

# COVER SHEET

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

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Form Type	Department requiring the report	Secondary License Type, If Applicable											
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1	7	-	Q										
M	S	R	D										
N	/	A											

### COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
<b>info@now-corp.com</b>	<b>(632) 7750-0461 / (632) 7750-0211 /</b>	<b>09684389521</b>
No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
<b>72</b>	<b>N/A</b>	<b>12/31</b>

### 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
<b>Angeline L. Macasaet</b>	<b>angeline.macasaet@now-corp.com</b>	<b>7750-0211</b>	<b>09684389521</b>

### CONTACT PERSON'S ADDRESS

<b>Unit 5-I, 5th Floor, OPL Building 100 C. Palanca Street, Legaspi Village Makati City</b>
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**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 30 June 2023
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 5-1, 5<sup>th</sup> Floor, OPL Building, 100 C. Palanca Street, Legaspi Village, Makati City, Philippines  
1229

8. Issuer's telephone number, including area code (632)88102548

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
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<b>COMMON STOCK</b>	<b>1,806,726,314</b>
<b>PREFERRED STOCK</b>	<b>60,000,000</b>

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

**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As at June 30, 2023 and December 31, 2022**

	<i>Note</i>	<b>June 30, 2023 (Unaudited)</b>	December 31, 2022 (Audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	4	13,560,403	14,351,917
Trade and other receivables	5	441,507,430	414,648,870
Contract asset		1,370,685	1,370,685
Due from related parties	12	269,964,146	231,707,557
Other current assets	6	52,078,552	40,543,852
<b>Total Current Assets</b>		<b>778,481,216</b>	702,622,881
<b>Noncurrent Assets</b>			
Investment and advances	7	2,196,069,138	2,196,069,138
Property and equipment - net	8	13,401,089	15,393,774
Right of use asset		8,991,790	9,269,364
Other noncurrent assets - net	6	2,066,588	3,163,335
<b>Total Noncurrent Assets</b>		<b>2,220,717,276</b>	2,223,895,611
		2,999,198,492	2,926,518,492
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	9	249,760,238	217,382,715
Due to a related party	12	101,365,958	59,649,837
Current portion of long-term loans payable	10	132,186,926	355,718,334
Current portion of obligations under finance lease	14	7,002,156	5,116,288
<b>Total Current Liabilities</b>		<b>490,315,277</b>	637,867,174
<b>Noncurrent Liabilities</b>			
Long-term loans payable - net of current portion	10	229,142,481	16,661,294
Obligations under finance lease - net of current portion	14	6,048,434	6,720,940
Retirement benefits liability	13	6,332,964	6,332,964
Deposit for future stock subscription		89,000,000	89,000,000
<b>Total Noncurrent Liabilities</b>		<b>330,523,879</b>	118,715,198
<b>Total Liabilities</b>		<b>820,839,156</b>	756,582,372
<b>Equity</b>			
Capital stock	11	1,324,708,420	1,324,708,420
Additional paid in capital	11	541,569,110	541,569,110
Equity reserve		-1,978,794	(1,978,794)
Retained earnings / (Deficit)		11,689,926	3,235,481
Other comprehensive income		306,009,146	306,009,146
Non-controlling interest		-3,638,472	(3,607,243)
<b>Total Equity</b>		<b>2,178,359,336</b>	2,169,936,120
		2,999,198,492	2,926,518,492

**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**For the Period Ended June 30, 2023 and December 31, 2022**

	<b>Note</b>	<b>June 30, 2023 (Unaudited)</b>	<b>December 31, 2022 (Audited)</b>
<b>REVENUES</b>	<b>15</b>		
Service revenue		90,881,197	195,460,583
Sales of goods		1,223,707	7,083,005
		<b>92,104,904</b>	<b>202,543,588</b>
<b>COSTS OF SALES AND SERVICES</b>	<b>16</b>		
Cost of Services		45,536,642	102,868,461
Cost of sales		795,567	2,694,278
		<b>46,332,208</b>	<b>105,562,739</b>
<b>GROSS PROFIT</b>		<b>45,772,696</b>	<b>96,980,849</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Salaries and wages		1,766,669	24,748,719
Outside services		439,265	2,981,356
Rent expense		1,942,041	420,837
Taxes and licenses		4,816,980	4,919,162
Professional fees		87,288	8,027,211
Utilities		2,180,679	411,197
Transportation and travel		443,811	3,630,532
Advertising and promotion		3,269,906	1,293,337
Depreciation and amortization		302,543	10,817,099
Repair and maintenance		1,862,991	294,695
Communications and subscription		3,184,450	2,888,995
Entertainment, amusement, and recreation		381,983	6,024,593
Supplies		195,762	881,478
Insurance		1,766,669	239,700
Provision on impairment loss on receivables		<b>0</b>	2,345,882
Others		<b>467,541</b>	3,521,062
		<b>32,260,201</b>	<b>73,445,855</b>
<b>OTHER INCOME (EXPENSE)</b>			
Interest expense	10	-6,130,177	-17,098,524
Interest income		3,557,741	7,115,455
Other income		301,729	1,134,848
Other charges		-26,986	-30,411
		<b>-2,297,692</b>	<b>-8,878,632</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>11,214,802</b>	<b>14,656,362</b>
<b>PROVISION FOR INCOME TAX</b>	17	<b>2,791,586</b>	5,492,831
<b>NET INCOME</b>		<b>8,423,216</b>	<b>9,163,531</b>
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>			

Equity holders of Parent Company	8,454,445	9,275,722
Non-controlling interest	-31,229	-112,191
	<u>8,423,216</u>	<u>9,163,531</u>

**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>June 30, 2023</b> <b>(Unaudited)</b>	December 31, 2022 <b>(Audited)</b>
<b>NET INCOME</b>	<b>₱8,423,216</b>	₱9,163,531
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Item to be subsequently reclassified to profit or loss -</i>		
Cumulative translation adjustments	-	(38,770)
	-	(38,770)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱8,423,216</b>	₱9,124,761
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the Parent Company	<b>₱8,454,445</b>	₱9,236,952
Non-controlling interest	<b>(31,229)</b>	(112,191)
	<b>₱8,423,216</b>	₱9,124,761

*See accompanying Notes to Consolidated Financial Statements.*

**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	<b>June 30, 2023</b>	December 31, 2022
	<b>(Unaudited)</b>	(Audited)
<b>CAPITAL STOCK</b>		
Common Stock		
Balance at beginning and end of year	<b>1,264,708,420</b>	1,264,708,420
Preferred Stock		
Balance at beginning and end of year	<b>60,000,000</b>	60,000,000
	<b>1,324,708,420</b>	1,324,708,420
<b>ADDITIONAL PAID IN CAPITAL</b>		
Balance at beginning and end of year	<b>541,569,110</b>	541,569,109
<b>EQUITY RESERVE</b>		
	<b>(1,978,794)</b>	(1,978,794)
<b>RETAINED EARNINGS (DEFICIT)</b>		
Balance at beginning of year	<b>3,235,481</b>	(6,040,241)
Net income	<b>8,454,445</b>	9,275,722
Balance at end of year	<b>11,689,926</b>	3,235,481
<b>OTHER COMPREHENSIVE INCOME</b>		
	<b>306,009,146</b>	306,009,146
<b>NON-CONTROLLING INTEREST</b>		
	<b>(3,638,472)</b>	(3,607,243)
<b>TOTAL EQUITY</b>	<b>2,178,359,336</b>	2,169,936,120

**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	11,214,802	14,656,362
Interest expense	6,130,177	17,098,524
Adjustments for:		
Depreciation and amortization	3,269,906	10,817,099
Interest income	(3,557,741)	(7,115,455)
Retirement benefits expense	-	1,330,624
Provision for impairment losses	-	2,345,882
<b>Operating income before working capital changes</b>	<b>17,057,143</b>	<b>39,133,036</b>
Decrease (increase) in:		
Trade and other receivables	(26,858,560)	(79,969,299)
Other current assets	(11,534,700)	(4,771,772)
Increase (decrease) in accounts payable and accrued expenses	32,377,523	47,049,677
<b>Net cash flows used in operations</b>	<b>11,041,406</b>	<b>1,441,642</b>
Interest received	3,557,741	36,553
Income taxes paid, including CWTs	(2,791,586)	(5,492,831)
<b>Net cash flows used in operating activities</b>	<b>11,807,562</b>	<b>(4,014,636)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in amounts due from related parties	(38,256,589)	(13,397,844)
Investment and Advances	(188,672)	(110,234)
(Increase) Decrease in ROU Assets, property and equipment	(999,647)	(9,537,686)
(Increase)Decrease in other noncurrent assets (including computer software)	1,096,747	(604,766)
<b>Cash flows used in investing activities</b>	<b>((38,348,160))</b>	<b>(23,650,530)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in due to related parties	41,716,121	49,259,307
Payments of:		
Loan and interest	(17,180,398)	(25,005,749)
Lease liabilities	1,213,361	(3,251,026)
<b>Net cash flows from financing activities</b>	<b>25,749,084</b>	<b>21,002,532</b>
<b>NET INCREASE IN CASH</b>	<b>(791,514)</b>	<b>(6,662,634)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>14,351,917</b>	<b>21,014,551</b>
<b>CASH AT END OF YEAR</b>	<b>13,560,403</b>	<b>14,351,917</b>



**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	Note	June 30, 2023 (Unaudited)	June 30, 2022 (Unaudited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	4	13,560,403	11,383,094
Trade and other receivables	5	441,507,430	374,776,657
Contract asset		1,370,685	1,370,685
Due from related parties	12	269,964,146	237,107,797
Other current assets	6	52,078,552	41,942,488
<b>Total Current Assets</b>		<b>778,481,216</b>	<b>666,580,721</b>
<b>Noncurrent Assets</b>			
Investment and advances	7	2,196,257,810	2,196,319,920
Property and equipment - net	8	13,401,089	12,587,773
Right of use asset		8,991,790	5,893,024
Other noncurrent assets - net	6	2,066,588	5,590,761
<b>Total Noncurrent Assets</b>		<b>2,220,717,276</b>	<b>2,220,391,478</b>
		2,999,198,492	2,886,972,199
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	9	249,760,238	208,572,786
Due to a related party	12	101,365,958	32,761,923
Current portion of long-term loans payable	10	<b>132,186,926</b>	361,521,133
Current portion of obligations under finance lease	14	<b>7,002,156</b>	3,696,096
<b>Total Current Liabilities</b>		<b>490,315,277</b>	<b>341,383,669</b>
<b>Noncurrent Liabilities</b>			
Long-term loans payable - net of current portion	10	229,142,481	16,482,708
Obligations under finance lease - net of current portion	14	6,048,434	4,044,345
Retirement benefits liability	13	6,332,964	5,002,340
Deposit for future stock subscription		89,000,000	310,000,000
<b>Total Noncurrent Liabilities</b>		<b>330,523,879</b>	<b>114,529,393</b>
<b>Total Liabilities</b>		<b>820,839,156</b>	<b>721,081,331</b>
<b>Equity</b>			
Capital stock	11	1,324,708,420	1,324,708,420
Additional paid in capital	11	541,569,110	541,569,110
Equity reserve		(1,978,794)	(1,978,794)
Retained earnings / (Deficit)		11,689,926	(813,021)
Other comprehensive income		306,009,146	306,047,916
Non-controlling interest		-3,638,472	(3,642,763)
<b>Total Equity</b>		<b>2,178,359,336</b>	<b>2,165,890,868</b>
		2,999,198,492	2,886,972,199

**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
For the Period Ended June 30, 2023 and 2022

	June 30, 2023 (Unaudited)	June 30, 2022 (Unaudited)
<b>REVENUES</b>		
Service revenue	90,881,197	93,175,543
Sales of goods	1,223,707	6,816,722
	<b>92,104,904</b>	<b>99,992,265</b>
<b>COSTS OF SALES AND SERVICES</b>		
Cost of Services	45,536,642	56,687,408
Cost of sales	795,567	2,728,328
	<b>46,332,208</b>	<b>59,415,736</b>
<b>GROSS PROFIT</b>	<b>45,772,696</b>	<b>40,576,529</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Salaries and wages	<b>10,918,293</b>	11,356,729
Outside services	1,766,669	1,393,531
Rent expense	439,265	428,511
Taxes and licenses	1,942,041	1,761,667
Professional fees	4,816,980	3,592,968
Utilities	87,288	77,479
Transportation and travel	2,180,679	2,095,215
Advertising and promotion	443,811	318,765
Depreciation and amortization	3,269,906	2,116,377
Repair and maintenance	302,543	202,521
Communications and subscription	1,862,991	2,487,740
Entertainment, amusement, and recreation	3,184,450	2,648,831
Supplies	381,983	665,787
Insurance	195,762	97,128
Provision on impairment loss on receivables	<b>0</b>	2,208,916
Others	<b>467,541</b>	636,179
	<b>13,512,494</b>	<b>8,488,183</b>
<b>OTHER INCOME (EXPENSE)</b>		
Interest expense	-6,130,177	-5,081,290
Interest income	3,557,741	3,558,031
Other income	301,729	632,376
Other charges	-26,986	-587,673
	<b>-2,297,692</b>	<b>-1,478,556</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>11,214,802</b>	7,009,627
<b>PROVISION FOR INCOME TAX</b>	<b>2,791,586</b>	1,809,864
<b>NET INCOME</b>	<b>8,423,216</b>	5,199,763

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**NET INCOME (LOSS) ATTRIBUTABLE****TO:**

Equity holders of Parent Company	8,454,445	5,347,474
Non-controlling interest	-31,229	-147,711
	8,423,216	5,199,763

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**NOW CORPORATION AND SUBSIDIARIES**

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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

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	<b>Unaudited</b>	
	<b>June 30, 2023</b>	June 30, 2022
<b>NET INCOME</b>	<b>P8,423,216</b>	P5,199,763
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>P8,423,216</b>	P5,199,763
<b>TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>		
Equity holders of the Parent Company	8,454,445	5,347,474
Non-controlling interest	-31,229	-147,711
	8,423,216	5,199,763

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**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	June 30	
	2023	2022
<b>Capital Stock - P.70 par value</b>		
Authorized -		
Issued and outstanding -	1,264,708,420	1,264,708,420
	<b>1,264,708,420</b>	<b>1,264,708,420</b>
<b>Preferred Share - P1.00 par value</b>		
Issued and outstanding -	60,000,000	60,000,000.00
	<b>60,000,000</b>	<b>60,000,000</b>
<b>Additional Paid-In Capital</b>		
Balance at beginning of year	541,569,110	541,569,110
Balance at end of year	<b>541,569,110</b>	<b>541,569,110</b>
Equity reserve	<b>(1,978,794)</b>	<b>(1,978,794)</b>
<b>Deficit</b>		
Balance at beginning of year	3,235,481	(6,040,241)
Prior Period Adjustment - Revenue Reversal	-	(120,255)
Net income (loss)	8,454,445	5,347,474
Balance at end of year	<b>11,689,926</b>	<b>(813,021)</b>
<b>Other comprehensive income</b>		
Other comprehensive income	306,009,146	291,000,946
Noncontrolling interest beginning	<b>(3,638,472)</b>	<b>(3,465,132)</b>
	<b>2,178,359,336</b>	<b>2,151,021,529</b>

**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	June 30, 2023	June 30, 2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	11,214,802	7,009,628
Interest expense	6,130,177	5,081,290
Adjustments for:		
Depreciation and amortization	3,269,906	2,116,377
Interest income	(3,557,741)	(3,557,677)
Provision for impairment losses	-	2,208,916
Share in Net Income of an Associate	(188,672)	-361,016
Operating income before working capital changes	16,868,472	12,497,518
Decrease (increase) in:		
Trade and other receivables	(26,858,560)	(40,080,375)
Other current assets	(11,534,700)	(6,170,409)
Increase (decrease) in accounts payable and accrued expenses	32,377,523	30,419,914
Net cash flows used in operations	10,852,735	(3,333,352)
Interest received	3,557,741	11,539
Income taxes paid, including CWTs	(2,791,586)	-
Net cash flows used in operating activities	11,618,890	(3,321,813)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in amounts due from related parties	(38,256,589)	(22,330,848)
(Increase) Decrease in ROU Assets, property and equipment	(999,647)	(4,010,283)
(Increase)Decrease in other noncurrent assets (including computer software)	1,096,747	(612,753)
Cash flows used in investing activities	(38,159,489)	(26,953,884)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase due to additional subscription		
Deposit for future stock subscription	-	(221,000,000)
Proceeds from availments of:		
Short-term	-	232,196,155
Long-term	-	(7,842,019)
Increase in due to related parties	41,716,121	22,371,394
Payments of:		
Loan and interest	(17,180,398)	(5,081,290)
Lease liabilities	1,213,361	-
Net cash flows from financing activities	25,749,084	20,644,240

NET INCREASE IN CASH	(791,514)	(9,631,457)
CASH AT BEGINNING OF YEAR	14,351,917	21,014,551
<b>CASH AT END OF YEAR</b>	<b>13,560,403</b>	<b>11,383,094</b>

**NOW CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	April to June 30	
	2023	2022
<b>REVENUES</b>		
Service Revenue	45,714,957	49,559,178
Sales	1,154,610	874,632
<b>Total Revenues</b>	<b>46,869,567</b>	<b>50,433,810</b>
<b>COST AND EXPENSES</b>		
Cost of services	23,205,360	29,344,167
Cost of sales	721,381	352,953
Cost of sales and services	23,926,741	29,697,120
<b>Gross profit</b>	<b>22,942,826</b>	<b>20,736,690</b>
Salaries and other benefits	5,531,951	5,754,599
Outside Services	852,785	757,803
Rental	219,633	219,633
Taxes and licenses	737,076	619,897
Professional fees	2,343,719	1,988,977
Light and water	49,602	43,898
Transportation and travel	1,275,260	1,312,100
Advertising and promotion	148,548	182,657
Depreciation and amortization	1,526,484	1,052,194
Repairs and maintenance	100,269	143,959
Communication & Subscription	879,911	1,890,603
Entertainment, amusement and recreation	1,744,550	1,589,224
Supplies	155,785	140,035
Insurance	86,635	60,960
Others- Expenses	251,333	367,048
<b>Total Operating Expenses</b>	<b>15,903,540</b>	<b>16,123,587</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>7,039,286</b>	<b>4,613,103</b>
<b>OTHER INCOME (CHARGES)</b>		
Interest expense	-3,045,289	-2,332,878
Interest income	1,778,972	1,778,717
Other Income	62,373	53,645
Other Charges	-12,333	-570,528
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>5,823,010</b>	<b>3,903,075</b>
<b>PROVISION FOR INCOME TAX</b>		
Current	1,471,753	955,399
<b>NET INCOME</b>	<b>4,351,257</b>	<b>2,947,676</b>

**NOW CORPORATION AND SUBSIDIARIES**  
**AGING OF RECEIVABLES**

	<b>June 30, 2023</b>	<b>June 30, 2022</b>
CURRENT	580,413	410,532
1-30 Days past due	2,153,676	26,028,484
31-60 Days past due	17,652,025	4,949,223
61-90 Days past due	668,058	2,367,576
Over 90 Days past due	420,453,258	341,020,842
	<b>441,507,430</b>	<b>374,776,657</b>

## NOW CORPORATION AND SUBSIDIARIES

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### NOTES TO CONSOLIDATED 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 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 of the Parent Company's 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.

The Parent Company's shares of stock are listed in the Philippine Stock Exchange.

On December 21, 2016, the Parent Company's Board of Directors (BOD) approved the filing of the Registration Statement, Listing Application and the terms and conditions and such other relevant acts in connection with the intended public offering of the Parent Company's preferred shares. On June 22, 2018, the SEC issued the Certificate of Filing of Enabling Resolution which approved the designation and offering of the Preferred "A" shares. On August 24, 2020, the Parent Company's BOD approved the issuance of these preferred shares to Velarde, Inc. (VI) (see Note 11).

The table below presents the Parent Company's subsidiaries and the respective percentage of effective ownership as at December 31, 2022, 2021 and 2020:

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

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



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

### **Approval of Consolidated Financial Statements**

The consolidated financial statements of the Group as at December 31, 2022 and 2021 and for the years ended December 31, 2022, 2021 and 2020 were approved and authorized for issue by the Chairman of the Board, the President and the Acting Chief Finance Officer on April 26, 2023 based on the authority delegated by the BOD dated March 10, 2023.

### **Certificates and Agreements**

On November 27, 2015, the National Telecommunications Commission (NTC) issued a Certificate of Registration (CoR) to the Parent Company that will authorize it as a value-added services (VAS) provider for services such as cloud hosting services, virtual private network, multimedia content and program services, online game services, cloud-based multimedia conferencing services, web hosting and cloud-based mail and messaging services. The CoR, which expired on November 26, 2020, was renewed for another five (5) years, or until November 26, 2025.

In 2015, the Parent Company entered into three (3) separate agreements with NOW Telecom Company, Inc. (NOW TEL), NOW Cable, Inc. (NOW Cable) and News and Entertainment Network Corporation (NewsNet) (the Parties), wherein the Parties mutually agreed to interconnect their respective networks for the Parent Company to provide VAS to the public (VAS contracts)(see Note 12). In 2020, the VAS agreement between the Parent Company and NOW TEL was renewed for another five (5) years under the same terms and conditions, while the agreements with NOW Cable and NewsNet were replaced with new service agreements with a term of three (3) years beginning January 1, 2020. The agreements were further extended for five (5) years or until January 1, 2028.

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

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### **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 and Sustainability Standards Council (formerly Financial Reporting Standards Council) and adopted by the SEC, including SEC pronouncements.

### **Measurement Bases**

The consolidated financial statements are presented in Philippine Peso (Peso), which is the Group's functional currency. All values are rounded to the nearest Peso, unless otherwise indicated.

The consolidated financial statements of the Group have been prepared under the historical cost basis, except for the following accounts:

- investment in equity securities measured at fair value;
- lease liabilities measured at present value of future lease payments; and
- retirement liability measured at present value of estimated future cash outflows.

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 Notes 7 and 21.

### **Adoption of Amended PFRS**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS:

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Business Combinations - Reference to Conceptual Framework* – The amendments replaced the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendments include an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or IFRIC 21, *Levies*, instead of the Conceptual Framework. The requirement ensures that the liabilities recognized in a business combination will remain the same as those recognized applying the current requirements in PFRS 3. The amendments also clarify that an acquirer shall not recognize contingent assets acquired in a business combination.
- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. There is no transition relief for first-time adopters.
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments specify which costs shall be included when assessing whether a contract is onerous or loss-making. The ‘costs of fulfilling’ a contract comprise the ‘costs that relate directly to the contract’. These costs can either be incremental (e.g., the costs of direct labor and materials) or can be an allocation of costs directly related to fulfilling a contract (e.g., depreciation of fixed assets). At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as applicable. Accordingly, the comparatives are not restated.
- Annual Improvements to PFRS 2018 to 2020 Cycle:
  - Amendment to PFRS 9, *Financial Instruments - Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity shall include when it applies the ‘10 per cent’ test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other’s behalf. The amendment applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applied the amendment.
  - Amendments to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

The adoption of the amended PFRS did not materially affect the consolidated financial statements of the Group. Additional disclosures were included in the consolidated financial statements, as applicable.

**Amended PFRS in Issue But Not Yet Effective or Adopted**

Relevant amended PFRS, which are not yet effective as at December 31, 2022 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements*, and PFRS Practice Statement 2, *Making Materiality Judgments - Disclosure Initiative - Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2 is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.
- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.
- Amendments to PAS 12, *Income Taxes - Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments should be applied on a modified retrospective basis. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2024:

- Amendments to PFRS 16, *Lease - Lease Liability in a Sale and Leaseback* – The amendments clarify that the liability that arises from a sale and leaseback transaction, that satisfies the requirements in PFRS 15, *Revenue from Contracts with Customers*, to be accounted for as a sale, is a lease liability to which PFRS 16 applies and give rise to a right-of-use (ROU) asset. For the subsequent measurement, the seller-lessee shall determine ‘lease payments’ or ‘revised lease payments’ in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying this subsequent measurement does not prevent the seller-lessee from recognizing any gain or loss relating to the partial or full termination of a lease. Any gain or loss relating to the partial or full termination of the lease does not relate to the right of use retained but to the right of use terminated. The amendments must be applied retrospectively. Earlier application is permitted.
- Amendments to PAS 1, *Classification of Liabilities as Current or Noncurrent* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity’s right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management’s intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted. If applied in earlier period, the Group shall also apply Amendments to PAS 1 - *Noncurrent Liabilities with Covenants* for that period.
- Amendments to PAS 1, *Presentation of Financial Statements - Classification of Liabilities as Current or Noncurrent* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity’s right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management’s intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted. If applied in earlier period, the Group shall also apply Amendments to PAS 1 - *Noncurrent Liabilities with Covenants* for that period.

Deferred effectivity -

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28 - *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address 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 consolidated financial statements of the Group. Additional disclosures will be included in the consolidated 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 statements 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 statements of financial position within equity, apart from equity attributable to equity holders of the Parent Company and are separately disclosed in the consolidated statements of income and consolidated statements 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 statements of financial position.

In 2017, 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.

### **Financial Assets and Liabilities**

*Date of Recognition.* Financial assets and liabilities are recognized in the consolidated statements of financial position when the Group becomes a party to the 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 June 30, 2023, December 31, 2022 and 2021, the Group does not have financial assets and liabilities at FVPL.

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

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



After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized or impaired and through the amortization process.

Cash, trade and other receivables (excluding advances to officers and employees), contract assets, amounts 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. Unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the consolidated statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods. On disposal of these equity instruments, any cumulative valuation gains or losses will be reclassified to retained earnings.

As at December 31, 2021, investment in equity securities of NOWTEL is classified under this category. In 2022, this investment was reclassified to investment in an associate (See Note 7).

*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 and deferred output VAT), due to related parties, short-term loans, long-term loans and lease liabilities are classified under this category.

### **Reclassification**

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

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

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

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

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

The Group recognizes an allowance for expected credit loss (ECL) based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables and contract assets, the Group has applied the simplified approach in measuring ECL. Simplified approach requires that ECL should always be based on the lifetime ECL. 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 (included as part of "Other noncurrent assets" account), the Group applies the general approach in measuring the ECL. The ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group considers reasonable and supportable information, that is available without undue cost or effort, and that is indicative of significant increases in credit risk since initial recognition.

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

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

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

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

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

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

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

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

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

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

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements 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 statements of financial position.

### **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.

### **Cost to Obtain a Contract with a Customer**

The Group recognizes an asset for the incremental cost of obtaining a contract with a customer if the Group expects to recover those costs. Otherwise, those costs are recognized as expense when incurred. The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract.

### **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 creditable withholding taxes (CWT), inventories, prepayments, input VAT and deferred input VAT.

*CWT.* CWT represents the amount withheld by the Group's customer in relation to its income. CWT can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

*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.

*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.

#### **Value-Added Tax (VAT)**

VAT represents the net amount of VAT recoverable from or payable to 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.

The net amount of VAT recoverable from or payable to the tax authorities is presented either as part of "Other current assets" or "Statutory payables" line item under "Accounts payable and other current liabilities" accounts in the consolidated statements of financial position.

*Deferred Input VAT.* Deferred input VAT represents 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 credit against output VAT over 60 months or the estimated useful lives of capital goods, whichever is shorter.

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.

Where the aggregate acquisition cost (exclusive of VAT) of the existing or finished depreciable capital goods purchased or imported during any calendar month does not exceed ₱1.0 million or if the purchase was made on or after January 1, 2022, the total input VAT will be allowable as credit against output VAT in the month of acquisition.

Deferred input VAT also represents the unpaid portion of availed services.

*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 under "Trade and other payables" account in the consolidated statements of financial position.

#### **Investments in Associates**

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 investments in associates are accounted for under the equity method in the consolidated financial statements, as provided for under PAS 28, *Investment in Associates*. Under the equity method, the investments in associates are 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 associates. Distributions received reduce the carrying amount of the investments.

The carrying amounts of the investments are adjusted to recognize changes in the share of the Group in the net asset of the associates since the acquisition date. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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 investment in 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 are 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 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 are computed using the straight-line method over the estimated useful lives of the assets as follows:

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

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method 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 and 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 in the consolidated statements of comprehensive income.

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

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

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

### **Deposits for Stock Subscriptions**

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

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

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

### **Equity**

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

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

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

*Other Comprehensive Income (Loss).* OCI comprises of items of income and expenses that are not recognized in profit or loss. OCI represents cumulative unrealized gains on fair value changes on investment in equity securities, cumulative remeasurement losses on retirement liability and cumulative translation adjustments.

### **Revenue Recognition**

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

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



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

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

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

Revenue from broadband service contracts bundled with software licenses comprises two performance obligations, the promise to provide broadband service and transfer software licenses, which are distinct and separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the broadband services and software license. The Group recognizes revenue from broadband services over time as the customer simultaneously receives and consumes the benefits provided by the Group. Revenue from the transfer of software licenses is 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" accounts, respectively, in the consolidated statements 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, and net of 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.

Revenue outside the scope of PFRS 15 is recognized as follows:

*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 purchase cost 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.

*Interest Expense.* Interest expense arising from borrowed funds are recognized in profit or loss using the effective interest method.

### **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.

Current service costs pertain to the increase in the present value of a defined benefit obligation resulting from employee service in the current period.

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 consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

### Leases

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.

For leases with lease terms of 12 months or less but with an option to extend the lease, the management assesses whether there is reasonable certainty that the Group will extend the lease, by considering all relevant facts and circumstances that create an economic incentive for the lessee to extend or terminate the lease, to determine the appropriate lease term.

*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 accumulated amortization and any 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.

### **Income Taxes**

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

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

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

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

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

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

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

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

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

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

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

### **Related Party Relationships and Transactions**

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.

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

### **Operating Segments**

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

The Group's identified operating segments are consistent with the segments reported to the BOD, which is the Group's chief operating decision maker. Financial information on the operating segments are presented in Note 23.

### **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 consolidated 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 its 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 statements 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 not adjusting events are disclosed in the notes to consolidated financial statements when material.

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

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

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

### **Judgments**

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

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

- *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 sale of software licenses contains a promise to transfer goods which are part of the negotiated exchange between the Group and the customer.

The Group determined that both the sale of 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.

- *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 provides the services. Other revenue sources are recognized at a point in time.

- *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 Group renders the services.

*Determination 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 has determined that it has significant influence over the following investees as at June 30, 2023 and December 31, 2022:

	<b>2023</b>	<b>2022</b>
Softweb Consulting, Inc. (Softweb)	<b>50.00%</b>	50.00%
NOW TEL	<b>24.23%</b>	–

#### NOW TEL

On April 20, 2022, the Group assessed that it has significant influence over NOW TEL when it increased its equity ownership from 19% to 24.23%. Accordingly, the investment was reclassified from investment in equity securities at FVOCI to investment in an associate. Critical judgment was exercised to assess whether the Group demonstrates significant influence over NOW TEL, such as the representation of the Group in the BOD of NOW TEL, participation in the policy-making process, and existence of material transactions between the Group and NOW TEL. On this basis, the Group has assessed that it has significant influence over NOW TEL and classified the investments as investment in an associate as at December 31, 2022.

#### Softweb

The Group considers its 50% equity interest in 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 neither control nor joint control, over the financial and operating policy decisions over Softweb.

*Classification of Lease Commitments – the Group as a Lessee.* The Group has entered into leases for office spaces, parking spaces and roof decks. 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.

The carrying amounts of the Group's ROU asset and lease liability as at December 31, 2022 and 2021 are disclosed in Note 14. Rent expense on short-term leases amounted to ₱4.6 million and ₱4.5 million in 2022 and 2021 respectively (see Note 14).

*Classifying Financial Instruments.* The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

Management has assessed that the financial assets and liabilities of the Group are classified as financial instruments at amortized cost. The preferred stock of the Parent Company as at June 30, 2023 and December 31, 2022 are classified as equity in the consolidated statements of financial position (see Note 11). The Company does not have any contractual obligation to deliver cash or another financial asset as a result of the issuance of its outstanding preferred stock.

#### **Estimates and Assumptions**

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

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

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

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

The Group recognized provision for impairment loss on trade and other receivables amounting to ₱2.3 million and ₱0.2 million in 2022 and 2021 respectively (see Note 17).

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

	Note	2022	2021
Cash in banks	4	<b>₱14,236,917</b>	₱20,912,209
Trade and other receivables (excluding advances to officers and employees)	5	<b>410,355,385</b>	332,180,707
Contract assets	15	<b>1,370,685</b>	1,370,685
Due from related parties	12	<b>231,707,557</b>	211,230,811
Security deposits (included as part of "Other noncurrent assets")	6	<b>1,391,368</b>	1,058,618

*Determination of the Fair Value of Financial Instruments.* PFRS requires certain financial assets 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 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 as at December 31, 2021 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 of inventory was recognized in 2022 and 2021. Carrying amount of inventories at cost as at June 30, 2023, December 31, 2022 and 2021 are disclosed in Note 6.

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

There were no changes in the useful lives of the Group's property and equipment, ROU assets, and computer software in June 30, 2023, 2022 and 2021.

Depreciation and amortization recognized in 2022 and 2021 are disclosed in Note 8. The carrying amounts of property and equipment, ROU assets and computer software as at December 31, 2022 and 2021 are disclosed in Notes 6, 8 and 14.

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

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

Management has assessed that there are no indications of impairment on the nonfinancial assets in 2022 and 2021.

The carrying amounts of the nonfinancial assets are as follows:

	Note	2022	2021
Investments in associates	7	<b>₱2,196,069,138</b>	₱-
Other current assets (excluding inventories)	6	<b>34,750,816</b>	28,692,800
Property and equipment	8	<b>15,393,774</b>	10,693,867
ROU assets	14	<b>9,269,364</b>	5,893,024
Other noncurrent assets (excluding security deposits)	6	<b>1,771,967</b>	3,919,390

As at June 30, 2023, the carrying amount of the Investments in associates is at Php2,196,069,138.

*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 ₱1.3 million and ₱1.1 million in 2022 and 2021, respectively. The retirement liability amounted to ₱6.3 million and ₱5.0 million as at December 31, 2022 and 2021, respectively (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 ₱15.4 million and ₱11.6 million as at December 31, 2022 and 2021, 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:

	June 30, 2023	2022	2021
Cash on hand	<b>₱115,000</b>	₱115,000	₱102,342
Cash in banks	<b>13,445,403</b>	14,236,917	20,912,209
	<b>13,560,403</b>	₱14,351,917	₱21,014,551

**As At June 30, 2023 and June 30, 2022, the total cash amounted to Php13,560,403 and Php11,383,094 respectively.** Cash in banks earn interest at prevailing bank deposit rates.

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

	Note	2022	2021
Cash in banks		<b>₱36,553</b>	₱30,631
Due from related parties	12	<b>7,078,902</b>	7,092,276
		<b>₱7,115,455</b>	₱7,122,907

## 5. Trade and Other Receivables

This account consists of:

	2022	2021
Trade:		
Related parties	361,539,030	₱285,717,985
Third parties	91,479,299	86,779,784
Advances to officers and employees	4,293,485	4,844,746
	457,311,814	377,342,515
Less allowance for impairment loss	42,662,944	40,317,062

**The Trade and other Receivables amounted to Php441,507,430 and Php374,776,657 as at June 30, 2023 and 2022, respectively.**

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 on trade receivables are as follows:

	Note	2022	2021
Balance at beginning of year		<b>₱40,317,062</b>	₱40,088,612
Provision	17	<b>2,345,882</b>	228,450
<b>Balance at end of year</b>		<b>₱42,662,944</b>	<b>₱40,317,062</b>

## 6. Other Assets

### Other Current Assets

This account consists of:

	2022	2021
CWT	<b>₱20,683,436</b>	₱19,021,976
Prepayments	<b>7,183,620</b>	6,647,485
Inventories	<b>5,793,036</b>	7,079,279
Deferred input VAT	<b>3,152,977</b>	553,616
Input VAT	<b>2,953,327</b>	1,602,267
Others	<b>777,456</b>	867,456
	<b>₱40,543,852</b>	₱35,772,079

Inventories, pertaining to telecommunication tools and supplies, are measured at lower of cost and NRV. Cost of inventories charged to cost of sales and services amounted to ₱4.2 million and ₱3.8 million in 2022 and 2021, respectively. This is presented as part of “Cost of VAS and other service agreements” line item in the “Cost of sales and services” account in the consolidated statements of comprehensive income.

**Other Current Assets amounted to Php 52,078,552 and Php 41,942,488 as at June 30, 2023 and 2022, respectively.**

#### Other Noncurrent Assets

	Note	2022	2021
Computer software		<b>₱1,696,757</b>	₱3,749,426
Security deposits	14	<b>1,391,368</b>	1,058,618
Trademarks		<b>75,210</b>	75,210
Others		–	94,754
		<b>₱3,163,335</b>	₱4,978,008

Movements in the computer software are as follows:

	Note	2022	2021
<b>Cost</b>			
Balance at beginning of year		₱8,017,672	₱4,991,410
Additions		366,770	3,026,262
Balance at end of year		8,384,442	8,017,672
<b>Accumulated Amortization</b>			
Balance at beginning of year		4,268,246	2,685,524
Amortization	8	2,419,439	1,582,722
Balance at end of year		6,687,685	4,268,246
<b>Carrying Amount</b>		<b>₱1,696,757</b>	<b>₱3,749,426</b>

**Other Non-Current Assets amounted to Php 2,066,588 and Php 5,590,761 as at June 30, 2023 and 2022, respectively.**

#### 7. Investments in Associates

This account consists of the following:

	June 30, 2023	2022	2021
Investments in associates:			
NOW TEL	<b>₱2,196,257,810</b>	<b>₱2,196,069,138</b>	₱–
Softweb	–	–	–
Equity securities at FVOCI	–	–	1,595,958,904
Advances for investment	–	–	600,000,000
	<b>₱2,196,257,810</b>	<b>₱2,196,069,138</b>	₱2,195,958,904

**Investments in NOWTEL**

	2023		2022	
	Number of Shares	Ownership Percentage	Number of Shares	Ownership Percentage
Beginning of year	3,656,580	24.23%	2,656,580	19%
Additions/Increase	0	0	1,000,000	5%
End of year	3,656,580	24.23%	3,656,580	24%

<b>Deemed cost of investment</b>	<b>₱2,196,069,138</b>
<b>Application of advances for investment</b>	-
	<b>2,196,069,138</b>
<b>Share in net income 2023</b>	<b>188,671</b>
<b>Carrying amount</b>	<b>₱2,196,257,810</b>

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 mobile radio systems such as paging systems, cellular phone systems, personal communication network and any other similar systems in or outside the country. On January 3, 2006, the NTC granted NOW TEL a provisional authority (PA) to install, operate and maintain nationwide mobile telecommunications systems, offer services and to charge rates therefor. The PA was extended several times, up to but not beyond March 2019. On September 14, 2020, NOW TEL's provisional authority to operate a mobile telecommunications system was extended until September 2023.

In 2020, the Parent Company made cash advances to NOW TEL amounting to ₱469.5 million for future investment. Advances for investment in NOW TEL amounted to ₱600.0 million as at December 31, 2021.

On May 3, 2021, NOW TEL's BOD and stockholders approved to increase its authorized capital stock from 14,597,489 shares at ₱100 par value a share to 19,041,925 shares at ₱100 par value a share. The increase of 4,444,436 shares at 25% or 1,111,109 shares have been fully subscribed and fully paid for by the subscribing shareholders. Moreover, on June 24, 2021, the Parent Company's stockholders approved to apply its advances for investments of ₱600.0 million against additional subscription of 1,000,000 shares of NOW TEL's increase at a conversion price of ₱600 a share. This will increase the Group's ownership in NOW TEL from 2,656,580 shares to 3,656,580 shares or from 19% to 24.23%. The increase in NOW TEL's authorized capital stock was approved by the SEC on April 20, 2022

On June 6, 2019, the Parent Company's stockholders approved to increase its equity share in NOW TEL up 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 April 26, 2023, the details and other terms of the share swap are not yet finalized.

#### *Valuation Using Discounted Cash Flow Method*

The Parent Company's investment in NOW TEL designated as FVOCI as at December 31, 2021, was valued using the discounted cash flow (DCF) method under the income approach of determining fair value and measured at Level 3 (significant unobservable inputs). In doing the DCF method, 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 as at December 31, 2021:

- 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.* The long-term growth rate of 1.87% in 2022 used to extrapolate the future cash flows from the investment in NOW TEL excludes expansions and possible acquisitions in the future. Management also recognizes the possibility of new entrants, which may have significant impact on existing growth rate assumptions. Management however, believes that new entrants will not have a significant adverse impact on the forecast included in the budget.
- c. *WACC.* The discount rate of 7.40% in 2021, 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 treasury 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 a higher (lower) fair value of the investment. An increase(a decrease) in growth rate estimates would result to a higher (lower) fair value of the investment. An increase (a decrease) in WACC estimates would result to a lower (higher) fair value of the investment.

Movements in the cumulative unrealized gain on fair value of investment in equity instruments in 2021 are as follows:

	2021
Balance at beginning of year	₱292,091,026
Unrealized gain on fair value changes	14,589,528
Balance at end of year	₱306,680,554

*Legal Contingencies of NOW TEL*

NOW TEL is a party to certain lawsuits or claims which are still pending resolution as at June 30, 2023. NOW TEL's management believes that, based on information currently available and on the opinion of its legal counsel, the outcome of the lawsuits or claims will not have a material effect on the consolidated financial statements and on the prospective financial information or future cash flows of NOW TEL.

NOW TEL has a pending petition with the Supreme Court, contesting NTC's 2005 assessment of Supervision and Regulation Fees (SRF). The assessment included APIC arising from debt restructuring. As supported by existing rules and jurisprudence, the SRF should be computed based on capital stock subscribed or paid but not including APIC arising from debt restructuring. As at June 30, 2023, the petition is still pending decision by the Supreme Court.

**Investment in Softweb**

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 the investment in Softweb as at December 31, 2022 and 2021 is nil. The unrecognized cumulative share in net loss amounted to ₱7.1 million as at December 31, 2022 and 2021. 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, 2022 and 2021 (see Note 12).



## 8. Property and Equipment

Movements in this account are as follows:

	2022				Total
	Transportation Equipment	Office and IT Equipment	Furniture and Fixtures	Leasehold Improvements	
<b>Cost</b>					
Balance at beginning of year	₱28,896,261	₱37,939,191	₱1,602,025	₱4,937,446	₱73,374,923
Additions	7,383,929	1,372,596	781,161	–	9,537,686
Balance at end of year	36,280,190	39,311,787	2,383,186	4,937,446	82,912,609
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of year	20,283,338	36,106,480	1,353,792	4,937,446	62,681,056
Depreciation and amortization	2,977,793	1,836,695	23,291	–	4,837,779
Balance at end of year	23,261,131	37,943,175	1,377,083	4,937,446	67,518,835
<b>Carrying Amount</b>	<b>₱13,019,059</b>	<b>₱1,368,612</b>	<b>₱1,006,103</b>	<b>₱–</b>	<b>₱15,393,774</b>

  

	2021				Total
	Transportation Equipment	Office and IT Equipment	Furniture and Fixtures	Leasehold Improvements	
<b>Cost</b>					
Balance at beginning of year	₱20,520,008	₱36,040,160	₱1,502,081	₱4,937,446	₱62,999,695
Additions	8,376,253	1,899,031	99,944	–	10,375,228
Balance at end of year	28,896,261	37,939,191	1,602,025	4,937,446	73,374,923
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of year	17,832,370	33,558,644	1,332,167	4,937,446	57,660,627
Depreciation and amortization	2,450,968	2,547,836	21,625	–	5,020,429
Balance at end of year	20,283,338	36,106,480	1,353,792	4,937,446	62,681,056
<b>Carrying Amount</b>	<b>₱8,612,923</b>	<b>₱1,832,711</b>	<b>₱248,233</b>	<b>₱–</b>	<b>₱10,693,867</b>

As at June 30, 2023 and June 30, 2022, the carrying amount of the Property and equipment is Php13,401,089 and Php 12,587,773, respectively.

Transportation equipment with an aggregate carrying amount of ₱11.7 million and ₱6.9 million as at December 31, 2022 and 2021, respectively, were held as collateral for the Parent Company's loans (see Note 10).

Cost of fully depreciated property and equipment that are still used in operations amounted to ₱42.2 million and ₱41.1 million as at December 31, 2022 and 2021, respectively.

Depreciation and amortization recognized as part of "Operating expenses" account in the consolidated statements of income is presented below (see Note 17):

	Note	2022	2021	2020
Property and equipment		₱4,837,779	₱5,020,429	₱6,155,804
ROU assets	14	3,559,881	2,996,276	2,464,369
Computer software	6	2,419,439	1,582,722	1,038,349
		<b>₱10,817,099</b>	<b>₱9,599,427</b>	<b>₱9,658,522</b>

The depreciation and amortization for the second quarter ended 2023 and 2022 amounted to Php3,269,906 and Php2,116,377, respectively.

## 9. Accounts Payable and Other Current Liabilities

This account consists of:

	Note	2022	2021
Trade:			
Third parties		<b>₱44,351,918</b>	₱22,640,578
Related parties	12	<b>15,356,720</b>	17,627,854
Accrued expenses:			
Interest	12	<b>59,903,586</b>	59,903,586
Others		<b>43,427,795</b>	29,903,573
Deferred output VAT		<b>52,202,435</b>	43,054,216
Statutory payables		<b>2,140,261</b>	3,213,201
		<b>₱217,382,715</b>	₱176,343,008

**Trade and accounts payable amounted to Php249,760,238 and Php 208,572,786 as at June 30, 2023 and 2022, respectively.**

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 unsecured, noninterest-bearing and are generally on a 30 to 60 days term.

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

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

## 10. Short-term and Long-term Loans

### **Short-term Loans**

This account consists of:

	June 30, 2023	2022	2021
Creditor:			
Stockholder	0	₱221,000,000	₱—
Land Bank of the Philippines (Land Bank)	<b>50,000,000</b>	50,000,000	50,000,000
Union Bank of the Philippines (UnionBank)	<b>50,000,000</b>	50,000,000	50,000,000
Third party	<b>12,000,000</b>	12,000,000	12,000,000
	<b>₱112,000,000</b>	<b>₱333,000,000</b>	<b>₱112,000,000</b>

### *Loan from a Stockholder*

The BOD approved to convert its ₱221.0 million advances from VI to a 1-year interest-bearing loan renewable with interest based on prevailing market rates, effective May 24, 2022, instead of converting it into equity as previously approved on July 1, 2021 (see Note 12). Interest payable amounted to ₱6.0 million as at December 31, 2022.

On 29 April 2023, the parties agreed to convert the loan into a seven-year term loan beginning January 1, 2023 with a two-year moratorium on interest and principal, subject to interest at prevailing market rate starting on the third year.

*Land Bank Loan*

The Parent Company availed of an unsecured, short-term loan aggregating ₱50.0 million with Land Bank. The loans carry annual interest rates of 9.0% in 2022, 6.50% in 2021, 6.50% to 9.75% in 2020 and have maturity dates ranging between three (3) months and six (6) months. The loan was fully paid on January 15, 2021.

In February 10, 2021, the Parent Company secured another set of short-term loans totaling ₱50.0 million with interest rate of 6.50% per annum and six (6) months term. The loan was subsequently renewed and is maturing in July 2023.

*UnionBank Loan*

The Parent Company availed of an unsecured, short-term loan amounting to ₱50.0 million with UnionBank. The loan carries an annual interest rate of 4.50% and will mature on September 30, 2022. The loan was subsequently renewed for one (1) year or until September 30, 2023.

*Loans from a Third Party*

In 2019, the Parent Company 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. The Parent Company paid ₱2.0 million in 2020. In 2021, the maturities of the loans amounting to ₱2.0 million and ₱10.0 million were further extended up to August 2023 and September 2023, respectively.

**Long-term Loans**

This account consists of:

	<b>2022</b>	2021
Creditor:		
Producers Savings Bank Corporation (PSBC)	<b>₱28,329,589</b>	₱35,372,258
Rizal Commercial Banking Corporation (RCBC)	<b>11,050,039</b>	6,277,447
	<b>39,379,628</b>	41,649,705
Current portion	<b>22,718,334</b>	17,324,978
Noncurrent portion	<b>₱16,661,294</b>	₱24,324,727

*PSBC Loan*

On October 31, 2018, the Parent Company obtained a five-year, unsecured, ₱50.0 million loan agreement with PSBC which is to be settled in 36 monthly payments starting February 2021 until January 2024. The loan carries an interest rate of 8% per annum.

On June 16, 2022, the Parent Company further obtained a six-year, unsecured, ₱10.0 million loan which is to be settled in 10 semi-annual payments starting January 2024 until maturing in June 2028. The loan carries an interest rate of 9% per annum.

#### *RCBC Loan*

In 2021, the Parent company availed of chattel mortgage loans aggregating ₱7.1 million from RCBC for purchases of transportation equipment, which serves as the properties mortgaged. The loans are to be settled in 60 equal monthly payments, have a term of five (5) years and bears interest rates ranging from 9.43% to 10.35% per annum.

In 2022, the Parent Company further availed of chattel mortgage loans aggregating ₱6.6 million from the same bank. The loans are to be settled in 60 equal monthly payments, have a term of 5 years and bears interest rate of 9.44% per annum.

The transportation equipment were held as collateral for the Parent Company's loans (see Note 8).

#### **Interest Expense**

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

	Note	2022	2021
Interest expense on:			
Short-term loans		<b>₱13,261,564</b>	₱4,792,639
Long-term loans		<b>3,425,368</b>	4,951,490
Lease liabilities	14	<b>411,592</b>	339,759
		<b>₱17,098,524</b>	₱10,083,888

The interest expense for the second quarter of 2023 and 2022 amounted to Php6,130,177 and Php5,081,290, respectively.

### **11. Capital Stock and Additional Paid-in Capital**

#### **Preferred Stock**

Movements in preferred stock are presented below:

	June 30, 2023		2022		2021	
	Number of Shares	Amount	Number of Shares	Amount	Number of shares	Amount
<b>Authorized- ₱1.00 par value</b>	<b>60,000,000</b>	<b>₱60,000,000</b>	60,000,000	₱60,000,000	₱60,000,000	₱60,000,000
<b>Issued and outstanding</b>						
Balance at beginning of year	60,000,000	₱60,000,000	60,000,000	₱60,000,000	60,000,000	60,000,000
Issuance	—	—	—	—	—	—
Balance at end of year	<b>60,000,000</b>	<b>₱60,000,000</b>	60,000,000	₱60,000,000	60,000,000	₱60,000,000

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.

On August 24, 2020, the Parent Company’s stockholders approved the subscription of VI to 60,000,000 redeemable, convertible, cumulative, non-participating and non-voting Peso-denominated preferred shares at a subscription price of ₱1.00 a share. No APIC was recognized on the issuance. The preferred shares issued to VI may be converted to common shares at 1:1 ratio at any time from the first anniversary after the issue date of the preferred shares until the 5th anniversary after the issue date. The preferred shares also have one (1) free detachable warrant for every preferred share which are exercisable after the 2nd anniversary common shares at a conversion price of ₱2.25 per common share.

Accordingly, deferred transaction costs aggregating ₱14.6 million (previously classified as prepayments) incurred in the planned offering of the shares were recognized as follows:

(a) ₱11.4 million as a deduction to APIC (see Note 11), and (b) ₱3.2 million as part of “Professional fees” line item under “Operating expenses” account in the consolidated statements of income in 2020.

### Common Stock

Movements in common stock are presented below:

	June 30, 2022		2022	
	Number of Shares	Amount	Number of Shares	Amount
Authorized - ₱0.70 par value	2,060,000,000	₱1,442,000,000	2,060,000,000	₱1,442,000,000
Issued and outstanding Balance at beginning of year	1,806,726,314	₱1,264,708,420	1,806,726,314	₱1,264,708,420
Balance at end of year	1,806,726,314	₱1,264,708,420	1,806,726,314	₱1,264,708,420

On March 8, 2019, the Parent Company’s stockholders approved the conversion of advances from VI amounting to ₱209.0 million into equity at a conversion price of ₱6.50 a share. This was approved by the SEC on March 16, 2020. The excess resulting from the issuance amounting to ₱186.5 million was classified as APIC.

On July 28, 2020, the Parent Company’s BOD approved another set of conversion of advances from VI amounting to ₱89.0 million into equity at a conversion price of ₱2.18 a share. This was approved by the Parent Company’s stockholders on June 24, 2021. As at April 26, 2023, the Parent Company is in the process of converting the said advances to equity for filing with the SEC (see Note 12).

On August 24, 2020, the Parent Company’s BOD approved the subscription of VI to 102,000,000 common shares at ₱2.25 a share, equivalent to ₱229.5 million. The excess resulting from the issuance amounting to ₱158.1 million was classified as APIC.

On 24 May 2022, the Board of Directors in its special meeting approved to reverse its approval on July 1, 2022 of the conversion of advances from VI amounting to 221.0 million into equity. The Board likewise approved the conversion of said advances into an interest-bearing loan, effective 24 May 2022, with a term of one (1) year, renewable upon mutual agreement of the parties, with interest based on prevailing market rates. The approvals were made upon recommendations of management, based on proposals from and discussion with VI, given the current market conditions, and to give time to complete the implementation of the pending batches of conversions of advances to equity and cash subscription as previously agreed upon by the parties (see Note 12).

### *Increase in Authorized Capital Stock*

On October 23, 2020, the Parent Company's BOD approved to increase the Parent Company's authorized capital stock from a total of ₱1,502.0 million (common stock and preferred stock) to ₱1,858.0 million. On June 24, 2021, the Parent Company's stockholders unanimously ratified the approval of the BOD. As at April 26, 2023, the application for the planned increase is yet to be filed with the SEC.

### **APIC**

Movements in APIC are presented below:

	Note	June 30, 2022	2022
Balance at beginning of year		<b>₱541,569,110</b>	₱541,569,110
Balance at end of year		<b>₱541,569,110</b>	₱541,569,110

Below is the track record of the issuance of parents company's securities:

Date of Approval	Nature	Number of shares		Issue/Offer Price
		Authorized	Issued/Subscribed	
July 30, 2003	Common stock	40,000,000	28,000,000	₱1.00
November 11, 2008	Common stock	1,320,000,000	1,289,278,350	₱1.00
December 17, 2015	Common stock	2,120,000,000	200,000,000	₱1.00
November 6, 2019	Common stock	2,060,000,000	155,294,118	₱0.70
March 16, 2020	Common stock	2,060,000,000	32,153,846	₱0.70
August 24, 2020	Common stock	2,060,000,000	102,000,000	₱0.70
August 24, 2020	Preferred stock	60,000,000	60,000,000	₱1.00

## **12.Related Party Transactions**

### **Trade and Other Receivables**

- a. *Infrastructure Build-up Services.* The Parent Company has service agreements with NOW TEL, NOW Cable and NewsNet wherein the Parent Company will provide infrastructure build-up and technology design services, including project management, design, planning, and installation of major network hubs for a contract price of ₱5.0 million per network hub in order to facilitate the Parent Company's provision of VAS to the public.

Service revenue recognized related to infrastructure build-up amounted to Php15.0million in First quarter 2023 and 2022, and ₱80.0 million in full year 2022, 2021 and 2020, respectively.

- b. *Technical Services.* Part of the service agreements discussed above is to provide technical consultancy services for a period of ten (10) years with a monthly fee of ₱50,000 each for NOW Cable and NewsNet. The parties mutually agreed to defer this arrangement since no technical services related to the project was provided to NOW Cable and NewsNet in 2022, 2021 and 2020.
- 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. The contract was renewed for another five (5) years or until December 31, 2025. Service revenue amounted to ₱1.2 million, ₱1.2 million and ₱1.2 million in 2022, 2021 and 2020, respectively.

The Parent Company also entered into a contract with NOW TEL to provide day-to-day management services beginning January 1, 2016 to January 1, 2022. Service revenue from this contract amounted to ₱7.8 million in 2021, 2020.

The Parent Company also charges VI management fees for performing accounting and administrative functions of VI. Management fees charged to VI amounted to ₱0.2 million, ₱0.2 million and ₱0.3 million in 2022, 2021 and 2020, respectively.

#### Due from Related Parties

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

Interest income earned amounting to ₱7.1 million in 2022 and 2021 from the promissory note were recognized as part of the advances to Joyce Link (see Note 4).

- b. The Group has advances to Softweb amounting to ₱5.0 million which was already fully provided with allowance for impairment loss as at December 31, 2022 and 2021 (see Note 7).
- c. The Group has other advances to stockholders and related parties for working capital purposes. These are unsecured, noninterest-bearing and do not have definite repayment terms.

#### Accounts Payable and Other Current Liabilities

- a. *VAS and Other Service Agreements.* The VAS and other service agreements allow NOW TEL, NOW Cable and NewsNet to charge the Parent Company for: (a) the actual usage of bandwidth under a cost-plus-margin arrangement, (b) the network services provided through a revenue-sharing arrangement, and (c) network connectivity fee for the Parent Company's use of the site and communication equipment of NOW Cable and NewsNet in its operations.

Total cost related to VAS and other service agreements presented under the "Cost of sales and services" account in the consolidated statements of comprehensive income are as follows (see Note 16):

	2022	2021
Bandwidth costs	₱40,173,017	₱35,270,333
Network connectivity fees	14,270,247	19,607,500
Cost of VAS and other service agreements	8,421,793	7,575,416
	<b>₱62,865,057</b>	<b>₱62,453,249</b>

- 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. The agreement was subsequently renewed for another 5 years or until January 2, 2027. 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 Parent Company for the services provided by KPSC amounted to ₱0.9 million and ₱2.3 in 2022 and 2021, respectively (see Notes 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.

The Parent Company's BOD and stockholders approved the conversion of advances from VI into equity in various years as presented below:

Year	Amount	Status of SEC Approval
2016	₱264,000,000	Approved on November 6, 2019
2019	209,000,000	Approved on March 16, 2020
2020	89,000,000	Not yet filed

Outstanding accrued interest amounting to ₱59.9 million as at December 31, 2022 and 2021 were recorded as part of "Accounts payable and other current liabilities" account in the consolidated statements of financial position (see Note 9).

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

### Short-term loan

On May 24, 2022, the BOD, in its special meeting, approved to reverse its approval on July 1, 2021 on the conversion into equity of the ₱221.00 million advances from VI. The BOD likewise approved the conversion of said advances into an interest-bearing loan, effective May 24, 2022, with a term of one (1) year, renewable upon mutual agreement of the parties, with interest based on prevailing market rates (see Note 11). On 29 April 2023, the parties agreed to convert the loan into a seven-year term loan beginning January 1, 2023 with a two-year moratorium on interest and principal, subject to interest at prevailing market rate starting on the third year.

### Terms and Conditions of Transactions with Related Parties

Outstanding balances are unsecured, noninterest-bearing and are collectible/payable either on demand or settled in cash on a 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 and due from related parties in 2022, 2021 and 2020.

### Compensation of Key Management Personnel

Compensation of key management personnel presented as part of "Salaries and employee benefits" line item under "Operating expenses" account in the consolidated statements of income consists of short-term employee benefits amounting to ₱9.3 million, ₱12.1 million and ₱10.2 million in 2022, 2021 and 2020, 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.

On July 3, 2020, the Parent Company's BOD approved the planned stock grant to the eligible members of the key management personnel based on the number of years of service. This plan is yet to be approved by the Parent Company's stockholders as of report date.

### 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, 2020. Management has assessed that the recognized retirement liability would not significantly differ from the amount that would have been recognized had an actuarial valuation been obtained as at and for the years ended December 31, 2022 and 2021.

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

	2022	2021
Current service cost	<b>₱986,531</b>	₱955,636
Interest cost	<b>344,093</b>	183,819
	<b>₱1,330,624</b>	₱1,139,455

Movements in the retirement liability are as follows:

	2022	2021
Balance at beginning of year	<b>₱5,002,340</b>	₱3,862,885
Current service cost	<b>986,531</b>	955,636
Interest cost	<b>344,093</b>	183,819
Balance at end of year	<b>₱6,332,964</b>	₱5,002,340

The cumulative remeasurement losses recognized in OCI amounted to ₱1.8 million as at December 31, 2022 and 2021.

The assumptions used by the Group in determining retirement expense are discount rates of 6.84% to 7.06% and salary increase rate of 3.0% to 5% for the years ended December 31, 2022 and 2021.

The sensitivity analysis based on reasonably possible changes in the assumptions as at December 31, 2022 is as follows:

	Change in Assumption	Effects on retirement liability	
		2022	2021
Discount rate	+1%	<b>(₱237,001)</b>	(₱31,326)
	-1%	<b>(95,686)</b>	31,326
Salary increase rate	+1%	<b>19,068</b>	(8,198)
	-1%	<b>(297,710)</b>	8,198

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:

Within five years	₱4,723,957
More than 5 years but less than 20 years	8,985,329
20 years or more	12,195,608

The average duration of the defined benefit liability is from 16 to 18 years and 17 to 19 years as at December 31, 2022 and 2021, respectively.

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#### 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.

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 are as follows:

	Note	2022	2021
<b>Cost</b>			
Balance at beginning of year		₱13,702,270	₱12,140,402
Additions		6,936,221	1,561,868
Expired portion		(2,631,027)	–
Balance at end of year		<b>18,007,464</b>	13,702,270
<b>Accumulated Amortization</b>			
Balance at beginning of year		7,809,246	4,812,970
Amortization	8	3,559,881	2,996,276
Expired portion		(2,631,027)	–
Balance at end of year		<b>8,738,100</b>	7,809,246
<b>Carrying Amount</b>		<b>₱9,269,364</b>	₱5,893,024

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

	Note	2022	2021
Balance at beginning of year		<b>₱7,740,441</b>	₱8,564,955
Additions		<b>6,936,221</b>	1,561,868
Rental payments		<b>(3,251,026)</b>	(2,726,141)
Interest	10	<b>411,592</b>	339,759
Balance at end of year		<b>11,837,228</b>	7,740,441
Current portion		<b>5,116,288</b>	3,696,096
Noncurrent portion		<b>₱6,720,940</b>	₱4,044,345

The incremental borrowing rate ranging from 3.05% to 7.94% was applied to the lease liabilities. ROU assets were measured at the amount of the lease liabilities, adjusted by the amount of prepaid and accrued rent at adoption date.

### Short-term Leases

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 ₱4.6 million and ₱4.5 million in 2022 and 2021, respectively. Refundable security deposit amounted to ₱1.4 million and ₱1.1 million as at December 31, 2022 and 2021 (see Note 6).

The amounts recognized in profit or loss are as follows:

	Note	2022	2021
Rent expense:			
Cost of sales and services	16	<b>₱4,148,014</b>	₱4,213,961
Operating expenses	17	<b>420,837</b>	290,704
Amortization of ROU asset	8	<b>3,559,881</b>	2,996,276
Interest expense on lease liabilities	10	<b>411,592</b>	339,759
		<b>₱8,540,324</b>	₱7,840,700

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

	2022	2021
On demand	<b>₱1,148,000</b>	₱744,944
Within one year	<b>4,114,382</b>	2,470,381
After one year but not more than five years	<b>6,605,446</b>	3,399,788
	<b>₱11,867,828</b>	₱6,615,113

## 15. Revenue

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

	June 30, 2023		
	Service fees	Sale of goods	Total
Broadband services	₱ 46,471,344	₱—	₱ 46,471,344
Management services	34,620,000	—	34,620,000
Manpower augmentation	9,789,853	—	9,789,853
Sale and/or installation of software licenses	—	1,223,707	1,223,707
	₱ 90,881,197	₱ 1,223,707	₱ 92,104,904

	2022		
	Service fees	Sale of goods	Total
Broadband services	₱93,039,089	₱—	₱93,039,089
Management services	87,742,259	—	87,742,259
Manpower augmentation	14,679,235	—	14,679,235
Sale and/or installation of software licenses	—	7,083,005	7,083,005
	₱195,460,583	₱7,083,005	₱202,543,588

	2021		
	Service fees	Sale of goods	Total
Broadband services	₱85,000,638	₱—	₱85,000,638
Management services	89,240,000	—	89,240,000
Manpower augmentation	12,835,691	—	12,835,691
Sale and/or installation of software licenses	—	9,327,650	9,327,650
	₱187,076,329	₱9,327,650	₱196,403,979

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

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.

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

### **Contract Assets**

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

Contract assets amounted to ₱1.4 million as at December 31, 2022 and 2021. No ECL was recognized on the contract assets in 2022 and 2021.

Contract assets are reclassified to trade receivables upon completion of the specific performance obligation.

## 16. Cost of Sales and Services

This account consists of:

	Note	2022	2021
Cost of VAS and other service agreements	12	<b>₱62,865,057</b>	₱62,453,249
Salaries and employee benefits		<b>23,643,548</b>	34,529,791
Installation costs		<b>4,652,720</b>	4,714,232
Rent	14	<b>4,148,014</b>	4,213,961
Cost of software licenses		<b>2,694,278</b>	5,660,491
Transportation and travel		<b>1,956,937</b>	655,255
Fuel and oil		<b>405,538</b>	190,302
Outside services	12	–	1,192,147
Others		<b>5,196,647</b>	2,345,130
		<b>₱105,562,739</b>	₱115,954,558

<b>COST of Sales and Services</b>	<b>June 30, 2023</b>	<b>June 30, 2022</b>
<b>Cost of services</b>	<b>45,536,642</b>	<b>56,687,408</b>
<b>Cost of sales</b>	<b>795,567</b>	<b>2,728,328</b>
<b>Cost of sales and services</b>	<b>46,332,208</b>	<b>59,415,736</b>

For the period ended June 30, 2023, and 2022 Cost of sales and services amounted to Php46,332,208 and Php59,415,736, respectively.

## 17. Operating Expenses

This account consists of:

	<b>June 30, 2023</b>	<b>June 30, 2022</b>
Salaries and other benefits	10,918,293	11,356,729
Professional fees	4,816,980	3,592,968
Depreciation and amortization	3,269,906	2,116,377
Entertainment, amusement and recreation	3,184,450	2,648,831
Transportation and travel	2,180,679	2,095,215
Taxes and licenses	1,942,041	1,761,667
Communication & Subscription	1,862,991	2,487,740
Outside Services	1,766,669	1,393,531
Others- Expenses	467,541	636,179
Advertising and promotion	443,811	318,765
Rental	439,265	428,511
Supplies	381,983	665,787
Repairs and maintenance	302,543	202,521
Insurance	195,762	97,128
Light and water	87,288	77,479
Provision on impairment loss on receivables	0	2,208,916
<b>Total Operating Expenses</b>	<b>32,260,201</b>	<b>32,088,346</b>

Others consist mainly of marketing and medical expenses. **Total operating expenses for the second quarter ended 2023, and 2022, amounted to Php32,260,201 and Php32,088,346, respectively.**

## 18. Income Taxes

The income tax rates used in preparing the consolidated financial statements for the years ended December 31, 2022, 2021 and 2020 are shown below.

	2022	2021	2020
RCIT	25%	25%	30%
MCIT	1%	1%	2%

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises Act (“CREATE” Act) was signed into law by the country’s President. Under the CREATE Act, domestic corporations will be subject to 25% or 20% RCIT depending on the amount of total assets or total amount of taxable income. In addition, MCIT shall be computed at 1% of gross income for a period of three (3) years. The changes in the income tax rates retrospectively became effective beginning July 1, 2020. For financial reporting, however, the impact of the change in 2020 was accounted for in 2021.

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 statements of income is as follows:

	2022	2021	2020
Provision for income tax computed at the statutory income tax rate	₱3,884,550	₱2,730,207	₱3,225,418
Change in unrecognized deferred tax assets	1,248,241	(1,814,574)	2,524,261
Tax effects of:			
Nondeductible expenses	337,822	(156)	331,769
Expired NOLCO and MCIT	26,573	57,714	–
Interest income already subjected to final tax	(5,760)	(7,460)	(11,791)
Nondeductible interest expense	1,405	1,862	4,710
Changes in tax rates	–	1,858,699	–
	<b>₱5,492,831</b>	<b>₱2,826,292</b>	<b>₱6,074,367</b>

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

	2022	2021	2020
RCIT	₱5,484,994	₱3,342,261	₱6,076,899
MCIT	7,837	1,991	–
Effect of change in tax rate	–	(517,326)	–
	<b>₱5,492,831</b>	<b>₱2,826,926</b>	<b>₱6,076,899</b>

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

	2022	2021	2020
Allowance for impairment loss on trade and other receivables	<b>₱10,660,730</b>	₱10,011,760	₱12,016,348
NOLCO	<b>3,100,107</b>	556,898	482,524
Retirement liability	<b>1,110,753</b>	787,035	628,155
Effect of PFRS 16	<b>312,373</b>	69,447	58,056
Advanced collections received from customers	<b>249,181</b>	152,485	151,393
Excess of MCIT over RCIT	<b>9,828</b>	28,564	84,287
	<b>₱15,442,972</b>	₱11,606,189	₱13,420,763

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

Details of unused NOLCO that can be claimed as deduction from future taxable income are as follows:

Year incurred	Balance at beginning of year	Incurred	Balance at end of year	Valid until
2022	₱-	₱315,616	₱315,616	2025
2021	1,176,077	-	1,176,077	2026
2020	1,608,414	-	1,608,414	2025
	<b>₱2,784,491</b>	<b>₱315,616</b>	<b>₱3,100,107</b>	

On September 30, 2020, the Bureau of Internal Revenue issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 of Republic Act No. 11494 (Bayanihan to Recover as One Act), allowing qualified businesses or enterprises which incurred net operating loss for taxable years 2020 and 2021 to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

Details of excess of MCIT over RCIT are as follows:

Year incurred	Balance at beginning of year	Incurred	Expired	Balance at end of year	Valid until
2022	₱-	₱7,837	₱-	₱7,837	2025
2021	1,991	₱	-	1,991	2024
2019	26,573	-	(26,573)	-	2022
	<b>₱28,564</b>	<b>₱7,837</b>	<b>(₱26,573)</b>	<b>₱9,828</b>	

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## 19. Basic/Diluted EPS

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

	June 30, 2023	2022	2021
Net income attributable to Parent Company (a)	<b>₱7,108,065</b>	₱9,275,722	₱8,243,308
Weighted average number of common shares (b)	<b>1,806,726,314</b>	1,806,726,314	1,806,726,314
Effect of dilution from conversion options and warrants	<b>60,000,000</b>	60,000,000	60,000,000
Weighted average number of common shares adjusted for the effect of dilution (c)	<b>1,866,726,314</b>	1,866,726,314	1,866,726,314
Basic earnings per share (a/b)	<b>₱0.0039</b>	₱0.0051	₱0.0046
Diluted earnings per share (a/c)	<b>₱0.0038</b>	₱0.0050	₱0.0044

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## 20. Financial Risk Management Objectives and Policies

### General

The Group has risk management policies that systematically view the risks that could prevent the Group from achieving its objectives. These policies are intended to manage risks identified in such a way that opportunities to deliver the Group's objectives are achieved. The Group's risk management takes place in the context of day-to-day operations and normal business processes such as strategic planning and business planning. It is also established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies.

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

The Group's principal financial instruments comprise of cash, trade and other receivables (excluding advances to officers and employees), contract assets, amounts 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 to 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:

	2022					Total
	Neither Past Due nor Impaired		Past due but not impaired	Impaired		
	High Grade	Standard Grade				
Cash in banks	₱14,236,917	₱-	₱-	₱-	₱14,236,917	
Trade and other receivables*	-	410,355,385	-	42,662,944	453,018,329	
Due from related parties	231,707,557	-	-	-	231,707,557	
Security deposits**	1,391,368	-	-	-	1,391,368	
	₱247,335,842	₱410,355,385	₱-	₱42,662,944	₱700,354,171	

\*Excluding advances to officers and employees amounting to 4.3 million.

\*\*Presented under "Other noncurrent assets" account.

	2021					Total
	Neither Past Due nor Impaired		Past due but not impaired	Impaired		
	High Grade	Standard Grade				
Cash in banks	₱20,912,209	₱-	₱-	₱-	₱20,912,209	
Trade and other receivables*	-	332,180,707	-	40,317,062	372,497,769	
Due from related parties	211,230,811	-	-	-	211,230,811	
Security deposits**	1,058,618	-	-	-	1,058,618	
	₱233,201,638	₱332,180,707	₱-	₱40,317,062	₱605,699,407	

\*Excluding advances to officers and employees amounting to ₱4.8 million.

\*\*Presented under "Other noncurrent assets" account.

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.

### 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 based on contractual undiscounted payments:

	2022				Total
	On demand	Less than 3 months	3 to 12 months	>1 to 5 years	
Accounts payable and other current liabilities*	₱59,903,586	₱103,136,433	₱–	₱–	₱163,040,019
Short-term and long-term loans**	–	157,346,407	154,569,221	60,464,000	372,379,628
Due to related parties	59,649,837	–	–	–	59,649,837
Lease liabilities	1,148,000	1,163,193	2,960,944	6,605,446	11,877,583
	<b>₱120,701,423</b>	<b>₱261,646,033</b>	<b>₱157,530,165</b>	<b>₱67,069,446</b>	<b>₱606,947,067</b>

\*Excluding deferred output VAT and statutory payables aggregating ₱54.3 million.

\*\*Including future interest payments.

	2021				Total
	On demand	Less than 3 months	3 to 12 months	>1 to 5 years	
Accounts payable and other current liabilities*	₱59,903,586	₱70,172,005	₱–	₱–	₱130,075,591
Short-term and long-term loans**	–	67,986,881	66,786,904	26,125,534	160,899,319
Due to related parties	10,390,529	–	–	–	10,390,529
Lease liabilities	744,944	696,759	1,773,622	3,399,788	6,615,113
	<b>₱71,039,059</b>	<b>₱138,855,645</b>	<b>₱68,560,526</b>	<b>₱29,525,322</b>	<b>₱307,980,552</b>

\*Excluding deferred output VAT and statutory payables aggregating ₱46.3 million.

\*\*Including future interest payments.

	2020				Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	
Accounts payable and other current liabilities*	₱59,903,586	₱67,112,701	₱–	₱–	₱127,016,287
Short-term and long-term loans**	–	3,312,118	75,780,035	36,009,047	115,101,200
Due to related parties	196,699,905	–	–	–	196,699,905
Lease liabilities	744,944	757,910	2,273,731	5,085,299	8,861,884
	<b>₱257,348,435</b>	<b>₱71,182,729</b>	<b>₱78,053,766</b>	<b>₱41,094,346</b>	<b>₱447,679,276</b>

\*Excluding deferred output VAT and statutory payables aggregating ₱43.5 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 and related parties are subject to fixed interest rates and are exposed to fair value interest rate risk.

The Group regularly monitors interest rate movements and on the basis of current and projected economic and monetary data, decides on the best alternative to take. No sensitivity analysis is needed as future interest rate changes are not expected to significantly affect the Group's net income.

## 21. Fair Value of Financial Instruments

Comparison of the carrying amounts and fair values of the financial instruments are as follows:

	2022		2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash	<b>₱14,351,917</b>	<b>₱14,351,917</b>	₱21,014,551	₱21,014,551
Trade and other receivables*	<b>410,355,385</b>	<b>410,355,385</b>	332,180,707	332,180,707
Contract assets	<b>1,370,685</b>	<b>1,370,685</b>	1,370,685	1,370,685
Due from related parties	<b>231,707,557</b>	<b>231,707,557</b>	211,230,811	211,230,811
Investment in equity securities	<b>1,595,958,904</b>	<b>1,595,958,904</b>	1,595,958,904	1,595,958,904
Security deposits**	<b>1,391,368</b>	<b>1,391,368</b>	1,058,618	1,058,618
	<b>₱2,255,135,816</b>	<b>₱2,255,135,816</b>	₱2,162,814,276	₱2,162,814,276

\*Excluding advances to officers and employees amounting to ₱4.3 million and ₱3.9 million as at December 31, 2022 and 2021, respectively.

\*\* Included under "Other noncurrent assets" account

	2022		2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Liabilities</b>				
Accounts payable and other current liabilities*	<b>₱163,040,019</b>	<b>₱163,040,019</b>	₱130,075,591	₱130,075,591
Short-term loans	<b>333,000,000</b>	<b>333,000,000</b>	112,000,000	112,000,000
Long-term loans	<b>39,379,628</b>	<b>39,379,628</b>	41,649,705	41,575,226
Due to related parties	<b>59,649,837</b>	<b>59,649,837</b>	10,390,529	10,390,529
Lease liabilities	<b>11,837,228</b>	<b>11,877,582</b>	7,740,441	8,861,884
	<b>₱606,906,712</b>	<b>₱606,947,066</b>	₱301,856,266	₱302,903,230

\*Excluding deferred output VAT and statutory payables aggregating ₱52.2 million and ₱46.3 million as at December 31, 2022 and 2021, respectively.

*Cash, Trade and Other Receivables (Excluding Advances to Officers and Employees), Contract Assets, Security Deposits (Included under "Other Noncurrent assets" Account) and Accounts Payable and Other Current Liabilities (Excluding Deferred Output VAT and Statutory Payables) and Short-term Loans.* The carrying amounts of these financial instruments approximate their fair values due to the relatively short-term maturity and demand nature 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 at FVOCI.* As at December 31, 2021, the fair value of unquoted equity security was determined using discounted cash flow method based on market observable rates. Discount rate used is 7.40% and 4.70% (Level 3).

*Long-term Loans.* The fair values for the Group's long-term loans are estimated using the discounted cash flow method with the applicable rates ranging from 9.00% to 9.44% in 2022 and 4.50% to 10.79% in 2021 (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 using rates ranging from 4.25% to 7.94% in 2022 and 2021 (Level 2).

There were no transfers between levels in the fair value hierarchy as at December 31, 2022, 2021 and 2020.

## 22. Capital Management

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 is not subject to externally-imposed capital requirements.

The Group considers the equity attributable to the equity holders of the Parent Company as presented in the consolidated statements of financial position as its core capital. As at December 31, 2022, 2021 and 2020, the Group was able to meet its capital management objectives. No changes were made in the objectives, policies or processes in 2022, 2021 and 2020.

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## 23. Other Matters

On April 20, 2022, the Securities and Exchange Commission (SEC) approved the application of NOW Telecom Company, Inc. (NOW Tel), an affiliate of NOW Corporation (NOW), for an increase in its authorized capital stock and the quasi-reorganization of its equity. Through this approval, NOW effectively increased its direct equity ownership in NOW Tel from 19.00% to 24.23%.

At the Special Meeting held on 01 July 2021, the Board of Directors of NOW Corporation unanimously approved, confirmed, and ratified the offer of an existing shareholder, Velarde, Inc., to convert its advances into equity in the amount of Two Hundred Twenty One Million Pesos (Php221,000,000.00) with the conversion price computed based on the Volume Weighted Average Price (VWAP) of the 30-day trading period ending 24 June 2021 or at Php2.38 per share, and the listing with the Philippine Stock Exchange of additional 92,857,142 common shares resulting from the said conversion. On 24 May 2022, the Board of Directors of NOW Corporation in its special meeting unanimously approved to reverse its approval on 01 July 2021 on the conversion into equity of the P221,000,000.00 advances from Velarde, Inc. The Board likewise approved the conversion of said advances into an interest-bearing loan, effective 24 May 2022, with a term of one (1) year, renewable upon mutual agreement of the parties, with interest based on prevailing market rates. On 29 April 2023, the parties agreed to convert the loan into a seven-year term loan beginning January 1, 2023 with a two-year moratorium on interest and principal, subject to interest at prevailing market rate starting on the third year.

On 21 July 2022, NOW Telecom Company, Inc. (NOW Telecom), together with affiliate and listed firm NOW Corporation (NOW Corp) signed a Memorandum of Understanding together with SBA Towers Philippines, Inc., a subsidiary of SBA Communications Corporation, a NASDAQ-listed firm focused on providing tower infrastructure and other shared infrastructure in the Philippines. The parties are in discussion and negotiating the lease of build-to-suit sites, towers, and passive telecommunications infrastructure and facilities that will be made available for the installation of NOW's facilities and equipment to provide telecommunications and/or internet services.

On 20 January 2023, a Grant Agreement has been signed between the United States of America, acting through the U.S. Trade and Development Agency ("USTDA"), and NOW Telecom Company, Inc. ("NOW Telecom") to fund a technical assistance (TA) and 5G pilot network launch. This deployment will support the development of a secure 5G stand-alone (SA) network infrastructure in the Philippines.

On 27 April 2023, NOW Corporation, NOW Telecom Company, Inc., and CISCO International Limited have signed a Memorandum of Understanding (MoU). The Parties will collaborate on the development of 5G communication systems and networks in the Philippines. This collaboration is part of NOW's transition to a digital service provider and mobile telecommunications provider, in line with the Philippines' 2030 Vision and National Transformation Plan. The partnership between the Parties aims to introduce modern 5G solutions to the Philippines, enhancing the country's telecommunications landscape. With this, NOW plans to offer secure and dependable 5G services and applications for the public sector, major enterprise sectors, and the general public. NOW's Enterprise customers, such as those in manufacturing, logistics, port operations, banking, and BPO sectors, will have access to these advanced 5G solutions.

On 03 May 2023, NOW Corporation and OneWeb Network Access Associates Limited, a Low Earth Orbit (LEO) satellite communications company has entered into a Memorandum of Understanding to bring high-speed, low-latency broadband connectivity to the Philippines. The partnership combines the innovative satellite technology of OneWeb with NOW Corp's existing broadband service and strong local presence especially in the enterprise market. OneWeb's LEO satellites will provide seamless connectivity, enabling NOW to offer a wide range of enhanced broadband services to sectors including government, aviation, maritime, military, energy, healthcare and banking.

On 19 June 2023, NOW Corporation received an Order dated 15 June 2023 from the Enforcement and Investor Protection Department (EIPD) of the Securities and Exchange Commission relative to an alleged violation of Section 24.1(d) of the Securities Regulation Code. The dispositive portion of the SEC Order states, "Accordingly, NOW CORPORATION and MR. MEL V. VELARDE are administratively liable for violation of Section 24.1(d) in relation to Section 54.1 of the Securities and Regulation Code for disclosing misleading information to the public and are hereby DIRECTED to pay ONE MILLION PESOS (PHP1,000,000.00) each within fifteen (15) days from receipt of this Order." The alleged violation emanated from NOW Corporation's disclosure dated 10 November 2021 stating that it has no knowledge of the details surrounding the Motions filed by the National Telecommunications Commission through the Office of the Solicitor General regarding the Php2.6B liability representing unpaid Supervision and Regulation Fees and Spectrum User Fees of NOW Telecom Company, Inc. (a separate entity). NOW Corporation disagrees with the Order of the EIPD. The motion for reconsideration was filed in July 4, 2023, and is pending resolution with the SEC.

No other significant event during the period is covered by this report.

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#### **24. Reconciliation of Retained Earnings Available for Dividend Declaration**

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

<b>As at June 30, 2023 (Unaudited)</b>	<b>Amount</b>
Unappropriated retained earnings, beginning of year	<b>₱33,350,000</b>
Net income during the year closed to retained earnings	<b>7,108,065</b>
Total unappropriated retained earnings available for dividend declaration at end of year	<b>₱40,458,065</b>

#### *Reconciliation:*

Unappropriated retained earnings as shown in the financial statements at end of year	<b>₱40,458,065</b>
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Total unappropriated retained earnings available for dividend declaration at end of year	<b>₱40,458,065</b>
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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation.

- Total consolidated revenues in the YTD June 30 of 2023, is Php92.1 million, decreased by 7.89% or Php7.9 million from the same period last year of Php100.0 million. Service revenue decreased by 2.46% or Php 2.3 million from Php93.2 million in 2022 to Php90.9 million this year. 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 and other services grew by 8.56% or by Php3.7 million. IT Manpower Augmentation jumped up by 70.32% or by Php4.0 million from Php5.5 Million to Php9.8 Million this year. While Sales in Software Licenses dropped by 82.05% or Php5.6 Million.
- Despite of the decrease in the total revenue, the Company's net income increased by 61.99% resulting from the reduced cost of services for the first half of the year. Gross Profit increased by 12.81% or by Php5.2 Million from Php40.6 Million to Php45.8 Million. Gross Profit rate is at 49.7% as compared to last year 40.6% of revenue.
- Cost and Expenses for the first half of the year is Php78.6 million, which is Php12.9 million or 14.11% lower from the same period last year's Cost and Expenses of Php91.5 million. There is a decrease in cost of services for the first half amounting to Php11.1 million from Php56.7 million in 2022 to Php45.5 million in 2023. Also, cost of sales decreased by Php1.9 million from Php2.7 million in 2022 to Php0.796 million in 2023 due to reduced sales revenue. Total Operating Expense remains at Php32 Million wherein 34% is contributed by Salaries and Benefits, 15% is from Professional Fees and 10% is from Depreciation and Amortization.
- As of June 30, 2023, the total consolidated assets of the Company stood at Php3.0 Billion which is 3.89% higher than the same period last year. Current Assets increased by Php111.9 million or by 16.79%. This increase was due to the increased in Trade and other receivables which is higher by 19.13%, and Due from related parties which is higher than 13.86%. While Noncurrent assets almost remains flat at Php 2.2 billion.
- Current liabilities decreased by Php116.2 million or by 19.16% from Php606.5 million to Php490.3 million as of June 30, 2023. Non-current liabilities increased by 188.6% in the 2nd quarter of 2023.
- On May 24, 2022, the BOD, in its special meeting, approved to reverse its approval on July 1, 2021 on the conversion into equity of the Php221.0 million advances from VI. The BOD likewise approved the conversion of said advances into an interest-bearing loan, effective May 24, 2022, with a term of one (1) year, renewable upon mutual agreement of the parties, with interest based on prevailing market rates (see Note 11). On 29 April 2023, the parties agreed to convert the loan into a seven-year term loan beginning January 1, 2023 with a two-year moratorium on interest and principal, subject to interest at prevailing market rate starting on the third year.
- In 2021, the Parent company availed of chattel mortgage loans aggregating Php7,103,200 from RCBC for purchases of vehicles, which serves as the properties mortgaged. The loans have a term of five (5) years and bears interest rates ranging from 9.43% to 10.35% per annum. In 2022, the Parent Company further availed of chattel mortgage loans aggregating ₱6,616,000 from the same bank for the same purpose. The loans have a term of 5 years and bears interest rate of 9.44% per annum.
- In 2019, the Parent Company availed of 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. The Parent Company paid ₱ 2.0 million in 2020. The maturities of the loans amounting to ₱2.0 million and ₱10.0 million were further extended up to February 2024 and March 2024, respectively.

- 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 loan was fully paid in November 23, 2021.
- The Parent Company availed of an unsecured, short-term loans aggregating ₱50.0 million with Land Bank. The loans carry annual interest rates ranging from 6.50% to 9.75% in 2020 and 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 was fully paid on January 15, 2021. On February 10, 2021, the Parent Company secured another set of short-term loans totaling ₱50.0 million with Land Bank which was subsequently renewed and is maturing in July 2023.
- 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 company started the monthly repayment of the principal in 2021, and will be maturing on January 2024. On June 16, 2022, the Parent Company further obtained a six-year, unsecured, ₱10.0 million loan agreement with the same local bank maturing on June 16, 2028. The loan carries an interest rate of 9% per annum.
- In 06 October 2021, the Company obtained a short-term loan of Php50 Million from Unionbank of the Philippines with a floating interest rate of 4.5% per annum to be used for working capital requirements of the company. The loan was subsequently renewed by one (1) year or until September 30, 2023
- As at June 30, 2023, the total Assets stood at Php3.0 billion, Liabilities at Php820.8 million and Equity at Php2.2billion.
- As at June 30, 2023 Current assets increased by 16.79%, while current liabilities decreased by 19.16%. The Company's Liquidity Ratio wherein Current Ratio stood at 1.5877 from 1.099, while Acid Test Ratio stood at 1.4815 from 1.0298 for the second quarter of 2023 and 2022, respectively.
- The Company's Return on Equity for the second quarter of 2023, and 2022 was at 0.39% and 0.24% respectively.
- A further analysis indicates that NOW Corp.'s Asset to Debt Ratio stood at 3.6538 on June 30, 2023, from 4.0037 for the same period of 2022; while its Debt to Asset Ratio stood at 0.2737 from 0.2498 for the second quarter of 2023 and 2022, 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 cyclicity 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:



HENRY ANDREWS B. ABES  
President and CEO  
Date: August 21, 2023



JOZOLLY O. RAMOS- UY  
Chief Finance Officer  
Date: August 21, 2023



ANGELINE L. MACASAET  
Corporate Secretary  
Date: August 21, 2023

**ANNEX "A"**

**Schedule of Financial Indicators  
For the Quarter Ending 30 June 2023 and 2022**

Category	Financial Ratio	YTD June 30	
		2023	2022
Liquidity	Current Ratio	1.5877	1.0990
	Acid Test Ratio	1.4815	1.0298
Solvency	Debt to Equity Ratio	0.3768	0.3329
	Asset to Debt Ratio	3.6538	4.0037
	Debt to Asset Ratio	0.2737	0.2498
Equity	Asset to Equity Ratio	1.3768	1.3329
Interest	Interest Rate Coverage Ratio	2.8294	2.3795
Profitability	Profit Margin	49.70%	40.58%
	Return on Assets	0.28%	0.18%
	Return on Equity	0.39%	0.24%
	Book Value per share	1.2057	1.1988
	Earnings per share	0.0047	0.0029

The Financial Indicators are computed as follows:

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

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

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

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

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