C O V E R   S H E E T

A 1 9 9 6 0 0 1 7 9

COMPANY NAME

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

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

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

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

COMPANY INFORMATION

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

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

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Angeline L. Macasaet	**angeline.macasaet@now-corp.com**	**7750-0211**	**N/A**

CONTACT PERSON's ADDRESS

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

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2020**

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

4. Exact name of issuer as specified in its charter

NOW CORPORATION

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

MAKATI CITY, PHILIPPINES

6. Industry Classification Code: (SEC Use Only)

7. Address of issuer's principal office Postal Code

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

8. Issuer's telephone number, including area code **(632)7750-0211**

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

N/A

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
COMMON STOCK	**1,672,572,468**

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

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

PHILIPPINE STOCK EXCHANGE **COMMON STOCK**

12. Indicate by check mark whether the registrant:

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

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

Part I. Financial Information

Item1. Financial Statement

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Assets		
Current Assets		
Cash	11,133,848	11,312,632
Trade and other receivables	218,892,341	227,102,656
Contract assets	1,413,165	1,413,165
Due from related parties - current	369,329,518	336,977,872
Other current assets	50,095,169	45,888,216
Total Current Assets	650,864,041	622,694,541
Non-Current Assets		
Investment in equity securities	1,537,716,362	1,537,716,362
Property and equipment - net	8,569,230	9,126,983
Right of Use of Asset	5,041,047	5,041,047
Other noncurrent assets	2,311,453	2,186,535
Total Noncurrent Assets	1,553,638,092	1,554,070,927
Total Assets	**2,204,502,133**	**2,176,765,468**
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued expenses	168,538,161	145,655,025
Due to related parties	98,934,837	96,636,717
Current portion of loans payable	65,837,110	65,837,110
Finance lease liability, current	4,176,710	4,153,740
Other current liabilities	500	-
Total Current Liabilities	337,487,318	312,282,592
Non-Current Liabilities		
Loans payable - net of current portion	48,430,134	47,916,273
Deposit for future stock subscription	-	209,000,000
Finance lease obligation - net of current portion	1,869,518	1,899,195
Retirement benefit obligation	1,568,097	1,568,097
Other noncurrent liabilities	240,040	3,166
Total Non-Current Liabilities	52,107,789	260,386,731
Total Liabilities	389,595,107	572,687,623
Equity		
Equity attributable to equity holders of the Parent Company:		
Common stock	1,170,800,728	1,170,800,728
Additional paid-in capital	208,372,079	208,372,079
Deposit for future stock subscription	209,000,000	-
Cumulative Translation Adjustment	1,138,571	1,138,571
Equity reserve	(1,978,794)	(1,978,794)
Deficit	(17,447,179)	(19,361,578)
Other comprehensive income:		
Cumulative unrealized gain on investment in equity securities	248,438,012	248,438,012
Cumulative unrealized loss on remeasurement of retirement liability	(515,882)	(515,882)
Noncontrolling interest	(2,900,509)	(2,796,991)
Total Equity	1,814,907,026	1,604,096,145
Total Liabilities and Equity	**2,204,502,133**	**2,176,765,468**

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
REVENUES		
Service Revenue	40,626,989	112,443,520
Management Fee	2,310,000	104,280,000
Sales	5,000,003	4,038,959
Total Revenues	47,936,993	220,762,479
COST AND EXPENSES		
Cost of services	23,390,652	118,121,619
Cost of sales	3,842,485	1,913,508
Cost of sales and services	27,233,136	120,035,127
Gross profit	20,703,856	100,727,352
Salaries and other benefits	7,145,300	30,822,935
Outside Services	373,639	1,521,070
Rental	199,103	262,182
Taxes and licenses	594,030	4,615,178
Professional fees	1,102,766	5,858,287
Light and water	37,064	801,024
Transportation and travel	1,254,609	4,945,585
Advertising and promotion	192,930	5,124,036
Depreciation and amortization	1,900,732	11,181,531
Repairs and maintenance	120,045	294,695
Communication	302,881	2,928,313
Entertainment, amusement and recreation	1,067,306	7,571,792
Supplies	216,428	1,519,347
Insurance	270,954	395,179
Others- Expenses	210,788	3,213,101
Provision on impairment loss on receivables	-	-
Impairment	-	476,263
	14,988,576	81,530,518
NET OPERATING INCOME (LOSS)	5,715,280	19,196,834
OTHER INCOME (CHARGES)		
Interest expense	(2,679,834)	(10,634,361)
Interest income	306	7,147,063
Other Income	887	10,552
Other Charges	(480)	(13,866)
INCOME (LOSS) BEFORE INCOME TAX	3,036,159	15,706,222
PROVISION FOR INCOME TAX		
Current	1,225,278	4,388,226
Deferred	-	3,166
	1,225,278	4,391,392
NET INCOME	1,810,881	11,314,830
Currency Translation Adjustment – Gain (Loss)	-	-
TOTAL COMPREHENSIVE INCOME	1,810,881	11,314,830
Basic /Diluted Earnings (Loss) Per Share	0.0012	0.0073

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the Parent	1,914,399	10,875,888
Non-controlling interests	(103,518)	438,942
	1,810,881	11,314,830
Other comprehensive gain (losses) to be reclassified to profit or loss in subsequent periods:		
Cumulative translation adjustment	-	11,963
Other comprehensive losses not to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of equity investments designated	-	-
at fair value through other comprehensive income	-	200,078,272
Remeasurement of retirement benefits	-	-
	-	200,078,272
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	-	200,078,272
TOTAL COMPREHENSIVE INCOME	**1,810,881**	211,405,065
ATTRIBUTABLE TO:		
Equity holders of the Parent	1,914,399	10,875,888
Non-controlling interests	(103,518)	438,942
	1,810,881	**11,314,830**

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
CAPITAL STOCK		
Authorized -- 2,060,000,000 common shares		
60,000,000 preferred shares		
Issued -- 1,672,572,468 shares		
Balance at the beginning of the year	1,170,800,728	1,517,278,350
Equity restructuring		(455,183,505)
Debt to equity conversion		108,705,883
Balance at end of the year	1,170,800,728	1,170,800,728
Additional Paid-In Capital	208,372,079	208,372,079
Deposit for future stock subscription	209,000,000	-
RETAINED EARNINGS		
Balance at beginning of the year	(19,361,578)	(432,343,009)
Equity restructuring		402,105,543
Net Income	1,914,399	10,875,888
Deficit	(17,447,179)	(19,361,578)
Equity Reserve	(1,978,794)	(1,978,794)
Cumulative Translation Adjustment	1,138,571	1,138,571
Accumulated Unrealized Gain on Fair Value Through OCI	248,438,012	248,438,012
Accumulated Unrealized Loss on Retirement Benefits	(515,882)	(515,882)
	229,634,728	227,720,329
Non-controlling equity	(2,900,509)	(2,796,991)
Balance at end of year	226,734,219	224,923,338
Total Equity	1,814,907,026	1,604,096,145

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Income before income tax	3,036,159	15,706,222
Adjustments for:		
Interest expense	2,679,834	10,634,361
Depreciation and amortization	1,900,732	11,181,531
Interest income	(306)	(7,147,063)
Operating income (loss) before working capital changes	7,616,419	30,375,051
Decrease (increase) in:		
Trade and other receivables	8,210,315	(19,688,570)
Contract asset	-	107,376
Other current assets	(4,882,013)	(6,078,495)
Increase (decrease)		
Accounts payable and accrued expenses	22,864,836	(10,963,643)
Retirement Liability	-	592,407
Other current liabilities	500	-
Net cash generated from (used in) operations	33,810,057	(5,655,874)
Interest received	306	54,793
Income taxes paid, including CWT	(550,218)	(4,388,226)
Net cash flows from (used in) operating activities	33,260,145	(9,989,307)
CASH FLOW FROM INVESTING ACTIVITIES		
Decrease in:		
Due from related parties	(32,351,646)	(42,319,050)
Other noncurrent assets	(106,618)	(366,166)
Acquisition of property and equipment	(1,342,979)	(5,496,473)
Net cash flows used in investing activities	(33,801,243)	(48,181,689)
CASH FLOWS FROM A FINANCING ACTIVITY		
Increase in due to related parties	2,298,120	39,969,582
Proceeds from loan availment	-	14,000,000
Finance charges		
Interest paid	(2,172,680)	(8,425,043)
Payment of loans payable		-
Payment of lease liability		(1,889,844)
Increase in Other Non-Current Liabilities	236,874	-
Net cash flows from financing activities	362,314	43,654,695
EFFECT OF EXCHANGE RATE CHANGES ON CASH	-	-
NET DECREASE IN CASH	(178,784)	(14,516,301)
CASH AT BEGINNING OF THE YEAR	11,312,632	25,828,933
CASH AT END OF THE YEAR	11,133,848	11,312,632

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	YTD January to March	
	2020	**2019**
Assets		
Current Assets		
Cash	11,133,848	16,445,153
Trade and other receivables	218,892,341	208,183,869
Contract assets	1,413,165	1,520,541
Due from related parties - current	369,329,518	311,119,802
Other current assets	50,095,169	45,225,263
Total Current Assets	650,864,041	582,494,628
Non-Current Assets		
Investment in equity securities	1,537,716,362	1,337,638,090
Property and equipment - net	8,569,230	11,935,431
Right of Use of Asset	5,041,047	
Other noncurrent assets	2,311,453	1,532,764
Total Noncurrent Assets	1,553,638,092	1,351,106,285
Total Assets	2,204,502,133	**1,933,600,913**
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued expenses	168,538,161	141,919,721
Due to related parties	98,934,837	278,080,116
Current portion of loans payable	65,837,110	62,064,583
Finance lease liability, current	4,176,710	-
Other current liabilities	500	2,419,255
Total Current Liabilities	337,487,318	484,483,675
Non-Current Liabilities		
Loans payable - net of current portion	48,430,134	46,077,738
Finance lease obligation - net of current portion	1,869,518	117,467
Retirement benefit obligation	1,568,097	975,690
Other noncurrent liabilities	240,040	3,427,673
Total Non-Current Liabilities	52,107,789	50,598,568
Total Liabilities	389,595,107	535,082,243
Equity		
Equity attributable to equity holders of the Parent Company:		
Common stock	1,170,800,728	1,517,278,350
Additional paid-in capital	208,372,079	
Deposit for future stock subscription	209,000,000	264,000,000
Cumulative Translation Adjustment	1,138,571	1,126,608
Equity reserve	(1,978,794)	(1,978,794)
Deficit	(17,447,179)	(426,589,561)
Other comprehensive income:		
Cumulative unrealized gain on investment in equity securities	248,438,012	48,359,740
Cumulative unrealized loss on remeasurement of retirement liability	(515,882)	(515,882)
Noncontrolling interest	(2,900,509)	(3,161,791)
Total Equity	1,814,907,026	1,398,518,670
Total Liabilities and Equity	2,204,502,133	1,933,600,913

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

	YTD January to March 2020	2019
REVENUES		
Service Revenue	40,626,989	40,206,263
Management Fee	2,310,000	2,070,000
Sales	5,000,003	7,602,984
Total Revenues	47,936,993	49,879,247
COST AND EXPENSES		
Cost of services	23,390,652	18,822,920
Cost of sales	3,842,485	4,038,894
Salaries and other benefits	7,145,300	7,130,699
Outside Services	373,639	276,738
Rental	199,103	348,653
Taxes and licenses	594,030	801,102
Professional fees	1,102,766	928,056
Light and water	37,064	82,698
Transportation and travel	1,254,609	1,077,139
Advertising and promotion	192,930	1,881,286
Depreciation and amortization	1,900,732	1,841,134
Repairs and maintenance	120,045	80,375
Communication	302,881	695,224
Entertainment, amusement and recreation	1,067,306	1,538,821
Supplies	216,428	265,781
Insurance	270,954	131,035
Others- Expenses	210,788	79,650
	42,221,712	40,020,207
NET OPERATING INCOME	5,715,280	9,859,040
OTHER INCOME (CHARGES)		
Interest expense	(2,679,834)	(2,284,876)
Interest income	306	19,483
Other Income	887	4,689
Other Charges	(480)	(4,313)
INCOME BEFORE INCOME TAX	**3,036,159**	**7,594,024**
Provision for Income Tax	1,225,278	2,278,207
NET INCOME	1,810,881	5,315,817
Currency Translation Adjustment – Gain (Loss)	-	-
TOTAL COMPREHENSIVE INCOME	**1,810,881**	**5,315,817**
Basic /Diluted Earnings Per Share	0.0012	0.0035

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	YTD January to March 2020	2019
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the Parent	1,914,399	5,241,676
Non-controlling interests	(103,518)	74,141
	1,810,881	5,315,817
Other comprehensive gain (losses) to be reclassified to profit or loss in subsequent periods:		
Cumulative translation adjustment	-	-
Other comprehensive losses not to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of equity investments designated	-	-
at fair value through other comprehensive income	-	-
Remeasurement of retirement benefits	-	-
	-	-
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	-	-
TOTAL COMPREHENSIVE INCOME	**1,810,881**	**5,315,817**
ATTRIBUTABLE TO:		
Equity holders of the Parent	1,914,399	5,241,676
Non-controlling interests	(103,518)	74,141
	1,810,881	**5,315,817**

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	YTD January to March 2020	2019
CAPITAL STOCK		
Authorized -- 2,060,000,000 common shares		
60,000,000 preferred shares		
Issued -- 1,672,572,468 shares (2019: 1,517,278,350 shares)		
Balance at the beginning of the year	1,170,800,728	1,517,278,350
Equity restructuring	-	
Debt to equity conversion	-	
Balance at end of the year	1,170,800,728	1,517,278,350
Additional Paid-In Capital	208,372,079	-
Deposit for future stock subscription	209,000,000	-
RETAINED EARNINGS		
Balance at beginning of the year	(19,361,578)	(431,831,234)
Equity restructuring	-	
Net Income (loss)	1,914,398	5,241,673
Deficit	**(17,447,180)**	**(426,589,561)**
Equity Reserve	(1,978,794)	(1,978,794)
Cumulative Translation Adjustment	1,138,571	1,126,608
Accum Unrealized Gain on Fair Value Through OCI	248,438,012	48,359,740
Accum Unrealized Loss on Retirement Benefits	(515,882)	(515,882)
	229,634,728	(379,597,889)
Non-controlling equity	(2,900,509)	(3,161,791)
Balance at end of year	226,734,219	(382,759,680)
Total Equity	1,814,907,026	1,134,518,670

NOW CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YTD January to March	
	2020	**2019**
Income before income tax	3,036,159	7,594,024
Adjustments for:		
Interest expense	2,679,834	2,284,876
Depreciation and amortization	1,900,732	1,841,134
Interest income	(306)	(19,483)
Operating income (loss) before working capital changes	7,616,419	11,700,551
Decrease (increase) in:		
Trade and other receivables	8,210,315	(769,783)
Contract asset	-	
Other current assets	(4,882,013)	(5,350,155)
Increase (decrease)	-	
Accounts payable and accrued expenses	22,864,836	(14,732,741)
Retirement Liability	-	
Other current liabilities	500	141,048
Net cash generated from (used in) operations	33,810,057	(9,011,080)
Interest received	306	19,483
Income taxes paid, including CWT	(550,218)	(593,526)
Net cash flows from (used in) operating activities	33,260,145	(9,585,123)
CASH FLOW FROM INVESTING ACTIVITIES		
Decrease in:		
Due from related parties	(32,351,646)	(23,553,250)
Other noncurrent assets	(106,618)	
Acquisition of property and equipment	(1,342,979)	
Net cash flows from (used in) investing activities	(33,801,243)	(23,553,250)
CASH FLOWS FROM A FINANCING ACTIVITY		
Increase in due to related parties	2,298,120	12,412,981
Proceeds from loan availment	-	10,198,814
Finance charges		
Interest paid	(2,172,680)	(2,284,876)
Payment of loans payable	-	-
Payment of lease liability	-	-
Increase in Other Non-Current Liabilities	236,874	3,427,673
Net cash flows from financing activities	362,314	23,754,592
EFFECT OF EXCHANGE RATE CHANGES ON CASH	-	
NET INCREASE (DECREASE) IN CASH	(178,784)	(9,383,780)
CASH AT BEGINNING OF THE YEAR	11,312,632	25,828,933
CASH AT END OF THE YEAR	11,133,848	16,445,153

NOW CORPORATION AND SUBSIDIARIES

AGING OF RECEIVABLES

	March 31, 2020	March 31, 2019
Current	892,558	996,851
1 -30 days past due	7,198,116	16,717,523
31-60 days past due	3,595,133	1,609,590
61-90 days past due	978,495	2,815,063
Over 90 days past due	206,228,039	188,859,905
Total	218,892,341	208,183,869

NOW CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

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 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 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 shares at ₱1.00 par value a share to ₱1,442.0 million equivalent to 2,060,000,000 common shares 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:

	Nature of	Percentage of Effective Ownership		
Company Name	Business	**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.

Certificates, Memorandum of Understanding 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 such as cloud hosting services, online game services, cloud-based multimedia conferencing services, web hosting and cloud-based mail and messaging services (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 14, 2020.

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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 leases office spaces, parking spaces and roof decks from various entities with terms ranging from one year to five years. The Group availed of the exemption for short-term leases for parking spaces and certain office space and roof decks with a term of 12 months or less. Accordingly, the Group recognized rent expense for short-term leases.

For leases that are not short-term, the Group adopted PFRS 16 using the modified retrospective approach. This approach 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 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 any prepaid or accrued 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
Lease liabilities as at January 1, 2019	₱5,141,364

Lease liabilities as at January 1, 2019	₱5,141,364
Prepaid rent	30,000
Total ROU assets	₱5,171,364

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)
Lease liability as at January 1, 2019	₱5,141,364

- 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.

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 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 debt instruments at FVOCI and 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.

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 and other 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 value 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 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
Leasehold improvements	5 or lease term, whichever is shorter
Office and IT equipment	3 to 5
Furniture and fixtures	2 to 3
Transportation equipment	5

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 on 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.

Deposit for Stock Subscription

Deposit for stock subscription represents funds received from existing or potential stockholders to be applied as payment for future issuance of capital stock. Deposit for stock subscription is 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 transaction is recognized as a 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.

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

<u>Revenue Recognition</u>

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 fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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 fulfilment 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 shares 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 ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Where the EPS effect of potential dilutive ordinary shares 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 changed.

Pursuant to SEC Memorandum Circular No. 10-2019, material related party transactions are related party transaction/s, either individually, or in aggregate over a twelve-month period with the same related party, amounting 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.

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).

<u>Estimates and Assumptions</u>

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 nil for the three-month period ended March 31, 2020 and ₱0.5 million for the year ended December 31, 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	**₱10,468,081**	₱25,696,217
Trade and other receivables (excluding advances to officers and employees)	5	**226,039,336**	205,585,127
Contract assets	15	**1,413,165**	1,520,541
Due from related parties	12	**336,977,872**	287,566,552
Security deposits (recorded as part of "Other noncurrent assets")	6	**941,432**	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 for the three-month period ended March 31, 2020 and for the year ended December 31, 2019 (in 2018 and 2017).

Depreciation and amortization aggregated ₱1.9 million for the three-month period ended March 31, 2020 and ₱11.2 million for the year ended December 31, 2019 (₱7.3 million and ₱4.4 million in 2018 and 2017, respectively). The carrying amounts of property and equipment and ROU assets aggregated ₱13.6 million as at March 31, 2020 and ₱14.2 million as at December 31, 2019.

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 for the three-month period ended March 31, 2020, and for the year ended December 31, 2019 (in 2018 and 2017).

The carrying amounts of the nonfinancial assets are as follows:

	Note	**2019**	2018
Other current assets (excluding inventories)	6	**40,980,087**	₱37,680,280
Property and equipment	8	**9,126,983**	11,686,408
ROU assets	14	**5,041,047**	–
Other noncurrent assets (excluding security deposits)	6	**1,245,103**	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 nil for the three-month period ended March 31, 2020 and ₱0.6 million for the year ended December 31, 2019 (₱0.5 million in 2018). The retirement liability amounted to ₱

1.6 million as at March 31, 2020 and 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 ₱12.6 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	**₱844,551**	₱132,716
Cash in banks	**10,468,081**	25,696,217
	₱11,312,632	₱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		**₱54,793**	₱585,460	₱472,507
Due from related parties	12	**7,092,270**	980,802	–
		₱7,147,063	₱1,566,262	₱472,507

As of March 31, 2020, Cash amounted to ₱11,133,848 (March 31, 2019: ₱16,445,153).

5. Trade and Other Receivables

This account consists of:

	Note	**2019**	2018
Trade:			
Related parties	12	**₱174,311,811**	₱156,844,438
Third parties		**86,058,625**	82,595,527
Advances to officers and employees		**1,063,320**	1,828,959
		261,433,756	241,268,924
Less allowance for impairment loss		**34,331,100**	33,854,838
		₱227,102,656	₱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		**₱33,854,838**	₱33,130,109
Provision	17	**476,262**	724,729
Balance at end of year		**₱34,331,100**	₱33,854,838

Trade and other receivables totaled ₱218,892,341 and ₱208,183,869 as of March 31, 2020 and 2019, respectively.

6. **Other Assets**

Other Current Assets

This account consists of:

	2019	2018
Prepayments	**₱20,015,531**	₱17,078,001
CWT	**17,731,703**	16,124,593
Inventories	**4,908,129**	2,129,441
Deferred input VAT	**1,983,807**	1,893,143
Input VAT	**380,840**	1,621,803
Others	**868,206**	962,740
	₱45,888,216	₱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 (see Note 11).

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 current assets totaled ₱50,095,169 and ₱45,225,263 as of March 31, 2020 and 2019, respectively.

Other Noncurrent Assets

This account consists of:

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

Movements in the computer software are as follows:

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

In 2019, the Group started using the computer software in its operations.
Other noncurrent assets totaled ₱2,311,453 and ₱1,532,764 as at March 31, 2020 and 2019, respectively.

7. Investments

The Group has the following investments:

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

Investments in Equity Securities
The Group has the following investments in equity securities:

	2019	2018	2017
NOW TEL	**₱1,537,716,362**	₱1,337,638,090	₱1,289,278,350
Thumbmob Philippines, Inc. (Thumbmob) and Holy Cow Animation, Inc. (Holy Cow)	**–**	–	23,592,818
	₱1,537,716,362	₱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)	**₱3,753,501,927**	₱2,953,245,457
Growth rate	**4.09%**	6.00%
WACC	**8.77%**	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	**₱48,359,740**	₱184,858,377
Unrealized gain (loss) on fair value changes	**200,078,272**	(136,498,637)
Balance at end of year	**₱248,438,012**	₱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 fair value 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).

As of March 31, 2020, investment in equity securities are valued at ₱1,537,716,362 (March 31, 2019: ₱1,337,638,090)

8. Property and Equipment

Movements in this account are as follows:

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

	2019				
	Leasehold Improvements	**Office and IT Equipment**	**Furniture and Fixtures**	**Transportation Equipment**	**Total**
Carrying Amount	**₱–**	**₱6,113,038**	**₱182,982**	**₱2,830,963**	**₱9,126,983**

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

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		**₱8,055,898**	₱7,308,886	₱4,361,264
ROU assets	14	**2,652,290**	–	–
Computer software	6	**473,343**	725	49,737
		₱11,181,531	₱7,309,611	₱4,411,001

As of March 31, 2020, property and equipment, net of accumulated depreciation, amounted to ₱8,569,230 (March 31, 2019: ₱ 11,935,431).

9. Accounts Payable and Other Current Liabilities

This account consists of:

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

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.

Accounts payable and accrued expenses amounted to ₱168,538,161 and ₱141,919,721 as of March 31, 2020 and 2019, respectively.

10. Loans Payable

This account consists of:

	2019	2018
Land Bank of the Philippines (Land Bank)	**₱50,000,000**	₱50,000,000
Producers Savings Bank Corporation (PSBC)	**49,550,594**	47,591,893
Third party	**14,000,000**	–
BDO Unibank, Inc. (BDO)	**202,789**	351,614
	113,753,383	97,943,507
Current portion	**65,837,110**	52,064,583
Noncurrent portion	**₱47,916,273**	₱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				
Land Bank		**₱3,326,922**	₱2,299,212	₱–
PSBC		**6,011,767**	981,801	–
Third party		**863,554**	–	–
BDO		**32,676**	43,711	52,015
Lease liabilities	14	**399,442**	–	–
		₱10,634,361	₱3,324,724	₱52,015

As of March 31, 2020, current and noncurrent portion of loans payable amounted to ₱65,837,110 (March 31, 2019: ₱62,064,583) and ₱48,430,134 (March 31, 2019: ₱ 46,077,738), respectively.

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
Authorized						
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)
Balance at end of year	**2,060,000,000**	**₱1,442,000,000**	2,060,000,000	₱2,060,000,000	2,060,000,000	₱2,060,000,000
Issued and outstanding						
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**	–	–	–	–
Balance at end of year	**1,672,572,468**	**₱1,170,800,728**	1,517,278,350	₱1,517,278,350	1,517,278,350	₱1,517,278,350

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).

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

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

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 Company is working on securing the approval by the PSE of the offering of Preferred "A" shares in the exchange.

As of March 31, 2020, issued and outstanding capital stock consist of 1,672,572,468 (March 31, 2019: 1,517,278,350) common shares amounting to ₱1,170,800,728 (March 31, 2019: 1,517,278,350).

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 2019	Transactions during the Year 2018	Outstanding Balances 2019	Outstanding Balances 2018
Trade and other receivables					
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
Due from related parties					
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

	Nature of Transaction	Transactions during the Year 2019	2018	Outstanding Balances 2019	2018
Accounts payable and other current liabilities					
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
Due to related parties					
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, 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, NewsNet. The service agreements were renewed on January 5, 2019 for another three (3) years.

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 at the option of the holder. No gain or loss was recognized on the transaction.

   Interest income earned amounting ₱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 various advances to its related parties for working capital and administrative requirements.

Accounts Payable and Other Current Liabilities

a. *Value-added Services.* 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) fees for the actual usage of bandwidth,
   (c) charging the Parent Company on a cost-plus-margin arrangement for the actual usage of the bandwidth, and (d) 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	**₱22,822,290**	₱8,097,294	₱3,121,774
Network connectivity fees	**19,607,500**	7,567,000	–
Revenue sharing	**6,024,474**	3,547,662	2,743,549
	₱48,454,264	₱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.

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	**₱520,319**	₱459,808
Interest cost	**72,088**	–
	₱592,407	₱459,808

Movements in the retirement liability are as follows:

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

The cumulative remeasurement losses recognized in OCI amounted to ₱515,882 as at March 31, 2020 and December 31, 2019 (₱515,882 as at December 31, 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	
Cost		
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
Accumulated Amortization		
Balance at the beginning of year		–
Amortization	8	2,652,290
Balance at end of year		2,652,290
Carrying Amount		₱5,041,047

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		₱1,899,195

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 P3.8 million and P2.8 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 P18,300 and P5,933 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	**₱3,066,114**	₱3,773,577	₱2,810,087
Operating expenses	17	**262,182**	1,389,075	1,739,036
Amortization of ROU asset	8	**2,652,290**	–	–
Interest expense on lease liability		**399,442**	–	–
		₱6,380,028	₱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
	₱6,424,753

15. Revenue

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

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

	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

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 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 March 31, 2020 and 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.

Total revenues amounted to ₱47,936,993 and ₱49,879,247 for the three-month period ended March 31, 2020 and 2019, respectively.

16. Costs of Sales and Services

This account consists of:

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

Costs of Sales and Services for the three-month period ended March 31, 2020 and 2019 totaled ₱25,331,261 and ₱20,959,939, respectively.

17. **Operating Expenses**

This account consists of:

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

The Group incurred operating expenses amounting to ₱16,890,451 and ₱19,060,268 for the three-month period ended March 31, 2020 and 2019, respectively.

17. **Income Taxes**

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

	2019	2018	2017
RCIT	**₱4,324,070**	₱1,594,744	₱1,590,187
MCIT	**64,156**	174,657	1,080,771
	₱4,388,226	₱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	**₱10,299,330**	₱10,156,451	₱4,149,868
Retirement liability	**315,665**	137,942	–
Advanced collections received from customers	**205,423**	834,911	5,649,667
Effect of PFRS 16	**146,966**	–	–
Excess of MCIT over RCIT	**84,287**	77,151	2,312,359
Effect of PFRS 15	**32,213**	–	–
NOLCO	**–**	350,350	828,481
Straight-line adjustment on rent	**–**	5,490	1,780
Unrealized foreign exchange loss	**–**	–	925
	₱11,083,884	₱11,562,295	₱12,943,080

The Group did not recognize these 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
	₱1,167,833	₱–	(₱1,167,833)	₱–	₱–	

Details of MCIT 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
	₱77,151	₱26,573	(₱7,032)	(₱12,405)	₱84,287	

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

18. 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	**₱10,875,888**	₱7,885,496	₱6,792,056
Divided by the weighted average number of outstanding shares	**1,543,160,703**	1,517,278,350	1,517,278,350
Basic and diluted earnings per share	**₱0.0070**	₱0.0052	₱0.0045

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

For the three-month period ended March 31, 2020 and 2019, earnings per share is ₱0.0012 and ₱0.0035.

19. 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 Impaired		Past due but		
	High Grade	Standard Grade	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 Impaired		Past due but		
	High Grade	Standard Grade	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				
	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Accounts payable and other current liabilities*	**₱110,092,056**	**₱–**	**₱–**	**₱–**	**₱110,092,056**
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**
	₱110,675,000	**₱720,006**	**₱154,614,828**	**₱72,854,871**	**₱338,864,705**

**Excluding deferred output VAT and statutory payables aggregating ₱35.6 million.*
***Including future interest payments.*

	2018				
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
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.

20. 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
Financial Assets				
Cash	**₱11,312,632**	**₱11,312,632**	₱25,828,933	₱25,828,933
Trade and other receivables*	**226,079,336**	**226,079,336**	205,625,127	205,625,127
Due from related parties	**336,977,872**	**336,977,872**	287,566,552	287,566,552
Investment in equity securities	**1,537,716,362**	**1,537,716,362**	1,337,638,090	1,337,638,090
Security deposits	**941,432**	**941,432**	743,564	743,564
	₱2,113,027,634	**₱2,113,027,634**	₱1,857,402,266	₱1,857,402,266

**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
Financial Liabilities				
Accounts payable and other current liabilities*	**₱110,073,756**	**₱110,073,756**	₱130,330,347	₱130,330,347
Loans payable	**113,753,383**	**117,501,512**	97,943,507	89,889,124
Due to related parties	**96,636,717**	**96,636,717**	265,667,135	265,667,135
Lease liabilities	**6,052,935**	**6,052,935**	–	–
	₱326,516,791	**₱330,264,920**	₱493,940,989	₱485,886,606

**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).

21. 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).

22. Operating Segments

<u>Business Segments</u>

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**
REVENUE	**₱185,951,208**	**₱4,038,959**	**₱32,204,614**	**(₱1,432,302)**	**₱220,762,479**
COSTS AND OTHER OPERATING EXPENSES					
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)**
SEGMENT OPERATING PROFIT (LOSS)	**₱16,443,191**	**₱361,287**	**₱2,392,356**	**₱–**	
Income before tax					**₱15,706,222**
Provision for income tax					**(4,391,392)**
Net income					**₱11,314,830**
ASSETS AND LIABILITIES					
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**
OTHER INFORMATION					
Non-cash expenses (income) other than depreciation and amortization	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**

	2018				
	Broadband and Management Services	Software Licenses	IT Manpower and Resource Augmentation	Eliminations	Consolidated
REVENUE	₱112,491,052	₱70,118,794	₱35,251,680	₱–	₱217,861,526
COSTS AND OTHER OPERATING EXPENSES					
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)
SEGMENT OPERATING PROFIT (LOSS)	₱17,143,409	(₱7,390,738)	₱1,956,485	₱–	
Income before tax					₱9,906,170
Provision for current income tax					(1,769,401)
Net income					₱8,136,769
ASSETS AND LIABILITIES					
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
OTHER INFORMATION					
Non-cash expenses other than depreciation and amortization	₱–	₱–	₱–	₱–	₱–

	2017				
	Broadband Services	Software Licenses and Services	IT Manpower and Resource Augmentation	Eliminations	Consolidated
REVENUE	₱78,753,069	₱27,336,983	₱42,274,212	₱–	₱148,364,264
COSTS AND OTHER OPERATING EXPENSES					
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)
SEGMENT OPERATING PROFIT (LOSS)	₱13,884,996	(₱7,376,079)	₱1,974,009	₱–	
Income before tax					₱8,961,174
Provision for income tax					(2,670,958)
Net income					₱6,290,216
ASSETS AND LIABILITIES					
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
OTHER INFORMATION					
Non-cash expenses (income) other than depreciation and amortization	₱–	₱–	₱–	₱–	₱–

23. 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**		
	January 1, 2019	**Availments/ Additions**	**Payments**	**Interest Expense**	**Reclassification to Deposit for Stock Subscription**	**December 31, 2019**
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**
	₱368,752,006	**₱106,277,173**	**(₱60,220,505)**	**₱10,634,361**	**(₱209,000,000)**	**₱216,443,035**

	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
	₱151,903,296	₱230,729,880	(₱22,347,258)	₱3,324,724	₱363,610,642

24. Other Legal Matters

Equity restructuring

On March 8, 2019, the stockholders of the Parent Company approved the reduction of par value of the common shares of the Parent Company from P1.00 per share to P0.70 per share and the application of the resulting additional paid-in capital to eliminate the accumulated deficit of the Parent Company. For this purpose, the BOD and stockholders of the Parent Company approved the amendment of the Articles of Incorporation for the reduction of the par value. The decrease of capital stock and the equity restructuring to wipe out the deficit as of December 31, 2018 in the amount of P402,105,543 against the reduction surplus of P455,183,505 was approved by the Securities and Exchange Commission on 06 September 2019.

Conversion of Velarde, Inc.

On March 8, 2019, the stockholders of the Parent Company approved the conversion into equity of the advances from Velarde, Inc. amounting to P209,000,000. The application of the said conversion was filed in the SEC on December 6, 2019.

On April 23, 2019, the Board finalized and approved the conversion price at P1.70 per share of the earlier conversion of advances into equity amounting to Php264,000,000 from a shareholder, Velarde, Inc. This was approved by the Securities and Exchange Commission on November 6, 2019.

Reconciliation of Parent's Retained Earnings Available for Cash Dividend

Unappropriated retained earnings (deficit), beginning of year	Php 9,383,199
Net income Parent for the Quarter Ended March 31, 2020	2,858,982
Retained Earnings	**Php 12,242,181**

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

- Total consolidated revenues in the first three quarters of 2020 is Php47.937 Million, decreased by 4% or Php1.942 Million from last year's first quarter revenue of Php49.879 Million. Service revenue increased by Php 0.421 Million from last year figure of Php 40.206 Million to Php 40.627 Million in the first quarter of 2020. Service revenues mainly pertain to broadband services and income earned from the deployment by the Company of professionals to its clients to render IT-related solutions and services. Broadband Revenues increased by 12.45% to Php36.190 Million from Php32.183 Million in the first quarter last year. As impacted by the enhanced community quarantine, the revenues of the other business segments of the company which are the IT Manpower and Resource Augmentation and Software Licenses decreased by 42.81% and 26.67% respectively.

- Cost and Expenses for the first quarter of 2020 is Php42.222 Million, which is a Php2.202 Million or 5.50% increase from last year's Cost and Expenses of Php40.020 Million. This was brought about by an increase in Cost of Sales and Services of Php 4.371 Million or 19.12% from Php 22.862 Million in 2019 to Php 27.233 Million in 2020, whereas, Operating expenses decreased by Php2.170 Million or 12.65%. Significant decrease in Expenses are Advertising and Promotion for Php1.688 Million, Communication for Php0.392 Million and Representation for Php0.472 Million.

- As of March 31, 2020, the total consolidated assets of the Company stood at Php2.204 Billion compared with last year's Php1.934 Billion or an increase of Php270.901 Million or 14.01%. Current Assets increased by Php68.369 Million or 11.74% from Php582.495 Million in 2019 to Php650.864 Million in 2020. This was due to the increase in Trade and other receivables by Php10.708 Million, from last year's Php208.184 Million to this year's Php218,892 Million, Due from related parties increased by Php58.210 Million from last year's Php311.120 Million to this year's Php369.330 Million. Other current assets increased by Php4.870 Million, whereas Contract Assets decreased by Php0.107 Million. Non-current assets increased by 14.99% to Php1.554 Billion from last year's Php 1.351 Billion.

- Current liabilities decreased by Php146.996 Million or 30.34% from Php484.484 Million in the first quarter of 2019 to Php337,487 Million in 2020. This was caused by the decrease of due to related parties by Php179.145 Million or 64.42%, from Php278.080 Million in the first quarter of 2019 to Php98,934 Million in 2020. Accounts Payable and accrued expenses increased from Php141.920 Million in 2019 to Php168.538 Million in 2020 or 18.76% increase. Loans payable – current portion increased by 6.08%.

- Deposit for future subscription amounting to Php264M was approved by the Securities and Exchange Commission on November 6, 2019. On March 8, 2019, the parent's company stockholders approved another conversion of advances amounting to Php209.0 Million into equity at a conversion price of Php6.50 per share. The application for conversion was filed in the Securities and Exchange Commission on December 6, 2019.

  - On December 22, 2016, the Company availed of 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.

  - In January 2018, the Company availed a short-term loan amounting to Php50 million with an initial interest rate of 4.80% subject to monthly repricing from a local universal bank to be used in operations. The loan was renewed on October 18, 2019 with maturity for both interest and principal payments in April, 2020. Due to the Enhance Community Quarantine, the maturity was extended to June 11, 2020.

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

  - As of March 31, 2020, the total Assets stood at Php2.204 Billion, Liabilities at Php389.595 Million and Equity at Php1.815 Billion.

  - Current assets increased by 11.74%%, whereas Current Liabilities decreased by 30.34%, resulting to an increase of the Company's Liquidity Ratio wherein Current Ratio stood at 1.9286:1 and 1.2023:1, while Acid Test Ratio stood at 1.7759 and 1.1058 as of March 31, 2020 and 2019, respectively.

  - The Company's Return on Equity for the period March 31, 2020 and 2019 was at 0.11% and 0.39% respectively, due to decrease in Net Income from Php 5.316 Million to Php 1.811 Million.

  - A further analysis indicates that NOW Corp.'s Asset to Debt Ratio stood at 5.6584x and 3.6137x; while its Debt to Asset Ratio stood at 0.1767x and 0.2767x, as of March 31, 2020 and 2019, respectively.

Part II. Other Information

Item 1. Financial Soundness Indicators

See **Annex “A**”.

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

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

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

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

As the business volume builds up progressively, the Company also plans to beef up its organization by engaging the right talents particularly to join the telecommunications, media, information technology and product development and marketing teams.

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

SIGNATURES

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

NOW CORPORATION
Issuer

BY:

MR. MEL V. VELARDE
President
Date: 02 June, 2020

MS. DIANA M. LUNA
Treasurer and Chief Financial Officer
Date: 02 June 2020

ANNEX "A"

Schedule of Financial Indicators
For the Quarter Ending 31 March 2020 and 2019

Category	Financial Ratio	YTD January to March	
		2020	2019
Liquidity	Current Ratio	1.9286	1.2023
	Acid Test Ratio	1.7759	1.1058
Solvency	Debt to Equity Ratio	0.2147	0.3826
	Asset to Debt Ratio	5.6584	3.6137
	Debt to Asset Ratio	0.1767	0.2767
Equity	Asset to Equity Ratio	1.2147	1.3826
Interest	Interest Rate Coverage Ratio	2.1327	4.3149
Profitability	Profit Margin	43.19 %	54.17%
	Return on Assets	0.08%	0.29%
	Return on Equity	0.11%	0.39%
	Book Value per share	1.1761	0.9217
	Earnings per share	0.0012	0.0035

The Financial Indicators are computed as follows:

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

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

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

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

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