, 2019 (see Note 1).

### Preferred Stock

On November 8, 2016, the Parent Company's stockholders approved the amendment in the AOI to reclassify 60,000,000 unissued common shares to redeemable, convertible, cumulative, non-participating and non-voting Peso-denominated preferred shares, with or without detachable warrants at ₱1.00 a share. 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 and non-voting Peso-denominated preferred shares as the Preferred "A" shares. On the same date, the BOD approved the offering of the Preferred "A" shares, with an oversubscription option of additional 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. This was approved by the Parent Company's stockholders on June 1, 2018.

On June 22, 2018, the SEC issued the Certificate of Filing of Enabling Resolution which approved the designation and offering of the Preferred “A” shares. As at December 31, 2019, the Group is working on securing the approval by the PSE of the offering of Preferred “A” shares in the exchange.

Below is the track record of issuance of the Parent Company’s securities:

Date of Approval	Nature	Number of shares		Issue/Offer Price
		Authorized	Issued/Subscribed	
July 30, 2003	Common stock	40,000,000	28,000,000	₱1.00
November 11, 2008	Common stock	1,320,000,000	1,289,278,350	₱1.00
December 17, 2015	Common stock	2,120,000,000	200,000,000	₱1.00
November 6, 2019	Common stock	2,060,000,000	155,294,118	₱0.70

The Parent Company has 70 stockholders as at December 31, 2019 (68 as at December 31, 2018).

## 12. Related Party Transactions

The transactions and balances of the Group with its related parties are as follows:

	Nature of Transaction	Transactions during the Year		Outstanding Balances	
		2019	2018	2019	2018
<b>Trade and other receivables</b>					
Stockholders	Management fees	₱366,000	₱240,000	₱2,286,000	₱1,920,000
Entities under common control	Infrastructure build-up services	90,000,000	25,000,000	125,834,695	99,975,211
	Management fees	13,914,000	45,040,000	46,191,116	54,765,792
	Loans	—	59,631	—	183,435
				₱174,311,811	₱156,844,438
<b>Due from related parties</b>					
Stockholders	Advances	₱1,199,934	₱88,653,378	₱89,894,159	₱88,694,225
	Interest	7,092,270	980,802	8,073,072	980,802
Entities under common control	Advances	49,676,313	107,078,411	236,254,739	195,135,623
	Interest	—	333,409	—	—
Associate	Advances	—	—	2,755,902	2,755,902
				₱336,977,872	₱287,566,552
<b>Accounts payable and other current liabilities</b>					
Stockholders	Interest	₱—	₱—	₱59,903,586	₱59,903,586
Entities under common control	Outside services	2,779,258	21,283,690	7,297,329	8,819,096
	Advances	1,734,822	—	5,935,238	3,358,462
				₱73,136,153	₱72,081,144
<b>Due to related parties</b>					
Stockholders	Advances	₱89,875,200	₱133,442,010	₱85,751,153	₱254,613,559
	Leases	—	—	2,902,918	2,902,918
Entities under common control	Advances	—	—	878,207	878,207
	Services	—	—	605,212	605,212
	Leases	—	930,313	6,499,227	6,667,239
				₱96,636,717	₱265,667,135



### **Trade and Other Receivables**

- a. *Infrastructure Build-up Services.* On January 4, 2016, the Parent Company entered into separate service agreements with NOW TEL, NOW Cable and NewsNet effective from January 1, 2016 to December 31, 2018 for the Parent Company to provide infrastructure build-up and technology design services, which includes the provision of project management, design, planning, and installation services, to NOW TEL, NOW Cable and NewsNet. The service agreements were renewed on January 5, 2019 for another three (3) years.

Service revenue recognized related to infrastructure build-up totaled ₱90.0 million in 2019 (₱25.0 million and ₱45.0 million in 2018 and 2017, respectively).

- b. *Technical Services.* Part of the service agreements discussed above is to provide technical consultancy services for a period of ten (10) years with a monthly fee of ₱50,000 each for NOW Cable and NewsNet. The parties mutually agreed to defer this arrangement since no technical services related to the project was provided to NOW Cable and NewsNet in 2019 (and 2018). Service revenue amounted to ₱0.6 million and ₱0.5 million for NOW Cable and NewsNet, respectively, in 2017.
- c. *Management Services.* The Parent Company entered into a contract with the Asian Institute of Journalism and Communication (AIJC) to provide management services beginning January 1, 2018 to December 31, 2020 for a monthly fee. Service revenue from management services to AIJC amounted to ₱0.2 million in 2019 (₱0.2 million in 2018).

In 2019, the Parent Company entered into an agreement with NOW TEL for the assistance provided for the registration and application of permits needed for NOW TEL's site and communication equipment for ₱6.0 million.

In 2018, the Parent Company also entered into a contract with NOW Cable for the assistance to renew NOW Cable's Provisional Authority to Operate, and with NOW TEL for the assistance to renew NOW TEL's congressional franchise and to participate in the selection of a new major player (NMP) in the public telecommunications market, as spearheaded by the NTC. Service revenue recognized from these contracts aggregated ₱37.0 million in 2018.

The Parent Company also entered into a contract with NOW TEL to provide day-to-day management services beginning January 2017 to January 2020. Service revenue from this contract amounted to ₱7.8 million in 2019 (₱7.8 million in 2018 and 2017).

The Parent Company also charges VI management fees for performing accounting and administrative functions of VI. Management fees charged to VI amounted to ₱0.4 million in 2019 (₱0.2 million in 2018 and 2017).

### **Due from Related Parties**

- a. In 2018, the Parent Company entered into a deed of sale with Joyce Link to sell certain advances to and receivables from other related parties to Joyce Link in exchange for a one-year promissory note amounting to ₱88.7 million with interest of 8% per annum. The promissory note is convertible to common stock at the option of the holder. No gain or loss was recognized on the transaction.

Interest income earned amounting to ₱7.1 million in 2019 (₱1.0 million in 2018) from the promissory note was recognized as part of the advances to Joyce Link (see Note 4).

- b. The Group has advances to Softweb amounting to ₱5.0 million which pertains to a deposit for stock subscription. This amount was already fully provided with allowance for impairment loss as at December 31, 2019 (and 2018) (see Note 7).

#### **Accounts Payable and Other Current Liabilities**

- a. VAS. The Parent Company has separate agreements with NOW TEL, NOW Cable and NewsNet to interconnect their respective networks for the Parent Company to provide VAS to the public, such as cloud hosting services, online game services, cloud-based multimedia conferencing services, web hosting and cloud-based mail and messaging services (VAS contracts).

Pursuant to the VAS contracts, the Parties agreed on: (a) revenue sharing on the Parent Company's revenue from broadband services, (b) charging the Parent Company on a cost-plus-margin arrangement for the actual usage of the bandwidth, and (c) charging the Parent Company a connectivity fee for the use of the site and communication equipment of NOW TEL, NOW Cable and NewsNet. Total cost of VAS contracts presented under the "Cost of sales and services" account are as follows (see Note 16):

	2019	2018	2017
Bandwidth costs	<b>₱22,822,290</b>	₱8,097,294	₱3,121,774
Network connectivity fees	<b>19,607,500</b>	7,567,000	—
Cost of VAS	<b>6,024,474</b>	3,547,662	2,743,549
	<b>₱48,454,264</b>	₱19,211,956	₱5,865,323

- b. On January 3, 2017, the Parent Company renewed its service agreement with Knowledge Professionals Service Cooperative (KPSC) for a period of five (5) years beginning January 13, 2017 to January 2, 2022. Under the service agreement, KPSC shall provide consultancy and manpower services depending on the services specifically required by the Group.

Outside services incurred by the Group for the services previously provided by KPSC amounted to ₱2.8 million in 2019 (₱5.4 million and ₱4.1 million in 2018 and 2017, respectively).

Amounts owed to KPSC arising from this service agreement amounted to ₱7.3 million as at December 31, 2019 (₱8.8 million as at December 31, 2018).

- c. I-Resource entered into a service agreement with KPSC covering consultancy and manpower services depending on the services specifically required by the Company. The Company renewed the service agreement several times, with the last renewal from March 1, 2018 to March 1, 2020.

Outside services amounted to ₱2.8 million in 2019 (₱21.3 million and ₱37.0 million in 2018 and 2017, respectively) (see Note 16 and 17).

### **Due to Related Parties**

- a. The Parent Company has interest-bearing advances due to VI for working capital and investment requirements. In 2015, VI waived the interest accruing on the remaining balance and subsequent advances to be received from VI.

In 2016, the Parent Company's stockholders approved the conversion into equity of the advances from VI amounting to ₱264.0 million. This was approved by the SEC on November 6, 2019 (see Note 11).

In 2018, the Parent Company's BOD approved the additional conversion of the advances from VI amounting to ₱209.0 million into equity. The conversion was approved by the Parent Company's stockholders on March 8, 2019 and was filed with the SEC on December 6, 2019. Pending the SEC approval, these advances were presented as "deposits for stock subscription" in the consolidated statement of financial position (see Note 11).

Total advances due to VI amounted to ₱85.8 million as at December 31, 2019 (₱254.6 million as at December 31, 2018). Outstanding accrued interest amounting to ₱59.9 million in 2019 (and 2018) were recorded as part of "Accounts payable and other current liabilities" account in the consolidated statement of financial position (see Note 9).

- b. The Group has other advances from related parties under common control for working capital purposes.

### **Terms and Conditions of Transactions with Related Parties**

Outstanding balances are unsecured, noninterest-bearing and are collectible/payable either on demand or settled on 30 to 60 days term, except for due from and to related parties which do not have definite repayment terms. There were no guarantees provided or received for any related party receivables.

No ECL was recognized on trade and other receivables in 2019 (2018 and 2017).

### **Compensation of Key Management Personnel**

Compensation of key management personnel presented as part of "Salaries and employee benefits" under "Operating expenses" account in the consolidated statement of income consists of short-term employee benefits amounting to ₱12.3 million in 2019 (₱10.3 million and ₱9.1 million in 2018 and 2017, respectively).

There are no post-employment benefits, share-based payment, termination benefits and other long-term benefits provided to the key management personnel of the Group.

### **Approval Requirements and Limits on the Amount and Extent of Related Party Transactions**

All individual material related party transactions (MRPT) and those involving directors and/or officers shall be approved by at least two-thirds (2/3) vote of the BOD, with at least a majority of the independent directors voting to approve the MRPT. In case that a majority of the independent directors' vote is not secured, the MRPT may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.

Aggregate related party transactions within a 12-month period that meets or breaches the materiality threshold shall require the same BOD approval mentioned above.

### 13. Retirement Liability

The Group has an unfunded, non-contributory defined benefit plan covering substantially all of its qualified employees. The latest available actuarial report of the Group is as at December 31, 2018. Management has determined that there is no significant difference in the estimated retirement liability had it obtained an updated actuarial report as at December 31, 2019.

Retirement expense presented as part of "Salaries and employee benefits" under "Operating expenses" account in the consolidated statement of income is as follows:

	2019	2018
Current service cost	<b>₱520,319</b>	₱459,808
Interest cost	<b>72,088</b>	—
	<b>₱592,407</b>	₱459,808

Movements in the retirement liability are as follows:

	2019	2018
Balance at beginning of year	<b>₱975,690</b>	₱—
Current service cost	<b>520,319</b>	459,808
Interest cost	<b>72,088</b>	—
Remeasurement loss	—	515,882
Balance at end of year	<b>₱1,568,097</b>	₱975,690

The cumulative remeasurement losses recognized in OCI amounted to ₱515,882 as at December 31, 2019 (and 2018).

The assumptions used in determining retirement expense are discount rate of 7.38% - 7.46% and salary increase rate of 5% for the year ended December 31, 2019 (and 2018)

The sensitivity analysis based on reasonably possible changes in the assumptions as at December 31, 2019 is as follows:

	Change in Assumption	Effects on retirement Liability
Discount rate	+1%	(₱190,215)
	-1%	124,012
Salary increase rate	+1%	176,316
	-1%	(270,780)

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the retirement liability at the reporting date after adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The corresponding change in the retirement liability was expressed as a percentage change from the base retirement liability.

The table below shows the maturity analysis of the undiscounted benefit payments:

Less than five years	₱14,605,278
More than 20 years	36,212,345

The average duration of the defined benefit liability is 17 years as at December 31, 2019.

#### 14. Lease Commitments

##### Long-term Leases

The Group leases office spaces and roof decks from various entities with terms ranging from two to five years. These are renewable upon mutual agreement of the parties and do not contain any purchase options.

As discussed in Note 2, beginning January 1, 2019, the Group recognized ROU assets and lease liabilities for its lease agreements on office spaces and roof decks.

Movements in ROU assets as at December 31, 2019 are as follows:

	Note	
<b>Cost</b>		
Balance at beginning of year, as previously reported		₱–
Effect of adoption of PFRS 16	2	5,171,364
Balance at beginning of year, as restated		5,171,364
Additions		2,521,973
Balance at end of year		7,693,337
<b>Accumulated Amortization</b>		
Balance at the beginning of year		–
Amortization	8	2,652,290
Balance at end of year		2,652,290
<b>Carrying Amount</b>		<b>₱5,041,047</b>

Movements in lease liabilities as at December 31, 2019 are as follows:

	Note	
Balance at beginning of year, as previously reported		₱–
Effect of adoption of PFRS 16	2	5,141,364
Balance at beginning of year, as restated		5,141,364
Additions		2,401,973
Rental payments		(1,889,844)
Interest	10	399,442
Balance at end of year		6,052,935
Current portion		4,153,740
Noncurrent portion		<b>₱1,899,195</b>

The incremental borrowing rate of 7.94% was applied to the lease liabilities. ROU assets were measured at the amount of the lease liabilities plus prepaid rent at adoption date.

Prior to January 1, 2019, the Group recognized rent expense on the same lease agreements which were classified as operating leases. Rent expense amounted to ₱3.8 million and ₱2.8 million in 2018 and 2017, respectively. Accrued rent (recorded as part of “Accrued expenses - others” under the “Accounts payable and other current liabilities” account) amounting to ₱18,300 and ₱5,933 in 2018 and 2017, respectively, represents straight-line adjustment on rent.

#### **Short-term Lease**

The Group leases parking spaces and certain office space and roof decks for a period of less than one year and is renewable at the option of the parties.

Rent expense arising from short-term leases amounted to ₱0.3 million in 2019 (₱1.4 million and ₱1.7 million in 2018 and 2017, respectively). Security deposit amounted to ₱0.9 million as at December 31, 2019 (₱0.7 million as at December 31, 2018) (see Note 6).

The amounts recognized in profit or loss are as follows:

	Note	2019	2018	2017
Rent expense:				
Cost of sales and services	16	<b>₱3,066,114</b>	₱3,773,577	₱2,810,087
Operating expenses	17	<b>262,182</b>	1,389,075	1,739,036
Amortization of ROU asset	8	<b>2,652,290</b>	—	—
Interest expense on lease liability	10	<b>399,442</b>	—	—
		<b>₱6,380,028</b>	₱5,162,652	₱4,549,123

Maturity analysis of undiscounted contractual lease payments from December 31, 2019 is as follows:

On demand	₱582,944
Within one year	2,450,321
After one year but not more than five years	3,391,488
	<b>₱6,424,753</b>

## **15. Revenue**

Disaggregation of the Group’s revenue from contracts with customers is presented below:

	2019		
	Service fees	Sale of goods	Total
Broadband services	<b>₱81,671,208</b>	₱—	<b>₱81,671,208</b>
Management services	<b>104,280,000</b>	—	<b>104,280,000</b>
Sale and/or installation of software licenses	—	<b>4,038,959</b>	<b>4,038,959</b>
Manpower augmentation	<b>30,772,312</b>	—	<b>30,772,312</b>
	<b>₱216,723,520</b>	<b>₱4,038,959</b>	<b>₱220,762,479</b>

	2018		
	Service fees	Sale of goods	Total
Broadband services	₱44,927,731	₱2,283,321	₱47,211,052
Management services	65,280,000	—	65,280,000
Sale and/or installation of software licenses	38,960,513	31,158,281	70,118,794
Manpower augmentation	35,251,680	—	35,251,680
	₱184,419,924	₱33,441,602	₱217,861,526

	2017		
	Service fees	Sale of goods	Total
Broadband services	₱24,512,069	₱—	₱24,512,069
Management services	54,240,000	—	54,240,000
Sale and/or installation of software licenses	5,638,920	21,698,063	27,336,983
Manpower augmentation	42,275,212	—	42,275,212
	₱126,666,201	₱21,698,063	₱148,364,264

Broadband services pertain to contracts with commercial and residential customers to provide broadband services based on a fixed monthly fee. Normal terms range from one (1) to two (2) years. These contracts are offered separately or bundled with sale and/or installation of software licenses.

Management services are fees charged for various services provided by the Parent Company to its related parties (see Note 12).

Manpower augmentation services are contracts between I-Resource and various customers to provide manpower specializing in IT. These contracts have a fixed monthly fee and have terms ranging from six (6) months to one (1) year.

#### **Contract Assets**

Contract assets arise from the Group's sale of broadband service contracts bundled with software licenses wherein the Group has established its right to consideration in exchange for software licenses already delivered to the customers before payments are due.

Contract assets amounted to ₱1.4 million as at December 31, 2019 (₱1.5 million as at December 31, 2018). No ECL was recognized on the contract assets in 2019 (and 2018).

These are reclassified to trade receivables upon completion of the performance obligation.

## 16. Cost of Sales and Services

This account consists of:

	Note	2019	2018	2017
Salaries and employee benefits		<b>₱55,065,687</b>	₱43,889,720	₱24,225,074
Cost of VAS contracts	12	<b>48,454,264</b>	19,211,956	5,865,323
Installation costs		<b>5,306,588</b>	3,607,085	2,737,697
Rent	14	<b>3,066,114</b>	3,773,577	2,810,087
Cost of software licenses		<b>2,848,808</b>	52,364,709	16,016,123
Outside services	12	<b>2,779,258</b>	20,214,824	31,172,807
Others		<b>2,514,408</b>	5,261,722	2,976,367
		<b>₱120,035,127</b>	₱148,323,593	₱85,803,478

## 17. Operating Expenses

This account consists of:

	Note	2019	2018	2017
Salaries and employee benefits		<b>₱30,528,955</b>	₱12,639,969	₱13,772,096
Depreciation and amortization	8	<b>11,181,531</b>	7,309,611	4,411,001
Representation		<b>7,571,792</b>	5,822,950	6,227,299
Professional fees		<b>5,854,120</b>	1,776,658	2,495,621
Advertising and promotion		<b>5,124,036</b>	8,350,200	2,367,961
Transportation and travel		<b>4,945,585</b>	4,612,457	5,026,897
Taxes and licenses		<b>4,615,178</b>	2,680,771	4,095,999
Communication		<b>2,928,313</b>	5,244,439	4,496,294
Security services		<b>1,521,070</b>	1,368,130	1,148,281
Office supplies		<b>1,519,347</b>	1,359,932	793,637
Utilities		<b>801,024</b>	259,686	284,014
Provision for impairment loss on trade and other receivables	5	<b>476,262</b>	724,729	1,940
Insurance		<b>395,179</b>	309,151	199,904
Repairs and maintenance		<b>294,695</b>	219,451	196,001
Rent	14	<b>262,182</b>	1,389,075	1,739,036
Outside services	12	<b>—</b>	1,068,866	5,840,701
Others		<b>3,511,249</b>	2,692,702	981,178
		<b>₱81,530,518</b>	₱57,828,777	₱54,077,860

## 18. Income Taxes

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

	2019	2018	2017
RCIT	<b>₱4,324,070</b>	₱1,594,744	₱1,590,187
MCIT	<b>64,156</b>	174,657	1,080,771
	<b>₱4,388,226</b>	₱1,769,401	₱2,670,958



The components of the Group's deferred tax assets are as follows:

	2019	2018	2017
Allowance for impairment loss on trade and other receivables	<b>₱10,299,330</b>	₱10,156,451	₱4,149,868
Retirement liability	<b>315,665</b>	137,942	—
Advanced collections received from customers	<b>205,423</b>	834,911	5,649,667
Effect of PFRS 16	<b>146,966</b>	—	—
Excess of MCIT over RCIT	<b>84,287</b>	77,151	2,312,359
Effect of PFRS 15	<b>32,213</b>	—	—
NOLCO	—	350,350	828,481
Straight-line adjustment on rent	—	5,490	1,780
Unrealized foreign exchange loss	—	—	925
	<b>₱11,083,884</b>	₱11,562,295	₱12,943,080

The Group did not recognize deferred tax assets on these temporary differences because management has assessed that it is not probable that sufficient future taxable profit against which the deferred income tax assets can be utilized.

Deferred tax liability amounting to ₱3,166 pertains to unrealized foreign exchange gain of ₱10,552 as at December 31, 2019.

Details of NOLCO are as follows:

Year incurred	Balance at beginning of year	Incurred	Applied	Expired	Balance at end of year	Valid until
2018	₱602,209	₱—	(₱602,209)	₱—	₱—	2021
2017	565,624	—	(565,624)	—	—	2020
	<b>₱1,167,833</b>	<b>₱—</b>	<b>(₱1,167,833)</b>	<b>₱—</b>	<b>₱—</b>	

Details of excess of MCIT over RCIT are as follows:

Year incurred	Balance at beginning of year	Incurred	Applied	Expired	Balance at end of year	Valid until
2019	₱—	₱26,573	₱—	₱—	₱26,573	2022
2018	64,746	—	(7,032)	—	57,714	2021
2016	12,405	—	—	(12,405)	—	2019
	<b>₱77,151</b>	<b>₱26,573</b>	<b>(₱7,032)</b>	<b>(₱12,405)</b>	<b>₱84,287</b>	

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the consolidated statement of income is as follows:

	2019	2018	2017
Provision for income tax computed at the statutory income tax rate	<b>₱4,711,867</b>	₱2,971,851	₱2,688,352
Change in unrecognized deferred tax assets	<b>(478,411)</b>	(1,380,785)	(1,902,273)
Tax effects of:			
Nondeductible expenses	<b>180,217</b>	188,086	1,833,190
Interest income already subjected to final tax	<b>(16,438)</b>	(175,638)	(141,752)
Expired NOLCO and MCIT	<b>(12,405)</b>	(75,615)	(1,468)
Nondeductible interest expense	<b>6,562</b>	241,502	194,909
	<b>₱4,391,392</b>	₱1,769,401	₱2,670,958

## 19. Basic/Diluted EPS

Basic and diluted EPS attributable to the equity holders of the Parent Company were computed as follows:

	2019	2018	2017
Net income attributable to equity holders of the Parent Company	<b>₱10,875,888</b>	₱7,885,496	₱6,792,056
Divided by the weighted average number of outstanding shares	<b>1,543,160,703</b>	1,517,278,350	1,517,278,350
Basic and diluted earnings per share	<b>₱0.0070</b>	₱0.0052	₱0.0045

Diluted EPS is equal to the basic earnings per share since the Group does not have potential dilutive stocks. There have been no transactions involving common stock or potential common stock that occurred subsequent to the reporting date.

## 20. Financial Risk Management Objectives and Policies

### General

The Group has risk management policies that systematically view the risks that could prevent the Group from achieving its objectives. These policies are intended to manage risks identified in such a way that opportunities to deliver the Group's objectives are achieved. The Group's risk management takes place in the context of day-to-day operations and normal business processes such as strategic planning and business planning. It is also 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.

Management has identified each risk and is responsible for coordinating and continuously improving risk strategies, processes and measures in accordance with the established business objectives. The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the activities of the Group.

The Group's principal financial instruments comprise of cash, trade and other receivables (excluding advances to officers and employees), due from related parties, security deposits (included as part of "Other noncurrent assets"), investment in equity securities, accounts payable and other current liabilities (excluding statutory payables), due to related parties, loans payable, and lease liabilities.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk. The BOD reviews and approves policies for managing these risks. These are summarized below.

### **Credit Risk**

Credit risk is the risk that the obligations of the Group will not be repaid on time and in full as contracted, resulting in a financial loss. It is inherent to the business as potential losses may arise due to the failure of its customers and counter parties to fulfill their obligations on maturity dates or due to adverse market conditions. Exposure to credit risk arises primarily from its financing activities.

Generally, the credit risk of the Group is attributable to financial assets at amortized cost. The Group maintains credit policies and continuously monitors defaults of customers and other counter parties, identified either individually or by group, and incorporate this information into its credit risk controls.

Managing credit risk has both qualitative and quantitative aspects. Credit officers must evaluate the credit quality of the counterparties and assign internal credit ratings upon this evaluation.

The Group defines credit exposure as all transactions where losses might occur due to the fact that counterparties may not fulfill their contractual payment obligations based on original contractual terms. The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets. Credit risk from cash in banks is mitigated by transacting only with reputable banks duly approved by management.

The tables below summarize the analysis of the Group's financial assets as at December 31, 2019 (and 2018):

	2019				
	Neither Past Due nor High Grade	Impaired Standard Grade	Past due but not impaired	Impaired	Total
Cash in banks	₱10,468,081	₱—	₱—	₱—	₱10,468,081
Trade and other receivables*	—	222,616,396	3,462,940	34,291,100	260,370,436
Due from related parties	336,977,872	—	—	—	336,977,872
Security deposits	941,432	—	—	—	941,432
	₱348,387,385	₱222,616,396	₱3,462,940	₱34,291,100	₱608,757,821

\*Excluding advances to officers and employees amounting to ₱1.0 million.

	2018				
	Neither Past Due nor High Grade	Impaired Standard Grade	Past due but not impaired	Impaired	Total
Cash in banks	₱25,696,217	₱—	₱—	₱—	₱25,696,217
Trade and other receivables*	—	200,168,631	5,456,496	33,814,838	239,439,965
Due from related parties	287,566,552	—	—	—	287,566,552
Security deposits	743,564	—	—	—	743,564
	₱314,006,333	₱200,168,631	₱5,456,496	₱33,814,838	₱553,446,298

\*Excluding advances to officers and employees amounting to ₱1.8 million.

The Group evaluates credit quality on the basis of the credit strength of the security and/or counterparty/issuer. High grade financial assets are those whose collectability is assured based on past experience. Standard grade financial assets are considered moderately realizable, including some accounts which would require some reminder follow-ups to obtain settlement from the counterparty.

The Group considers its financial assets which are neither past due but not impaired as high grade.

### **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 objectives to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking adverse effect to the Group's credit standing.

The Group seeks to manage its liquid funds through cash planning on a weekly basis. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities.

The table below summarizes the maturity profile of the Group's financial liabilities as at December 31, 2019 (and 2018) based on contractual undiscounted payments:

	2019				Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	
Accounts payable and other current liabilities*	₱110,073,756	₱—	₱—	₱—	₱110,073,756
Loans payable**	—	—	67,133,360	58,577,819	125,711,179
Due to related parties	—	—	85,751,153	10,885,564	96,636,717
Lease liabilities	582,944	720,006	1,730,315	3,391,488	6,424,753
	₱110,656,700	₱720,006	₱154,614,828	₱72,854,871	₱338,846,405

\*Excluding deferred output VAT and statutory payables aggregating ₱35.6 million.

\*\*Including future interest payments.

	2018				Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	
Accounts payable and other current liabilities*	₱130,330,347	₱—	₱—	₱—	₱130,330,347
Loans payable**	—	—	56,149,220	61,458,419	117,607,639
Due to related parties	—	—	114,216,906	151,450,229	265,667,135
	₱130,330,347	₱—	₱170,366,126	₱212,908,648	₱513,605,121

\*Excluding deferred output VAT and statutory payables aggregating ₱26.3 million.

\*\*Including future interest payments.

### **Interest Rate Risk**

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates.

The Group's loans payable to local banks are subject to fixed interest rates and are exposed to fair value interest rate risk. The re-pricing of these instruments is done on annual intervals.

The Group regularly monitors interest rate movements and on the basis of current and projected economic and monetary data, decides on the best alternative to take. No sensitivity analysis is needed as future interest rate changes are not expected to significantly affect the Group's net income.

## 21. Fair Value of Financial Instruments

Comparison of the carrying amounts and fair values of the Group's financial instruments are as follows:

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash	<b>₱11,312,632</b>	<b>₱11,312,632</b>	₱25,828,933	₱25,828,933
Trade and other receivables*	<b>226,079,336</b>	<b>226,079,336</b>	205,625,127	205,625,127
Due from related parties	<b>336,977,872</b>	<b>336,977,872</b>	287,566,552	287,566,552
Investment in equity securities	<b>1,537,716,362</b>	<b>1,537,716,362</b>	1,337,638,090	1,337,638,090
Security deposits	<b>941,432</b>	<b>941,432</b>	743,564	743,564
	<b>₱2,113,027,634</b>	<b>₱2,113,027,634</b>	<b>₱1,857,402,266</b>	<b>₱1,857,402,266</b>

\*Excluding advances to officers and employees amounting to ₱1.0 million as at December 31, 2019 (₱1.8 million as at December 31, 2018).

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Liabilities</b>				
Accounts payable and other current liabilities*	<b>₱110,073,756</b>	<b>₱110,073,756</b>	₱130,330,347	₱130,330,347
Loans payable	<b>113,753,383</b>	<b>117,501,512</b>	97,943,507	89,889,124
Due to related parties	<b>96,636,717</b>	<b>96,636,717</b>	265,667,135	265,667,135
Lease liabilities	<b>6,052,935</b>	<b>6,052,935</b>	—	—
	<b>₱326,516,791</b>	<b>₱330,264,920</b>	<b>₱493,940,989</b>	<b>₱485,886,606</b>

\*Excluding deferred output VAT and statutory payables aggregating ₱35.6 million as at December 31, 2019 (₱26.3 million as at December 31, 2018).

*Cash, Trade and Other Receivables (excluding advances to officers and employees), Security Deposits and Accounts Payable and Other Current Liabilities (excluding statutory payables).* The carrying amounts of these financial instruments approximate their fair values due to the relatively short-term maturity of these financial instruments.

*Due from and to Related Parties.* The carrying amount of due from and to related parties approximate its fair value because these are collectible or payable on demand.

*Investment in Equity Securities.* The fair value of unquoted equity security was determined using discounted cash flow method based on market observable rates. Discount rate used is 8.77% in 2019 (14.25% in 2018) (Level 3).

*Loans Payable.* The fair values for the Group's loans payable are estimated using the discounted cash flow method with the applicable rates ranging from 4.80% to 12.23% in 2019 (6.98% to 7.04% and 5.70% in 2018 and 2017, respectively) (Level 2).

*Lease Liabilities.* The fair values of the Group's lease liabilities are measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate of 7.94% as at December 31, 2019 (Level 2).

There were no transfers between levels in the fair value hierarchy as at December 31, 2019 (and 2018).

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## 22. 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, based on the 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.

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 at December 31, 2019 (as at December 31, 2018 and 2017), the Group was able to meet its capital management objectives. No changes were made in the objectives, policies or processes in 2019 (2018 and 2017).

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## 23. Operating Segments

### **Business Segments**

For management purposes, the Group is organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The industry segments where the Group operates are as follows:

- a) Broadband Services - provides high-speed broadband service of up to 1000 Mbps.
- b) Software Licenses and Services - provides software license products and installation services.
- c) IT Manpower and Resource Augmentation - provides deployment of IT professionals.

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.

### Segment Financial Information

The segment financial information is presented as follows:

	2019				
	Broadband and Management Services	Software Licenses	IT Manpower and Resource Augmentation	Eliminations	Consolidated
<b>REVENUE</b>	<b>₱185,951,208</b>	<b>₱4,038,959</b>	<b>₱32,204,614</b>	<b>(₱1,432,302)</b>	<b>₱220,762,479</b>
<b>COSTS AND OTHER OPERATING EXPENSES</b>					
Cost of services excluding depreciation and amortization	(97,875,582)	(3,342,408)	(20,249,439)	1,432,302	(120,035,127)
Depreciation and amortization	(10,725,173)	—	(456,358)	—	(11,181,531)
General and administrative expenses excluding depreciation and amortization	(60,907,262)	(335,264)	(9,106,461)	—	(70,348,987)
Interest expense	—	—	—	—	(10,634,361)
Other income	—	—	—	—	7,143,749
	(169,508,017)	(3,677,672)	(29,812,258)	1,432,302	(205,056,257)
<b>SEGMENT OPERATING PROFIT (LOSS)</b>	<b>₱16,443,191</b>	<b>₱361,287</b>	<b>₱2,392,356</b>	<b>₱—</b>	
Income before tax					₱15,706,222
Provision for income tax					(4,391,392)
Net income					<u>₱11,314,830</u>
<b>ASSETS AND LIABILITIES</b>					
Segment assets	₱604,910,320	₱7,062,297	₱27,076,489	₱—	₱639,049,106
Unallocated asset – Investment in equity securities	—	—	—	—	1,537,716,362
Segment liabilities	545,802,194	12,722,890	14,144,239	—	572,669,323
<b>OTHER INFORMATION</b>					
Non-cash expenses (income) other than depreciation and amortization	₱—	₱—	₱—	₱—	₱—

	2018				
	Broadband and Management Services	Software Licenses	IT Manpower and Resource Augmentation	Eliminations	Consolidated
<b>REVENUE</b>	<b>₱112,491,052</b>	<b>₱70,118,794</b>	<b>₱35,251,680</b>	<b>₱—</b>	<b>₱217,861,526</b>
<b>COSTS AND OTHER OPERATING EXPENSES</b>					
Cost of services excluding depreciation and amortization	(54,993,042)	(69,894,610)	(23,435,941)	—	(148,323,593)
Depreciation and amortization	(4,430,105)	(2,761,408)	(118,098)	—	(7,309,611)
General and administrative expenses excluding depreciation and amortization	(35,924,496)	(4,853,514)	(9,741,156)	—	(50,519,166)
Interest expense	—	—	—	—	(3,324,724)
Other income	—	—	—	—	1,521,738
	(95,347,643)	(77,509,532)	(33,295,195)	—	(207,955,356)
<b>SEGMENT OPERATING PROFIT (LOSS)</b>	<b>₱17,143,409</b>	<b>(₱7,390,738)</b>	<b>₱1,956,485</b>	<b>₱—</b>	
Income before tax					₱9,906,170
Provision for current income tax					(1,769,401)
Net income					<u>₱8,136,769</u>
<b>ASSETS AND LIABILITIES</b>					
Segment assets	₱544,926,966	₱9,204,376	₱22,160,442	₱—	₱576,291,784
Unallocated assets - FA at FVOCI	—	—	—	—	1,337,638,090
Segment liabilities	757,923,086	—	27,315,708	—	785,238,794
<b>OTHER INFORMATION</b>					
Non-cash expenses other than depreciation and amortization	₱—	₱—	₱—	₱—	₱—

	2017				
	Broadband Services	Software Licenses and Services	IT Manpower and Resource Augmentation	Eliminations	Consolidated
<b>REVENUE</b>	<b>₱78,753,069</b>	<b>₱27,336,983</b>	<b>₱42,274,212</b>	<b>₱-</b>	<b>₱148,364,264</b>
<b>COSTS AND OTHER OPERATING EXPENSES</b>					
Cost of services excluding depreciation and amortization	(33,821,249)	(20,801,762)	(31,180,467)	-	(85,803,478)
Depreciation and amortization	(3,207,181)	(1,113,285)	(90,535)	-	(4,411,001)
General and administrative expenses excluding depreciation and amortization	(27,839,643)	(12,798,015)	(9,029,201)	-	(49,666,859)
Interest expense	-	-	-	-	(52,015)
Other income	-	-	-	-	530,263
	(64,868,073)	(34,713,062)	(40,300,203)	-	(139,403,090)
<b>SEGMENT OPERATING PROFIT (LOSS)</b>	<b>₱13,884,996</b>	<b>(₱7,376,079)</b>	<b>₱1,974,009</b>	<b>₱-</b>	
Income before tax					₱8,961,174
Provision for income tax					(2,670,958)
Net income					<u>₱6,290,216</u>
<b>ASSETS AND LIABILITIES</b>					
Segment assets	₱335,503,767	₱5,088,817	₱18,313,947	₱-	₱358,906,531
Unallocated assets	-	-	-	-	1,312,871,168
Segment liabilities	296,763,180	-	19,207,375	-	315,970,555
<b>OTHER INFORMATION</b>					
Non-cash expenses (income) other than depreciation and amortization	₱-	₱-	₱-	₱-	₱-

## 24. Notes to Consolidated Statement of Cash Flows

The reconciliation of the Group's liabilities arising from financing activities is presented below:

	Cash Flows			Non-cash Flows		December 31, 2019
	January 1, 2019	Availments/ Additions	Payments	Interest Expense	Reclassification to Deposit for Stock Subscription	
Due to related parties	₱265,667,135	₱89,875,200	(₱49,905,618)	₱-	(₱209,000,000)	₱96,636,717
Loans payable	97,943,507	14,000,000	(8,425,043)	10,234,919	-	113,753,383
Lease liabilities	5,141,364	2,401,973	(1,889,844)	399,442	-	6,052,935
	<b>₱368,752,006</b>	<b>₱106,277,173</b>	<b>(₱60,220,505)</b>	<b>₱10,634,361</b>	<b>(₱209,000,000)</b>	<b>₱216,443,035</b>

	January 1, 2018	Cash Flows		Non-cash Flow	December 31, 2018
		Availments	Payments	Interest Expense	
Due to related parties	₱151,454,345	₱133,442,010	(₱19,229,220)	₱-	₱265,667,135
Loans payable	448,951	97,287,870	(3,118,038)	3,324,724	97,943,507
	<b>₱151,903,296</b>	<b>₱230,729,880</b>	<b>(₱22,347,258)</b>	<b>₱3,324,724</b>	<b>₱363,610,642</b>



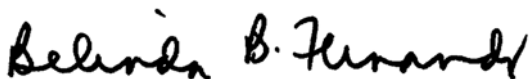
**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY CONSOLIDATED FINANCIAL STATEMENTS FOR FILING WITH THE  
SECURITIES AND EXCHANGE COMMISSION**

The Stockholders and the Board of Directors  
NOW Corporation and Subsidiaries  
Unit 5-1, 5th Floor, OPL Building  
100 C. Palanca St., Legaspi Village  
Makati City

We have audited the accompanying consolidated financial statements of NOW Corporation (the Company) and Subsidiaries as at and for the year ended December 31, 2019, on which we have rendered our report dated May 12, 2020.

In compliance with the Revised Securities Regulations Code Rule 68, we are stating that the Company has 47 stockholders owning one hundred (100) or more shares each.

**REYES TACANDONG & Co.**



**BELINDA B. FERNANDO**

Partner

CPA Certificate No. 81207

Tax Identification No. 102-086-538-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 81207-SEC Group A

Valid until January 29, 2025

BIR Accreditation No. 08-005144-004-2019

Valid until October 16, 2022

PTR No. 8116474

Issued January 6, 2020, Makati City

May 12, 2020  
Makati City, Metro Manila



## INDEPENDENT AUDITORS REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors  
NOW Corporation and Subsidiaries  
Unit 5-1, 5th Floor, OPL Building  
100 C. Palanca St., Legaspi Village  
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of NOW Corporation and Subsidiaries (the Group) as at and for the year ended December 31, 2019 included in this Form 17-A and have issued our report thereon dated May 12, 2020. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedules on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at and for the year ended December 31, 2019 and no material exceptions were noted.

The consolidated financial statements as at and for the year ended December 31, 2018 from which the components of the financial soundness indicators were comparatively presented were audited by another auditor.

### REYES TACANDONG & Co.

BELINDA B. FERNANDO

Partner

CPA Certificate No. 81207

Tax Identification No. 102-086-538-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 81207-SEC Group A

Valid until January 29, 2025

BIR Accreditation No. 08-005144-004-2019

Valid until October 16, 2022

PTR No. 8116474

Issued January 6, 2020, Makati City

May 12, 2020  
Makati City, Metro Manila

**NOW CORPORATION AND SUBSIDIARIES**  
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**  
**AS AT DECEMBER 31, 2019**

Ratio	Formula	2019	2018
Current Ratio	Total current assets	<b>₱622,694,541</b>	₱562,139,833
	Divided by: Total current liabilities	<b>312,282,592</b>	474,384,180
	Current Ratio	<b>1.99</b>	1.18
Acid Test Ratio	Total current assets	<b>₱622,694,541</b>	₱562,139,833
	Less: Contract assets	<b>1,413,165</b>	1,520,541
	Other current assets	<b>45,888,216</b>	39,809,721
	Quick assets	<b>575,393,160</b>	520,809,571
	Divide by: Total current liabilities	<b>312,282,592</b>	474,384,180
	Acid Test Ratio	<b>1.84</b>	1.10
Solvency Ratio			
	Net income after depreciation and amortization	<b>₱11,314,830</b>	₱8,136,769
	Add: Depreciation and amortization	<b>11,181,531</b>	7,309,611
	Net income before depreciation and amortization	<b>22,496,361</b>	15,446,380
	Divided by: Total liabilities	<b>572,669,323</b>	785,238,794
	Solvency Ratio	<b>0.04</b>	0.02
Debt-to-Equity Ratio			
	Total liabilities	<b>₱572,669,323</b>	₱785,238,794
	Divided by: Total equity	<b>1,604,096,145</b>	1,128,691,080
	Debt-to-Equity Ratio	<b>0.36</b>	0.70
Asset-to-Equity Ratio			
	Total assets	<b>₱2,176,765,468</b>	₱1,913,929,874
	Divided by: Total equity	<b>1,604,096,145</b>	1,128,691,080
	Asset-to-Equity Ratio	<b>1.36</b>	1.70
Interest Rate Coverage Ratio			
	Pretax income before interest	<b>₱26,340,583</b>	₱13,230,894
	Divided by: Interest expense	<b>10,634,361</b>	3,324,724
	Interest Rate Coverage Ratio	<b>2.48</b>	3.98
Return on Equity			
	Net income	<b>₱11,314,830</b>	₱8,136,769
	Divided by: Total equity	<b>1,604,096,145</b>	1,128,691,080
	Return on Equity	<b>0.01</b>	0.01

(Forward)

Ratio	Formula	2019	2018
Return on Assets	Net income	<b>₱11,314,830</b>	₱8,136,769
	Divided by: Average total assets	<b>2,045,347,671</b>	1,792,853,787
	Return on Assets	<b>0.01</b>	0.005
Net Profit Margin	Net income	<b>₱11,314,830</b>	₱8,136,769
	Divided by: Revenue	<b>220,762,479</b>	217,861,526
	Net Profit Margin	<b>0.05</b>	0.04

## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors  
NOW Corporation and Subsidiaries  
Unit 5-1, 5th Floor, OPL Building  
100 C. Palanca St., Legaspi Village  
Makati City

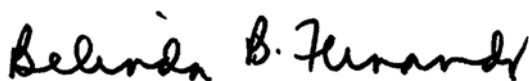
We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of NOW Corporation and Subsidiaries (the Group) as at and for the year ended December 31, 2019 included in this Form 17-A and have issued our report thereon dated May 12, 2020. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplementary schedules as at December 31, 2019 are the responsibility of the Group's management. These supplementary schedules include the following:

- Reconciliation of Retained Earnings Available for Dividend Declaration of the Parent Company
- Schedules required by Part II of the Revised Securities Regulation Code (SRC) Rule 68
- Conglomerate Map

The comparative information and related consolidated financial statements of the Group as at December 31, 2018 and for the years ended December 31, 2018 and 2017 were audited by another auditor.

These schedules are presented for purposes of complying with the Revised SRC Rule 68 and are not part of the consolidated financial statements. These information have been subjected to the auditing procedures applied in the audit of the consolidated financial statements, including comparing such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the basic consolidated financial statements themselves. In our opinion, the information is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

### REYES TACANDONG & Co.



BELINDA B. FERNANDO

Partner

CPA Certificate No. 81207

Tax Identification No. 102-086-538-000

BOA Accreditation No. 4782; Valid until August 15, 2021

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PTR No. 8116474

Issued January 6, 2020, Makati City

May 12, 2020  
Makati City, Metro Manila

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**NOW CORPORATION AND SUBSIDIARIES**  
**SEC SUPPLEMENTARY SCHEDULES AS REQUIRED BY PAR. 6 PART II OF**  
**REVISED SRC RULE 68**  
**DECEMBER 31, 2019**

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**Table of Contents**

<i>Schedule</i>	<i>Description</i>	<i>Page</i>
A	Financial Assets	<u>1</u>
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	<u>N/A</u>
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	<u>2</u>
D	Long-Term Debt	<u>3</u>
E	Indebtedness to Related Parties	<u>N/A</u>
F	Guarantees of Securities of Other Issuers	<u>N/A</u>
G	Capital Stock	<u>4</u>

*B, E & F - None to report.*

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**NOW CORPORATION AND SUBSIDIARIES****SCHEDULE A – FINANCIAL ASSETS****DECEMBER 31, 2019**

Name of issuing entity and association of each issue	Number of shares	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received or accrued
NOW Telecom Company, Inc.	2,656,580	₱1,537,716,362	₱1,537,716,362	₱–

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**NOW CORPORATION AND SUBSIDIARIES**

**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION  
OF FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

	Balance at beginning of year	Additions	Deductions		Balance at end of year		Balance at end of year
			Collections	Write off	Current	Noncurrent	
Softrigger Interactive, Inc.	₱2,452,800	₱—	₱—	₱—	₱2,452,800	₱—	₱2,452,800
I-Professional Search Network, Inc.	6,891,384	—	—	—	6,891,384	—	6,891,384
I-Resource Consulting International, Inc.	1,432,302	—	—	—	1,432,302	—	1,432,302
	₱10,776,486	₱—	₱—	₱—	₱10,776,486	₱—	₱10,776,486



**NOW CORPORATION AND SUBSIDIARIES**

**SCHEDULE D – LONG-TERM DEBT**

**DECEMBER 31, 2019**

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" related balance sheet	Amount shown under caption "Long-Term Debt" in related statement of financial position			
			Carrying amount	Interest Rate(s)	Payment Terms	Maturity Dates
Producer's Bank Loan Contract	₱50,000,000	₱—	₱49,550,594	8% 9.4% nominal rate	60 monthly payments	31-Oct-23
BDO Loan Contract	564,800	—	202,789	10.78 eff. int. rate	60 monthly payments	23-Nov-21
	₱50,564,800	₱—	₱49,753,383			

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**NOW CORPORATION AND SUBSIDIARIES****SCHEDULE G – CAPITAL STOCK****DECEMBER 31, 2019**

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				Number of shares held by		
<u>Title of issue</u>	Number of shares authorized	Number of shares issued and outstanding as shown under the statement of financial position caption	Number of shares reserved for options, warrants, conversion & other rights	Related parties	Directors, officers and employees	Public
Common stock	2,060,000,000	1,672,572,468	–	1,344,512,513	–	328,059,955
Preferred stock	60,000,000	–	–	–	–	–

**NOW CORPORATION AND SUBSIDIARIES**

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION**

**DECEMBER 31, 2019**

**(Amounts are based on the Separate Financial Statements of the Parent Company)**

	Amount
Unappropriated retained earnings (deficit), beginning of year	(P402,105,543)
Effect of equity restructuring	402,105,543
Net income actually earned during the year:	
Net income during the year closed to retained earnings	9,383,199
Total unappropriated retained earnings available for dividend declaration at end of year	P9,383,199

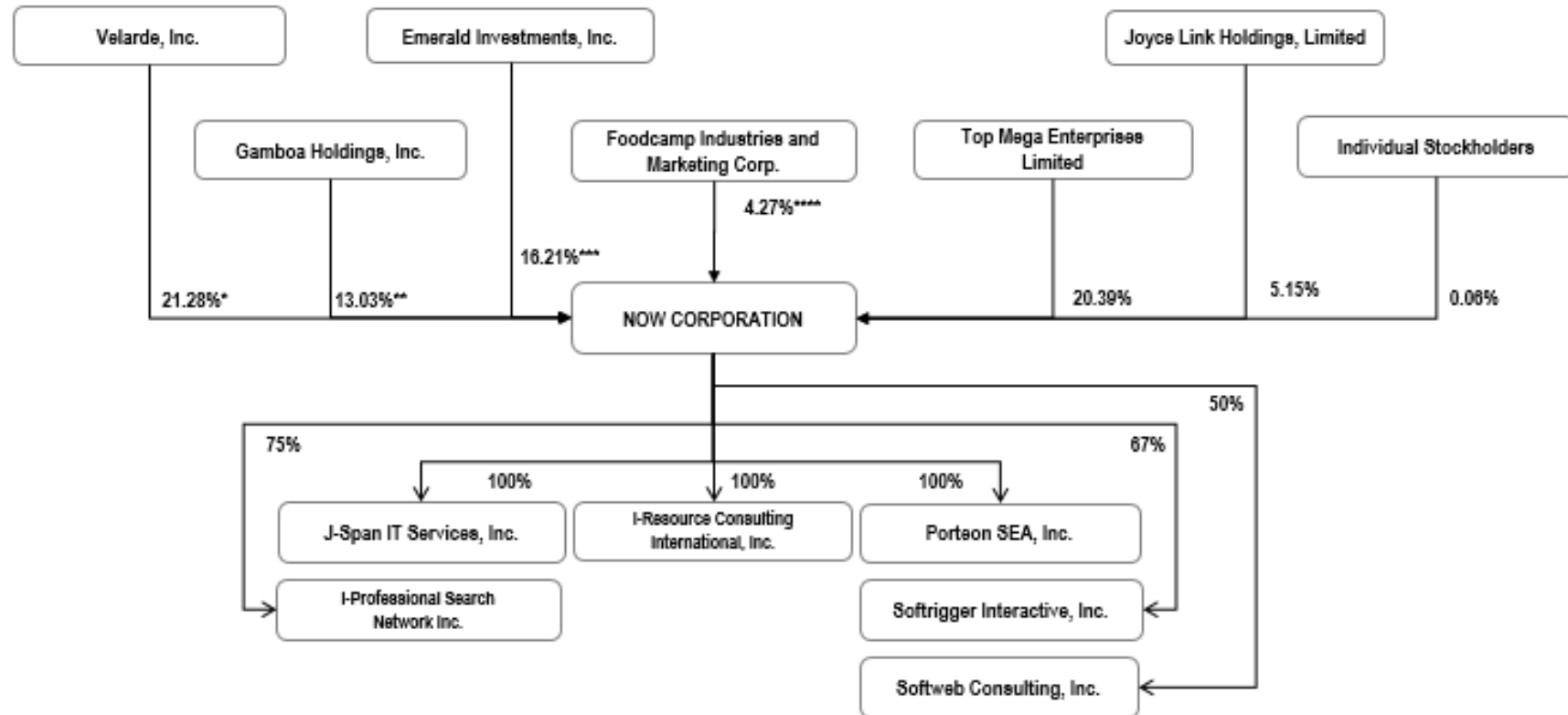
*Reconciliation:*

Unappropriated retained earnings as shown in the financial statements at end of year	P9,383,199
Total unappropriated retained earnings available for dividend declaration at end of year	P9,383,199

## NOW CORPORATION AND SUBSIDIARIES

### CONGLOMERATE MAP

DECEMBER 31, 2019



\* includes 200.0 million shares in PCD

\*\* includes 177.1 million shares in PCD

\*\*\* includes 150.4 million shares in PCD

\*\*\*\* includes 50.0 million shares in PCD



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of NOW Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Reyes Tacandong & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

A handwritten signature in black ink, appearing to read "Thomas G. Aquino".

Signature: Thomas G. Aquino  
Chairman of the Board

A handwritten signature in black ink, appearing to read "Mel V. Velarde".

Signature: Mel V. Velarde  
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read "Diana M. Luna".

Signature Diana M. Luna  
Chief Financial Officer

Signed this 12th day of May 2020

**SECRETARY'S CERTIFICATE**

I, **Angeline L. Macasaet**, of legal age, Filipino, with office address at Unit 5-I, 5<sup>th</sup> Floor, OPL Building, 100 C. Palanca St., Legaspi Village, Makati City, hereby state and certify under oath that:

1. I am the duly elected and incumbent Corporate Secretary of NOW Corporation, a corporation duly organized and existing under the laws of the Republic of the Philippines, with principal place of business at Unit 5-I, 5<sup>th</sup> Floor, OPL Building, 100 C. Palanca Street., Legaspi Village, Makati City (the "Company").

2. At the 11 February 2020 Regular Meeting of the Board of Directors of the Company, a quorum being present and acted throughout, the following resolution was unanimously adopted:

**"RESOLVED**, as it is hereby resolved, to delegate the authority to the Audit and Risk Management Committee to review, and the Chairman of the Board, the President and the Chief Finance Officer, to approve the release of the 2019 Audited Financial Statements of the Company as audited by its external auditor Reyes Tacandong & Co.; and

**RESOLVED FURTHER**, that the Chairman of the Board, the President and CEO and the Chief Finance Officer be authorized to sign the Statement of Management Responsibility in connection with the Company's Audited Consolidated Financial Statements and the Audited Parent Company's Financial Statements for the period ending 2019, 2018 and 2017."

3. On 12 May 2020, Dr. Thomas G. Aquino and Mr. Mel V. Velarde and Ms. Diana M. Luna, the Chairman, the President and CEO, and the Treasurer and CFO of the Company, respectively, approved the 2019 Audited Financial Statements of the Company as audited by its external auditor Reyes Tacandong Sycip Gorres Velayo & Co.

4. This Certification is issued for whatever legal purpose it may serve.

**IN WITNESS WHEREOF**, I have hereunto set my hand this 13<sup>th</sup> day of May 2020 in the City of Makati, Philippines.

  
**ANGELINE L. MACASAET**  
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this 13<sup>th</sup> day of May 2020, affiant personally appeared and exhibited to me her Philippine Passport No. P3600193A issued by DFA – Manila and valid until 05 July 2022, bearing the affiant's photograph and signature.

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