# COVER SHEET

**SEC Registration Number**

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|---|---|---|---|---|---|---|---|---|---|---|

**Company Name**

CONVERGE INFORMATION AND COMMUNICATIONS TECHNOLOGY SOLUTIONS, INC.

**Principal Office** ***(No./Street/Barangay/City/Town/Province)***

NEW STREET BUILDING MCARTHUR HIGHWAY BALIBAGO ANGELES CITY PAMPANGA

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| 17-Q | | |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| converge.sec@convergeict.com | - | 09175774586 |

| No. of Stockholders | Annual Meeting Month/Day | Fiscal Year Month/Day |
|---|---|---|
| | Last Friday of May of Each Year | Dec-31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| OWEN OCAMPO | okdocampo@convergeict.com | - | 09328912603 |

**CONTACT PERSON's ADDRESS**

Reliance IT Center Bldg., Annex 1, No. 99, E. Rodriguez Jr. Ave., Brgy. Ugong, Pasig City

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

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

**SECURITIES AND EXCHANGE COMMISSION**

# SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 2022**

2. SEC Identification number **CS200716094**

3. BIR Tax Identification No. **006-895-049**

4. **Converge Information and Communications Technology Solutions, Inc.**
   Exact name of registrant as specified in its charter

5. **Republic of the Philippines**
   Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7. **New Street Bldg., Mc Arthur Highway, Balibago, Angeles City, Pampanga** **2009**
   Address of registrant's principal office Postal Code

8. **(02) 8667-0888**
   Registrant's telephone number, including area code

9. **Not applicable**
   Former name, former address and former fiscal year, if changed since last report

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

| Title of Each Class | No. of Shares of Common Stock Issued & Outstanding |
|---|---|
| **Common Stock, P0.25 par value** | **7,266,573,061 Shares** |
| **Fixed Rate Bonds** | **10,000,000,000** |

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

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

12. Indicate by check mark whether the registrant:
    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

    Yes [✓] No []

    (b) has been subject to such filing requirements for the past ninety (90) days

    Yes [✓] No []

## PART I - FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

Our unaudited condensed consolidated financial statements include the financial statements of the Parent Company and its subsidiaries namely, Pentagon Holding Co., Inc. (Pentagon), Converge ICT Solutions (Global) Limited (Converge Global) and Converge ICT Singapore Pte. Ltd. (Converge Singapore). These consolidated financial statements also include Pentagon's subsidiary, Metroworks ICT Construction Inc. (Metroworks) as well as Metroworks' subsidiary, Myriad ICT Services Inc (Myriad). The Parent Company and its subsidiaries are collectively referred to here as the "Group".

The unaudited condensed consolidated financial statements for the periods ended September 30, 2022 (filed as Annex 1 of this report) have been prepared in accordance with Philippine Accounting Standard 34, Interim Financial Reporting and hence do not include all of the information required in the annual audited financial statements.

### Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of Converge's financial performance for the periods ended September 30, 2022. The prime objective of this MD&A is to help the readers understand the dynamics of the Company's business and the key factors underlying its financial results. This section focuses on key statistics from the unaudited consolidated financial statements and pertains to known risks and uncertainties relating to the telecommunications industry in the Philippines where we operate up to the stated reporting period. However, Converge's MD&A should not be considered all inclusive, as it excludes unknown risks, uncertainties and changes that may occur in the general economic, political and environmental condition after the stated reporting period. Converge has adopted an expanded corporate governance approach in managing its business risks. An Enterprise Risk Management Policy was developed to systematically view the risks and to manage these risks in the context of the normal business processes such as strategic planning, business planning, operational and support processes.

The Company's MD&A should be read in conjunction with its unaudited consolidated financial statements and the accompanying notes. All financial information is reported in Philippine Pesos (₱) unless otherwise stated.

Any references in this MD&A to "we", "us", "our", "Company" means the Converge and references to "Converge" mean Converge Information and Communications Technology Solutions, Inc. Additional information about the Company, including annual and quarterly reports, can be found on our corporate website https://www.convergeict.com/

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## I. OVERVIEW OF OUR BUSINESS

Converge Information and Communications Technology Solutions, Inc. ("Converge") is the fastest-growing highspeed fixed broadband operator in the Philippines. We are the only pure-play high-speed fixed broadband provider, with an exclusive focus on serving the Philippines with industry leading optical fiber-based connectivity services. This singular focus on industry leading highspeed fixed broadband services is deeply ingrained in our organization, which we believe permeates all aspects of our operations, including our network rollout, product and service offerings, sales and customer service. Since our IPO in October 2020, we have built the largest fiber network in the Philippines, with 7.6 million ports deployed as of September 2022, more than any other telecom operator in the country.

We operate two businesses: (i) our residential business ("Residential Business"), which primarily offers high-speed fixed broadband internet services to our residential customers; and (ii) our enterprise business ("Enterprise Business"), which offers high-speed fixed broadband internet services, private data network solutions, cloud and colocation services and other connectivity solutions to our enterprise customers of varying sizes, industries and types.

We own and operate the fastest-growing, end-to-end fiber network in the Philippines, which is also one of the newest in the country. With total fiber assets of 596,000 kilometers as of September 30, 2022, our network is among the most extensive in the country. Our network is comprised of a fiber backbone that stretches from the northernmost tip of Luzon Island to the southernmost region of Mindanao, as well as a fiber distribution and last-mile network. Our network reached more than 14.3 million homes as of September 30, 2022 covering 53.0% of nationwide households.

## II. KEY PERFORMANCE INDICATORS

Converge is committed to efficiently managing the Company's resources and enhancing shareholder value. The Company regularly reviews its performance against its operating and financial plans and strategies, and uses key performance indicators to monitor its progress.

Some of its key performance indicators are set out below. Except for Net Income, these key performance indicators are not measurements in accordance with Philippine Financial Reporting Standards ("PFRS") and should not be considered as an alternative to net income or any other measure of performance which are in accordance with PFRS.

### AVERAGE REVENUE PER UNIT ("ARPU")

ARPU for our Residential Business is calculated by dividing (i) the revenue generated by residential subscribers during a period by (ii) the average number of subscribers during that period, then dividing the quotient by the number of months during that period. The average number of subscribers during a period, is calculated by the sum of the subscribers at the beginning and at the end of the period, divided by two.

ARPU for our Enterprise Business is calculated by dividing (i) the revenue generated by the enterprise users during a period by (ii) the average number of enterprise users during that period, then dividing the quotient by the number of months during that period. The average number of enterprise users during a period, is calculated by the sum of the enterprise users at the beginning and at the end of the period, divided by two.

### AVERAGE MONTHLY CHURN RATE

The percentage measure of the number of customers who have, voluntarily or involuntarily, discontinued a service for which the customer had subscribed for the relevant period over the number of customers for that period.

Our churn rate is calculated by dividing (i) the sum of the number of permanent subscriber discontinuations in a month, by (ii) the average number of subscribers during the respective month and multiplying the result by 100%. The average number of subscribers during a month, is calculated by the sum of the subscribers at the beginning and at the end of the month, divided by two.

### PORT UTILIZATION

Our port utilization rates for our FTTH network are the number of our FTTH subscribers as a percentage of total FTTH ports and for our HFC network is our number of HFC subscribers as a percentage of HFC homes passed. In line with our focus on FTTH network expansion and FTTH subscriber additions, we actively track and manage our FTTH port take-up or utilization rates. Each utilized port generates revenue for us.

### EBITDA

EBITDA is calculated as our profit for the year before depreciation and amortization (other than amortization of installation fees as their corresponding revenue impact has not been adjusted), finance costs, income tax expense. This measure provides useful information regarding a company's ability to generate cash flows, incur and service debt, finance capital expenditures and working capital changes. As the Company's method of calculating EBITDA may differ from other companies, it may not be comparable to similarly titled measures presented by other companies.

## NET INCOME

As presented in the unaudited condensed consolidated financial statements for applicable periods, net income provides an indication of how well the Company performed after all costs of the business have been factored in.

## EBITDA AND NET INCOME MARGIN

EBITDA and Net Income Margins are calculated as a percentage of revenues.

## RETURN ON INVESTED CAPITAL ("ROIC")

Return on Invested Capital is tax-adjusted (25% corporate income tax rate with the CREATE Law approved this year to be applied starting July 2020) profit from operations divided by average invested capital. Invested Capital is the sum of our total equity and total debt (comprising loans payable (non-current and current portions)), less cash and cash equivalents and capital expenditures in progress. This measure provides useful information regarding a company's ability to deploy capital efficiently.

## III. FINANCIAL AND OPERATIONAL RESULTS

## A. FINANCIAL AND OPERATING SUMMARY

## SUMMARY OF STATEMENTS OF COMPREHENSIVE INCOME

| | For the nine months ended September 30 | | | | For the three months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | YoY change | YoY change % | 2022 | 2021 | YoY change | YoY change % |
| | (in ₱ millions) | | | | | | | |
| **Revenues** | 24,481 | 18,831 | 5,650 | 30% | 8,427 | 7,050 | 1,377 | 20% |
| *Residential* | 21,362 | 16,374 | 4,988 | *31%* | *7,278* | *6,162* | *1,116* | *18%* |
| *Enterprise* | 3,119 | 2,457 | 662 | *27%* | *1,149* | *887* | *261* | *29%* |
| Cost of services | (9,649) | (7,461) | (2,188) | 29% | (3,319) | (2,636) | (683) | 26% |
| **Gross profit** | 14,831 | 11,370 | 3,462 | 30% | 5,108 | 4,413 | 695 | 16% |
| General and administrative expenses | (4,636) | (3,272) | (1,364) | 42% | (1,559) | (1,148) | (411) | 36% |
| Provision for impairment of trade and other receivables | (1,194) | (778) | (416) | 53% | (386) | (254) | (132) | 52% |
| Unrealized fair value loss on financial asset at FVTPL | (16) | | (16) | 0% | (8) | | (8) | 0% |
| Other income (loss), net | 43 | (132) | 174 | -132% | 152 | (310) | 461 | -149% |
| **Profit from operations** | 9,029 | 7,188 | 1,841 | 26% | 3,307 | 2,702 | 604 | 22% |
| Finance costs | (1,181) | (448) | (733) | 164% | (495) | (184) | (311) | 169% |
| **Profit before income tax** | 7,848 | 6,740 | 1,108 | 16% | 2,812 | 2,518 | 293 | 12% |
| Income tax expense | (1,741) | (1,542) | (199) | 13% | (655) | (572) | (83) | 14% |
| **Profit after income tax for the period** | **6,107** | **5,198** | **909** | **17%** | **2,157** | **1,946** | **211** | **11%** |
| Other comprehensive income | | - | | | | - | | |
| **Total comprehensive income** | 6,107 | 5,198 | 909 | 17% | 2,157 | 1,946 | 211 | 11% |
| Profit after income tax | 6,107 | 5,198 | 909 | 17% | 2,157 | 1,946 | 211 | 11% |
| Finance costs | 1,181 | 448 | 733 | 164% | 495 | 184 | 311 | 169% |
| Income taxes | 1,741 | 1,542 | 199 | 13% | 655 | 572 | 83 | 14% |
| Depreciation and amortization – cost of services | 4,282 | 2,565 | 1,717 | 67% | 1,576 | 937 | 640 | 68% |
| Depreciation and amortization – general and administrative expenses | 381 | 157 | 223 | 142% | 119 | 55 | 64 | 118% |
| Amortization of subscriber acquisition costs | 753 | 461 | 293 | 64% | 258 | 183 | 75 | 41% |
| **EBITDA** | **14,445** | **10,371** | **4,075** | **39%** | **5,260** | **3,877** | **1,383** | **36%** |
| **EBITDA Margin** | **59.0%** | **55.1%** | | | **62.4%** | **55.0%** | | |

## SUMMARY OF SELECTED OPERATING INFORMATION

| | 2021 | | | | 2022 | | | YoY Growth |
|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 3Q2022 vs 3Q2021 |
| **Residential** | | | | | | | | |
| **Revenues** | **4,797** | **5,415** | **6,162** | **6,754** | **6,812** | **7,272** | **7,278** | **18%** |
| FTTH | 4,086 | 4,771 | 5,571 | 6,215 | 6,299 | 6,800 | 6,853 | 23% |
| HFC | 711 | 644 | 590 | 539 | 513 | 472 | 424 | -28% |
| **Customers** | **1,181,723** | **1,355,079** | **1,576,759** | **1,691,550** | **1,802,202** | **1,817,115** | **1,845,162** | **16%** |
| FTTH | 964,644 | 1,139,290 | 1,363,681 | 1,476,223 | 1,591,472 | 1,622,115 | 1,652,977 | 21% |
| HFC | 217,079 | 215,789 | 213,078 | 215,327 | 210,370 | 195,000 | 192,185 | -10% |
| **Homes Passed** | **7,172,033** | **8,303,553** | **9,610,861** | **10,913,865** | **12,200,921** | **13,493,993** | **14,316,633** | **49%** |
| FTTH | 6,330,536 | 7,462,056 | 8,768,296 | 10,063,064 | 11,350,120 | 12,643,192 | 13,456,376 | 54% |
| HFC | 841,497 | 841,497 | 842,565 | 850,801 | 850,801 | 850,801 | 850,801 | 1% |
| **Ports** | **4,006,765** | **4,572,525** | **5,226,713** | **5,882,333** | **6,525,861** | **7,172,397** | **7,583,717** | **45%** |
| FTTH | 3,165,268 | 3,731,028 | 4,384,148 | 5,031,532 | 5,675,060 | 6,321,596 | 6,732,916 | 54% |
| HFC | 841,497 | 841,497 | 842,565 | 850,801 | 850,801 | 850,801 | 850,801 | 1% |
| **Household Coverage (%)** | **28.3%** | **32.5%** | **37.6%** | **42.7%** | **47.5%** | **52.1%** | **53.0%** | |
| **ARPU** | **1,390** | **1,372** | **1,346** | **1,304** | **1,243** | **1,278** | **1,261** | **-6%** |
| FTTH | 1,481 | 1,455 | 1,424 | 1,380 | 1,301 | 1,351 | 1,323 | -7% |
| HFC | 1,014 | 967 | 891 | 806 | 790 | 701 | 539 | -39% |
| **Customer Churn (%)** | **1.16** | **1.11** | **1.32** | **0.99** | **1.47** | **2.49** | **1.96** | **48%** |
| FTTH | 1.14 | 0.97 | 1.32 | 1.02 | 1.48 | 2.43 | 2.12 | 61% |
| HFC | 1.27 | 1.79 | 1.34 | 0.77 | 1.37 | 2.98 | 0.83 | -38% |
| **Port Utilization (%)** | **29.5** | **29.6** | **30.2** | **28.7** | **27.6** | **25.3** | **24.4** | **-19%** |
| FTTH | 30.5 | 30.5 | 31.1 | 29.3 | 28.5 | 25.7 | 24.6 | -20% |
| HFC | 25.8 | 25.6 | 25.3 | 25.2 | 21.7 | 22.9 | 22.7 | -10% |
| **Enterprise** | | | | | | | | |
| **Revenues** | **750** | **819** | **887** | **892** | **935** | **1,034** | **1,149** | **29%** |
| **Customers** | **12,400** | **17,539** | **21,425** | **26,038** | **29,723** | **31,886** | **35,324** | **65%** |
| **ARPU** | **21,269** | **18,247** | **15,175** | **12,510** | **11,195** | **11,114** | **11,430** | **-25%** |
| Customer Churn (%) | 0.72 | 0.35 | 1.42 | 1.15 | 1.98 | 2.19 | 2.69 | 90% |

Notes:
(1) FTTH homes passed is derived from the number of homes within a 300-meter radius from a network access point ("NAP") that we have installed in a coverage area. Each NAP has eight or sixteen ports, and one port serves one home.
(2) HFC homes passed refers to the number of homes and other residential units that are within a 200-meter radius from our HFC ports, and can be connected to our network.
(3) The number of FTTH ports installed represents both activated FTTH connections and ports available for immediate activation once a new subscription is approved.
(4) The number of HFC ports installed refers to a slot on a network device allowing for the transmission of data between our HFC network and the equipment at the customer premises.
(5) Household coverage is calculated as total homes passed over total number of homes in the Philippines, which is estimated at 27 million
(6) Monthly ARPU for our Residential Business is calculated by dividing (i) the revenue generated during a period by (ii) the average number of subscribers during that period, then dividing the quotient by the number of months during that period. The average number of subscribers during a period, is calculated by the sum of the subscribers at the beginning and at the end of the period, divided by two.
(7) Blended churn rate refers to the combined FTTH and HFC churn rate. Churn rate for our Residential Business is calculated by dividing (i) the sum of the number of permanent subscriber discontinuations in a month, by (ii) the average number of subscribers during the respective month and multiplying the result by 100%. The average number of subscribers during a month, is calculated by the sum of the subscribers at the beginning and at the end of the month, divided by two.
(8) Our port utilization rates for our FTTH network is our number of FTTH subscribers as a percentage of total FTTH ports and for our HFC network is our number of HFC subscribers as a percentage of HFC homes passed.
(9) ARPU for our Enterprise Business is calculated by dividing (i) the revenue generated during a period by (ii) the average number of enterprise users during that period, then dividing the quotient by the number of months during that period. The average number of enterprise users during a period, is calculated by the sum of the enterprise users at the beginning and at the end of the period, divided by two.
(10) Customer churn rate for our Enterprise Business is calculated by dividing (i) the sum of the number of permanent customer deactivations in a month, by (ii) the average number of customers during the respective month and multiplying the result by 100%. The average number of customers during a month is calculated by the sum of the circuits at the beginning and at the end of the month, divided by two.

**Nine months ended September 30, 2022 compared to nine months ended September 30, 2021**

## B. OPERATING REVENUES

The Company earned ₱24,481 million of consolidated revenues in the first nine months of 2022, representing a 30% increase (YoY). The significant growth in revenue is coming from our residential business showing a 30% increase from ₱16,374 million for the first nine months of 2021 to ₱21,362 million in the first nine months of 2022.

For the period ended September 30, 2022, Converge's enterprise business is ₱3,119 million, which is a 27% increase from the revenues for the same segment for the first nine months of 2021, amounting to ₱2,457 million.

## C. COST OF SERVICES, G&A EXPENSES AND PROVISIONS

For the first nine months of 2022, Converge's total cost of services, amounted to ₱9,649 million, up by 29% from ₱7,461 million reported in the same period last year. With the revenue growth of 30% over the period almost equal the cost of services growth of 29%, total gross margins were for the first nine months of 2022 is higher at 61% compared to 60% of the same period in 2021.

Converge achieved an EBITDA of ₱14,445 million for the first nine months of 2022, representing an increase of 39% (YoY), as a result of the Company's revenue and other income growth outpacing the increase in expenses. Converge's consolidated EBITDA margins improved to 59% for the first nine months of 2022 from 55% of the first nine months of 2021.

***Cost of Services***

Cost of services increased by 29%, or ₱2,188 million, from ₱7,461 million for the nine months ended September 30, 2021 to ₱9,649 million for the nine months ended September 30, 2022. The increase was primarily attributable to increases in depreciation and amortization costs, amortization of deferred contract cost, and repairs and maintenance, offset by the decrease in network materials and supplies used, and personnel cost.

Depreciation and amortization costs increased by 67%, or ₱1,717 million, from ₱4,282 million for the nine months ended September 30, 2021 to ₱2,565 million for the nine months ended September 30, 2022 primarily due to our fiber network expansion and customer premises equipment issuances to subscribers.

Amortization of deferred contract cost increased by 48%, or ₱590 million, from ₱1,220 million for the nine months ended September 30, 2021 to ₱1,811 million for the nine months ended September 30, 2022, whose growth is due to the increase in subscriber acquisition costs from the expansion of our residential customers.

Repairs and maintenance cost increased by 366%, or P584 million, from P160 million for the nine months ended September 30, 2021 to P744 million for the nine months ended September 30, 2022 due to the increase in headcount for operations and maintenance to support subscriber line repairs and maintenance for our expanded network base.

On the other hand, network materials and supplies used decreased by 42%, or ₱646 million, from ₱1,546 million for the nine months ended September 30, 2021 to ₱900 million for the nine months ended September 30, 2022 due to lower material costs used in our subscriber installations.

Personnel cost also decreased by 27%, or ₱106 million, from ₱391 million for the nine months ended September 30, 2021 to ₱285 million for the nine months ended September 30, 2022 due to the transfer of headcount to a subsidiary providing repairs and maintenance services.

### *Gross Profit*

Gross profit increased by 30%, or P3,462 million, from P11,370 million for the nine months ended September 30, 2021 to P14,831 million for the nine months ended September 30, 2022. Gross margin, or gross profit as a percentage of revenue, is 61% for both periods ended 2022 and 2021.

The table below summarizes our cost of services for the periods indicated.

| | For the nine months ended September 30 | | | | For the three months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | YoY change | YoY change % | 2022 | 2021 | YoY change | YoY change % |
| | (in ₱ millions) | | | | | | | |
| Depreciation and amortization | 4,282 | 2,565 | 1,717 | 29% | 1,576 | 937 | 640 | 68% |
| Amortization of deferred contract cost | 1,811 | 1,220 | 590 | 48% | 604 | 472 | 132 | 28% |
| Network materials and supplies used | 900 | 1,546 | (646) | -42% | 219 | 552 | (333) | -60% |
| Bandwidth and leased line costs | 758 | 763 | (5) | -1% | 239 | 248 | (8) | -3% |
| Repairs and maintenance expense | 744 | 160 | 584 | 366% | 281 | 39 | 242 | 615% |
| Service fees | 383 | 449 | (67) | -15% | 133 | 133 | 0 | 0% |
| Personnel costs | 285 | 391 | (106) | -27% | 74 | 102 | (28) | -27% |
| Others | 486 | 367 | 119 | 33% | 192 | 153 | 39 | 25% |
| **Total cost of services** | **9,649** | **7,461** | **2,188** | **29%** | **3,319** | **2,636** | **683** | **26%** |
| **Gross profit** | **14,831** | **11,370** | **3,462** | **30%** | **5,108** | **4,413** | **695** | **16%** |
| **Gross profit margin** | **60.6%** | **60.4%** | | | **60.6%** | **62.6%** | | |

### *General and Administrative Expenses*

General and administrative expenses increased by 42%, or ₱1,364 million, from ₱3,272 million for the nine months ended September 30, 2021 to ₱4,636 million for the nine months ended September 30, 2022. The increase was primarily attributable to an increase in personnel costs, outside services, depreciation and amortization, promotions, and managed service fees.

Personnel costs increased by 26%, or ₱271 million, from ₱1,030 million for the nine months ended September 30, 2021 to ₱1,302 million for the nine months ended September 30, 2022 due to increase in headcount for the period from October 2021 to September 2022, to support the Company's growing business, and the compensation expense related to share option benefits.

Outside services increased by 78%, or ₱283 million, from ₱363 million for the nine months ended September 30, 2021 to ₱647 million for the nine months ended September 30, 2022 due to additional contact center seats, to improve on our customer support while we scale up our business.

Depreciation and amortization increased by 142%, or ₱223 million, from ₱157 million for the nine months ended September 30, 2021 to ₱381 million for the nine months ended September 30, 2022, reflecting the increase in our right of use assets as the Company has additional leased areas for the period from October 2021 to September 2022.

Promotions increased by 82%, or ₱168 million, from ₱205 million for the nine months ended September 30, 2021 to ₱373 million for the nine months ended September 30, 2022, since the Company had higher spendings on promotional activities to increase brand awareness.

Managed service fees increased by 38%, or ₱211 million, from ₱557 million for the nine months ended September 30, 2021 to ₱768 million for the nine months ended September 30, 2022 primarily from the additions of new partners (for the period from October 2021 to September 2022) to serve our growing subscriber base.

***Provision for Impairment of Trade and Other Receivables***

Provision for impairment of trade and other receivables increased by 53%, or ₱416 million, from ₱778 million for the nine months ended September 30, 2021 to ₱1,194 million for the nine months ended September 30, 2022 primarily due to a higher level of receivables outstanding as of September 30, 2022, and higher loss rates coming from the lower reconnection experience in the first half of 2022. As a percentage of revenue, our provisions are higher in 2022 at 4.9% of revenue compared to 4.1% for the same period last year.

The table below summarizes our general and administrative expenses for the periods indicated.

| | For the nine months ended September 30 | | | | For the three months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | YoY change | YoY change % | 2022 | 2021 | YoY change | YoY change % |
| | (in ₱ millions) | | | | | | | |
| Personnel costs | 1,302 | 1,030 | 271 | 26% | 360 | 311 | 48 | 15% |
| Managed Service Fees | 768 | 557 | 211 | 38% | 305 | 222 | 83 | 37% |
| Outside services | 647 | 363 | 283 | 78% | 275 | 155 | 119 | 77% |
| Depreciation and amortization | 381 | 157 | 223 | 142% | 119 | 55 | 64 | 118% |
| Promotions | 373 | 205 | 168 | 82% | 139 | 118 | 21 | 18% |
| Taxes and licenses | 302 | 280 | 22 | 8% | 40 | 90 | (50) | -56% |
| Repairs and Maintenance | 296 | 146 | 150 | 103% | 106 | 64 | 41 | 65% |
| Meals and transportation | 142 | 51 | 91 | 178% | 57 | 28 | 29 | 104% |
| Utilities | 98 | 76 | 22 | 29% | 43 | 28 | 15 | 54% |
| Other general and administrative expenses | 326 | 405 | (79) | -20% | 117 | 77 | 40 | 52% |
| **Total G&A expenses** | **4,636** | **3,272** | **1,364** | **42%** | **1,559** | **1,148** | **411** | **36%** |
| Provision for impairment of receivables | 1,194 | 778 | 416 | 54% | 386 | 254 | 132 | 52% |
| Other expense (income), net | (27) | 132 | (159) | N/M | (144) | 310 | (453) | N/M |
| **Operating profit** | **9,029** | **7,188** | **1,841** | **26%** | **3,307** | **2,702** | **604** | **22%** |
| **Operating profit margin** | **36.9%** | **38.2%** | | | **39.2%** | **38.3%** | | |

## D. OTHER INCOME STATEMENT ITEMS

For the first nine months of 2022, Converge achieved a net income for the period of ₱6,107 million, representing an increase of 17% YoY, and a net income margin of 25% compared to the net income for the nine months ended September 30, 2021 amounting to ₱5,198 million, with a net income margin of 28%.

The table below summarizes our other income statement items for the periods indicated.

| | For the nine months ended September 30 | | | | For the three months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | YoY change | YoY change % | 2022 | 2021 | YoY change | YoY change % |
| | (in ₱ millions) | | | | | | | |
| Net foreign exchange (gain) loss | 22 | 223 | (201) | -90% | (164) | 338 | (503) | N/M |
| Gain on transfer of network materials to related parties | 18 | (20) | 38 | N/M | 27 | (7) | 34 | N/M |
| Loss on sale of assets | 14 | - | 14 | N/M | 2 | - | 2 | N/M |
| Interest income | (17) | (32) | 15 | -46% | (8) | 0 | (8) | N/M |
| Miscellaneous (income) expense | (63) | (39) | (25) | 65% | 1 | (21) | 22 | N/M |
| **Total other (income) expense, net** | **(27)** | **132** | **(159)** | **N/M** | **(144)** | **310** | **(453)** | **N/M** |
| Operating profit | 9,029 | 7,188 | 1,841 | 26% | 3,307 | 2,702 | 604 | 22% |
| Finance cost | (1,181) | (448) | (733) | 164% | (495) | (184) | 311 | 170% |
| Profit before income tax | 7,848 | 6,740 | 1,108 | 16% | 2,812 | 2,518 | 293 | 12% |
| Income tax expense | (1,741) | (1,542) | (199) | 13% | (655) | (572) | (83) | 14% |
| **Net income** | **6,107** | **5,198** | **909** | **17%** | **2,157** | **1,946** | **211** | **11%** |
| **Net income margin** | **24.9%** | **27.6%** | | | **25.6%** | **27.6%** | | |

***Other Income (Expenses), net***

Other income (expense), net increased by ₱174 million or 132% from ₱132 million loss for the nine months ended September 30, 2021 to ₱27 million gain for the nine months ended September 30, 2022. For the nine months September 30, 2022, other income, net is primarily related to net foreign exchange gain on the strengthening of the US Dollar against the Philippine Peso, which had a favorable impact in our financials, given our net dollar denominated asset position. Additional income recognized is the share in net income of joint ventures that we recognized for the period ended September 30, 2022.

***Profit from Operations***

Profit from operations increased by 26%, or ₱1,841 million, from ₱7,188 million for the nine months ended September 30, 2021 to ₱9,029 million for the nine months ended September 30, 2022 for the reasons described above, in particular the increase in gross profit, partially offset by the increases in general and administrative expenses and provision for impairment of trade and other receivables.

***Finance Costs***

Finance costs increased by 164%, or ₱733 million, from ₱448 million for the nine months ended September 30, 2021 to ₱1,181 million for the nine months ended September 30, 2022 because of the additional loan availments for the period from October 2021 to September 2022, and the issuance of the ₱10Bn retail bonds.

***Profit Before Income Tax***

Profit before income tax increased by 16%, or ₱1,108, from ₱6,740 million for the nine months ended September 30, 2021 to ₱7,848 million for the nine months ended September 30, 2022 for the reasons described above, in particular the increase in profit from operations in 2022.

***Income Tax Expense***

Income tax expense increased by 13%, or ₱199 million, from ₱1,542 million for the nine months ended September 30, 2021 to ₱1,741 million for the nine months ended September 30, 2022 due to the increase in profit before income tax described above. Our effective tax rate, which is our income tax expenses as a percentage of profit before income tax, was 22% for both periods ended in 2022 and 2021.

### *Profit for the Period*

For the reasons discussed above, profit for the period increased by 17%, or ₱909 million, from ₱5,198 million for the nine months ended September 30, 2021 to ₱6,107 million for the nine months ended September 30, 2022.

## E. CAPITAL EFFICIENCY AND LIQUIDITY

| | September 30, 2022 | December 31, 2021 | Change (%) |
|---|---|---|---|
| **Balance Sheet Data (in ₱ millions)** | | | |
| Total Assets | 100,574 | 81,864 | 23% |
| Total Debt[1] | 38,669 | 19,846 | 95% |
| Total Stockholders' Equity | 34,772 | 35,111 | -1% |
| **Financial Ratios** | | | |
| Total Debt to EBITDA (gross) | 2.1x | 1.3x | |
| Total Debt to EBITDA (net) | 1.4x | 0.8x | |
| Debt Service Coverage[2] | 4.0x | 4.4x | |
| Interest Coverage (gross) [3] | 15.5x | 30.5x | |
| Debt to Equity (gross) [4] | 1.1x | 0.6x | |
| Debt to Equity (net) [5] | 0.8x | 0.3x | |
| Return on Invested Capital [6] | 16.6% | 20.9% | |

Notes:
(1) Total Debt is the sum of current and noncurrent loans payable and bonds payable
(2) Debt Service Coverage is computed as last twelve month's ("LTM") EBITDA divided by the sum of current loans payable, LTM interest expense, and current lease liabilities
(3) Interest Coverage (gross) is computed as LTM EBITDA divided by LTM finance costs
(4) Debt to Equity (gross) is computed as total debt divided by total shareholders' equity
(5) Debt to Equity (net) is computed as the difference between total debt and cash and cash equivalents divided by total shareholders' equity
(6) Return on Invested Capital is tax-adjusted (25% assumed effective tax rate for 2022 and 30% for 2021) profit from operations divided by average invested capital. Invested Capital is the sum of our total equity and total debt (comprising loans payable (non-current and current portions)), less cash and cash equivalents and capital expenditures in progress

Converge's balance sheet and cash flows remain strong with ample liquidity and gearing comfortably within bank covenants.

Converge's consolidated assets as of September 30, 2022 amounted to ₱100,574 million compared to ₱81,864 million as of December 31, 2021. Consolidated cash, cash equivalents and short-term investments was at ₱11,788 million as of September 30, 2022 compared to P8,084 million as of December 31, 2021.

We had outstanding loans and bonds payable of ₱28,803 million and ₱9,866 million, respectively, as of September 30, 2022 compared to P19,846 million of loans as of December 31, 2021. Our Net Debt position, defined as loan payables less cash and cash equivalents amounted to ₱26,881 million as of September 30, 2022 is higher compared to our December 31, 2021 position of ₱11,762 million mainly due to the bond issuance and the additional loan availments during the period, to finance our network expansion. Our resulting Net Debt to EBITDA ratio, based on the last twelve months EBITDA over the period from October 2021 to September 2022, was 1.4x. This conservative leverage level gives us, enough headroom to execute our capital expenditure plans, and capitalize on the massive opportunity for high-speed fixed broadband infrastructure in the Philippines.

The financial tests under Converge's loan agreements subject us to a financial covenant, which requires us to maintain a minimum debt service coverage ("DSCR") ratio of 1.2x. As of September 30, 2022, Converge's DSCR ratio was 4.0x, well above the required minimum liquidity threshold.

Converge's capital efficiency measured by our Return on Invested Capital ("ROIC") was 16.6% in the first nine months of 2022 (annualized). This industry-leading performance is a result of Converge adopting a disciplined approach in deploying capital to expand its fiber network, focusing on capital efficiency to ensure consistently high ROIC.

## CONSOLIDATED CASH FLOWS

| | For the nine months ended September 30 | | | |
|---|---|---|---|---|
| | 2022 | 2021 | YoY change | YoY change % |
| | (in ₱ millions) | | | |
| **Cash flow from operating activities** | | | | |
| Profit before income tax | 7,848 | 6,740 | 3,626 | 86% |
| Adjustments for operating income | 8,676 | 5,573 | 5,567 | 179% |
| Adjustments for assets and liabilities | (4,379) | (4,029) | (2,444) | 126% |
| Cash from operations | 12,145 | 8,284 | 6,749 | 125% |
| Interest received and income taxes paid | (2,700) | (1,342) | (1,953) | 262% |
| **Net cash from operating activities** | **9,445** | **6,942** | **4,796** | **103%** |
| **Cash flow used in investing activities** | | | | |
| Acquisition of property, plant, and equipment | (16,209) | (15,904) | (4,639) | 40% |
| Others | (611) | (363) | 13 | -2% |
| **Net cash (used in) investing activities** | **(16,820)** | **(16,268)** | **(4,626)** | **38%** |
| **Cash flow from financing activities** | | | | |
| Proceeds from loans payable | 11,463 | 8,833 | 8,563 | 295% |
| Proceeds from issuance of convertible preferred shares | - | - | - | - |
| Payment of loans payable | (2,506) | (2,049) | (700) | 39% |
| Others | 1,559 | (757) | 1,978 | N/M |
| **Net cash from/(used in) financing activities** | **10,516** | **6,028** | **9,840** | **N/M** |
| **Net increase/(decrease) in cash and cash equivalents** | **3,141** | **(3,298)** | **10,010** | **-187%** |
| Cash and cash equivalents, beginning | 8,084 | 12,957 | (4,874) | -38% |
| Effects of exchange rate changes in cash and cash equivalents | 563 | (12) | 582 | N/M |
| **Cash and cash equivalents, ending** | **11,788** | **9,647** | **5,718** | **94%** |

### Net cash flows from operating activities

Net cash from operating activities was P 9,445 million for the nine months ended September 30, 2022. Our cash flows generated from operating activities for 2022 are calculated by adjusting our profit before income tax of P 7,848 million by (i) non-cash and other items, primarily comprising P 4,663 million of depreciation and amortization, P1,194 million in provision for impairment of trade and other receivables, P1,811 million of amortization of deferred contract costs and P1,181 million in finance costs, (ii) changes in certain working capital items that positively impacted cash flows from operating activities, in particular increases in trade and other payables of P1,701 million and increase in deferred revenue of P379 million (iii) changes in certain working capital items that negatively impacted cash flows from operating activities, in particular a P1,835 million increase in trade and other receivables, a P2,789 million increase in network materials and supplies, and a P1,353 million increase in other deferred contract costs.

### Net cash flows used in investing activities

Net cash used in investing activities was P16,820 million for the nine months ended September 30, 2022. During such period, we made significant investments in capital expenditures to develop additional property, plant and equipment (our end-to-end fiber network) and acquire key intangible assets (software and licenses).
Cash used for acquisitions of property, plant and equipment was P16,209 million for the nine months ended September 30, 2022. Over that period, we made the following significant investments: (i) additions in outside plant equipment, which primarily consists of passive network equipment related to the construction of our end-to-end fiber network, (ii) additions in inside plant equipment, which primarily consists of active network equipment such as dense wavelength division multiplexing equipment and routers and (iii) additions in other

property, plant and equipment, which primarily consists of purchases of customer premise equipment, and general IT related investments such as laptop computers and other office IT equipment.

| | As of the period | | | |
|---|---|---|---|---|
| | Sept 30, 2022 | Sept 30, 2021 | YoY Change | YoY Change % |
| | (in millions) | | | |
| **Total additions to property, plant and equipment** | **15,966** | **18,160** | **(2,890)** | **16%** |
| **Total cash capital expenditures[1]** | **16,815** | **15,904** | **910** | **6%** |
| **Cash capital expenditures[1] / Revenue** | **-69%** | **-84%** | | |

Note:
(1) Include property, plant and equipment, and intangibles, acquired as of report date

**Net cash flows from financing activities**
Net cash from financing activities was ₱10,516 million during the nine months ended September 30, 2022. Cash flows from financing activities primarily consisted of ₱11,463 million of loan availments and ₱9,866 million of proceeds from the bond issuance, offset by ₱6,499 million payment for the buyback of shares, ₱2,506 million payment for loan amortizations and repayments, and P1,808 million of payments for interest and lease liabilities.

**Commitments and Off-Balance Sheet Arrangements**
As of September 30, 2022, we have unused credit lines from local banks amounting to ₱9.5 billion. As of September 30, 2022, we have entered into agreements with various suppliers for the construction, delivery and installation of property and equipment amounting to ₱21.1 billion. We did not have any other off-balance sheet arrangements or obligations that were likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## F. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF FINANCIAL RISK

We are exposed to the financial risks described below in the course of our normal business activities. These financial risks principally involve the possibility of adverse consequences on our results of operations due to factors that generally beyond our control.

**Credit Risk**

Credit risk is the risk of financial loss to the Company if a subscriber or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from its subscribers.

The Company continuously reviews credit policies and processes and implements various credit actions, depending on assessed risks, to minimize credit exposure. Applications for service are subjected to standard credit evaluation and verification procedures. Receivable balances of subscribers are being monitored on a regular basis and appropriate credit treatments are applied at various stages of delinquency.

The maximum exposure to credit risk equals the carrying amount of the financial assets, except for trade receivables secured by subscribers' deposits which cover for anticipated losses on default payments.

The Group has the following financial assets as at September 30, 2022 where the expected credit losses ("ECL") model has been applied:

| In Philippine Peso (millions) | At gross amounts | Allowance provided | Net carrying amount | Internal credit rating | Basis for recognition of ECL |
|---|---|---|---|---|---|
| Cash and cash equivalents | 11,781 | - | 11,781 | Performing | 12-month ECL |
| Trade receivables | | | | | |
| Residential - Group 2 | 1,960 | (142) | 1,817 | Collective assessment | Lifetime ECL |
| Residential - Group 3 | 2,692 | (2,151) | 542 | Credit impaired | Lifetime ECL |

| | | | | | |
|---|---|---|---|---|---|
| Corporate - Group 1 | 275 | | 275 | Collective assessment | Lifetime ECL |
| Corporate - Group 2 | 822 | (95) | 727 | Collective assessment | Lifetime ECL |
| Corporate - Group 3 | 744 | (699) | 46 | Credit impaired | Lifetime ECL |
| Other receivables - Group 1 | 257 | | 257 | Performing | 12-month ECL |
| Due from related parties | 1,298 | | 1,298 | Performing | 12-month ECL |
| | **19,829** | **(3,087)** | **16,742** | | |

Credit quality of subscribers and counterparties are classified as follows:

- Group 1 - Subscriber and counterparty balances without history of default and assessed to be fully recoverable.
- Group 2 - Subscriber and counterparty balances with some defaults in the past.
- Group 3 - Individually assessed subscribers and counterparties with defaults and which the Group no longer expects to recover the balance despite its collection efforts.

*Cash and cash equivalents*

Cash and cash equivalents exclude cash on hand as of September 30, 2022 amounting to ₱7.3 million. which is not subject to credit risk. To minimize credit risk exposure from cash, the Group deposits its cash in banks with universal banks, all with good credit ratings.

As at September 30, 2022, the Group is also exposed to credit risk in relation to its investment in exchangeable bonds that are measured at fair value through profit or loss with the maximum exposure amounting to ₱41.9 million. The Group's investments in exchangeable bonds and short-term government securities are considered to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.

*Trade receivables*

Trade receivables from residential and corporate subscribers are secured by subscribers' deposits which cover anticipated losses on default payments. The Group does not hold any collateral as security for the rest of the financial assets.

To measure the ECL, residential subscription receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of subscribers and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors such as gross domestic product and inflation rate affecting the ability of the subscribers to settle the receivables.

In relation to corporate subscription receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each corporate subscriber. The credit quality of corporate subscription receivables is further classified and assessed by reference to historical information about each of the counterparty's historical default rates.

Group 1 corporate subscribers have no history of default and assessed to be fully recoverable. ECL on these balances have therefore been assessed to be insignificant.

For Group 2 corporate subscribers, expected loss rates are based on the payment profiles of subscription and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on factors such as gross domestic product and inflation rate affecting the ability of the subscribers to settle the receivables.

*Other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. The credit quality of other receivables is further classified and assessed by reference to historical information about each of the counterparty's historical default rates.

Credit risk on other receivables have been assessed to be insignificant considering no historical defaults and counterparties' high credit ratings.

*Due from related parties*

Based on assessment of qualitative and quantitative factors that are indicative of the risk of default, including but not limited to, availability of accessible highly liquid asset and internal and external funding of related parties, the Group has assessed that the outstanding balances are exposed to low credit risk. ECL on these balances have therefore been assessed to be insignificant.

**Foreign Currency Exchange Risk**

Foreign currency exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the Group's functional currency.

The Group has transactional currency exposures. Such exposures arise mainly from cash, trade and other current liabilities denominated in US Dollar as of September 30, 2022.

The Group manages its US Dollar exchange risk by maintaining sufficient cash in US Dollar to cover its maturing obligations.

At September 30, 2022, if the US Dollar had weakened or strengthened by 1% against the Philippine Peso, with all other variables held constant, pre-tax profit for the year ended September 30, 2022 and equity would have been P31.8 million lower or higher, mainly as a result of foreign exchange losses or gains on translation of net US Dollar denominated monetary assets. The assumed shift in foreign currency exchange rate used in the sensitivity analysis is the rate of change between the US Dollar and the Philippine Peso at the end of the reporting period and the Philippine Peso equivalent determined 30 days after the reporting period, by which management is expected to settle or receive the Group's foreign currency denominated monetary assets or liabilities.

**Cash flow and Interest Rate Risk**

Cash flow interest rate risk is the risk that the future cash flows of financial assets and liabilities will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of financial assets and liabilities will fluctuate because of changes in market interest rates.

The Group's exposure to cash flow interest rate risk relates to borrowings which are subject to interest rates that are repriced at periodic intervals in accordance with the terms of the agreement. The Group's practice is to manage its interest cost by reference to current market rates in borrowings.

As of September 30, 2022, there are no borrowings which are subject to interest rates that are repriced at periodic intervals.

Changes in the market interest rates of the Group's borrowing with fixed interest rates only affect income if these are measured at their fair value. As such, the Group's financial liabilities with fixed interest rates that are measured at amortized cost are not subject to fair value interest rate risk as defined in PFRS 7.

**Liquidity Risk**

Liquidity risk arises from the possibility that the Group will encounter difficulty in raising funds to meet associated commitments with financial instruments.

The Group manages the liquidity risk by maintaining a balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves and reserve borrowing facilities as necessary in accordance with internal policies. Short-term loans are availed to cover for immediate expenses and maturing obligations. The Group is also able to defer payments of some of its due to related party balances.

The table below presents the Group's financial liabilities as of September 30, 2022.

| | Amount |
|---|---|
| Trade and other liabilities | 18,106 |
| Subscriber's deposit | 2,341 |
| Due to related parties | 389 |
| Loans payable | 28,803 |
| Bonds payable | 9,866 |
| Lease liabilities | 2,542 |
| | 62,047 |

Trade and other liabilities presented above exclude non-financial liabilities such as deferred output VAT payable, payable to government agencies, and provision for contingencies.

**Capital Risk Management**

Our objectives when managing capital are to safeguard Converge's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Converge may adjust the amount of dividends paid to shareholders, return capital to shareholders, obtain borrowings from banks or related parties, and issue new shares. The capital that Converge manages is the total equity attributable to owners of the Parent Company less reserve for remeasurements of retirement benefit obligation and other reserves as shown in the consolidated statements of financial position.

Converge is not subject to any externally imposed capital requirements.

Converge loan agreements include compliance with certain ratios.

**BASIS OF PREPARATION**

The consolidated financial statements of the Group have been prepared in accordance with Philippine Accounting Standards (PAS 34) - Interim Financial Reporting. These financial statements should be read in conjunction with annual consolidated financial statements as at and for the year ended December 31, 2021, which have been prepared in accordance with PFRS.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies.

The same accounting policies and methods of computation were followed in the interim consolidated financial statements consistent with those adopted for the Group's annual consolidated financial statements for the year ended December 31, 2021.

## OTHER RELEVANT INFORMATION

## CORPORATE DEVELOPMENTS

**Boosting Speeds of Residential Plans**

Beyond being the largest fiber network in the Philippines, Converge is committed to offer the fastest high-speed internet connectivity services in the country. On November 11, 2022, Converge will be permanently increasing the speeds for its residential base plans for free. The FiberX Plan 1500 will have speeds of up to 200Mbps, double of its current capacity. Similarly, existing and potential subscribers of higher priced plans will also experience

speed boosts. (1) A new FiberX Plan 2000 will be introduced to offer 400Mbps, (2) FiberX Plan 2500's speeds will also double from 300Mbps to 600Mbps, (3) FiberX Plan 3500 will maintain its 800Mbps speeds, and (4) finally, a 1Gbps plan will be introduced as FiberX Plan 7499.

As Converge has designed its network with significant built-in capacity, the announced speed-increases come without any need for incremental capital expenditures for the Company.

According to Ookla, the Philippine's fixed broadband download speed registered at 78.69 Mbps in September 2022, ranking fifth behind Singapore, Thailand, Malaysia, and Vietnam.

**Sustained Growth Trajectory of Enterprise Business**

The Company's Enterprise business continued to accelerate revenue growth, with a 27% YoY growth from 9M2021 to 9M2022, exceeding management guidance of 20% YoY growth for FY2022. The small-medium enterprise segment ("SME") remained a significant growth contributor amid the reopening of the economy. In 3Q2022, revenues from SME grew by 68% compared to 3Q2021. Also, the segment represented 22% of enterprise revenues compared to only 17% during the same comparable periods. SME customers reached 31,442 as of September 2022, 77% higher compared to September 2021.

Wholesale segment also contributed significant growth at 52% YoY from 3Q2021 to 3Q2022. Large Enterprises and Corporates segment remains to be the largest contributor at PHP758 million, representing 66% of enterprise revenues for the quarter. The segment grew steadily at 17% YoY as the Company secured key contracts in multiple industries, including financial services, logistics, and health services.

**Elevating Customer Service through Digital Transformation and Accelerating Service Restoration After Natural Disasters**

*Streamlined Customer-Facing Processes*
The Company remains steadfast in its commitment to ensuring that subscribers are provided with the best service with or without a calamity. One of the Company's large-scale digitalization project aims to improve back-end efficiency through automation. Benefits include streamlining product and promotions management and customer-journey digitalization. New products and promotions can be easily created with reduced back-end manual intervention. This would allow the Company to be constantly flexible amid the evolving needs of the customers. Also, the customer's full journey from application, to installation, billing, and after-sales can be better managed digitally.

*Accelerated Service Recovery*
Aside from our infrastructure redundancy projects, the Company has been implementing disaster preparedness activities given the number of typhoons that have and are still expected to hit the country. This aims to limit the impact of calamities on the Company's infrastructure to ensure minimal service disruption. Generator sets were mobilized and fuel stocks were prepared in business centers and operation sites where these disasters are anticipated to hit. This allowed the Company to continue operations and provide relief services, such as charging stations and free WiFi in business centers. Also, the Company has repair and maintenance personnel ready to attend to network restoration if needed.

With these measures in place, restoration efforts were immediate when both Super Typhoon Karding (Noru) and Severe Tropical Storm Paeng (Nalgae) devastated multiple provinces throughout the country. More than 75% of residential subscribers affected by Super Typhoon Karding (Noru) were reconnected within 2 weeks, the remainder of which were reconnected after due to lack of commercial power. All of affected enterprise customers were reconnected within 1 week. Severe Tropical Storm Paeng (Nalgae) had less impact on the Company's infrastructure but restoration efforts were still fast. More than 80% of residential subscribers have been reconnected within one week and 100% of enterprise customers have been reconnected within 3 days. These were vast improvements on our restoration efforts after Super Typhoon Odette (Rai) where approximately 60% of affected residential customers were only reconnected after two months and enterprise customers were only restored fully after one month.

The Company will continue to improve its disaster preparedness and recovery programs to ensure service interruption is minimal on the event of a calamity, including network infrastructure redundancy. Converge is also employing natural catastrophe and climate modelling to better understand potential risks and impacts of natural disasters and climate change, and how best to prepare for them.

## MAJOR STOCKHOLDERS

The following are the major stockholders of Converge as of September 30, 2022:

| Title of Class | Name of Record Owner | Name of Beneficial Owner | Citizenship | Number of Shared held | Percentage of Ownership |
|---|---|---|---|---|---|
| Common Shares | Comclark Network and Technology Corp. | Dennis Anthony H. Uy and Grace Y. Uy | Filipino | 4,515,776,677 | 62.14% |
| Common Shares | PCD Nominee Corporation | Comclark Network and Technology Corp | Filipino | 281,640,597 | 3.88% |
| Common Shares | PCD Nominee Filipino | Public Ownership | Filipino | 927,586,065 | 12.77% |
| Common Shares | PCD Nominee Corporation | Coherent Cloud Investments B.V. | Dutch | 222,757,739 | 3.07% |
| Common Shares | PCD Nominee Non-Filipino | Public Ownership | Foreign | 1,318,544,978 | 18.14% |

## BOARD OF DIRECTORS ("BOD")

The following table sets forth our Board of Directors:

| Name | Position | Citizenship |
|---|---|---|
| Dennis Anthony H. Uy | CEO, Founder & Executive Director | Filipino |
| Maria Grace Y. Uy | President, Chief Resources Officer, Chief Risk Officer, Founder & Executive Director | Filipino |
| Jose Pamintuan de Jesus | Chairman, Independent Non-Executive Director | Filipino |
| Amando M. Tetangco, Jr. | Independent Non-Executive Director | Filipino |
| Roman Felipe S. Reyes | Independent Non-Executive Director | Filipino |
| Francisco Ed. Lim | Non-Executive Director | Filipino |
| Saurabh N. Agarwal | Non-Executive Director | Indian |

## SIGNATURES

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

Issuer: **Converge Information and Communications Technology Solutions, Inc.**

**Dennis Anthony H. Uy**
Chief Executive Officer

DATE SIGNED: November 9, 2022

**Christine R. Blabagno**
Treasurer

DATE SIGNED: November 9, 2022

# *Converge Information and Communications Technology Solutions, Inc. and Subsidiaries*

## *Condensed Consolidated Interim Financial Statements*

***As at September 30, 2022 and December 31, 2021 and for the periods ended September 30, 2022 and 2021***

**Converge Information and Communications Technology Solutions, Inc. and Subsidiaries**

Consolidated Interim Statements of Financial Position
As at September 30, 2022 and December 31, 2021
(All amounts in Philippine Peso)

| | September 30, 2022 (Unaudited) | December 31, 2021 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 11,788,278,187 | 8,083,906,349 |
| Trade and other receivables, net | 3,673,860,964 | 3,032,769,151 |
| Due from related parties, net, current portion | 1,140,551,198 | 1,183,275,618 |
| Network materials and supplies, net | 5,149,711,888 | 3,484,885,991 |
| Deferred contract costs, current portion | 1,686,599,312 | 1,866,849,146 |
| Other current assets | 3,470,641,677 | 3,388,584,319 |
| Total current assets | 26,909,643,226 | 21,040,270,574 |
| **Non-current assets** | | |
| Property, plant and equipment, net | 59,309,500,382 | 48,340,951,349 |
| Right-of-use assets, net | 3,390,465,340 | 3,446,201,150 |
| Intangible assets, net | 2,263,403,762 | 1,968,644,352 |
| Due from related parties, net of current portion | 157,842,505 | 160,317,198 |
| Advances to fixed assets suppliers | 5,148,176,903 | 4,317,379,907 |
| Deferred contract costs, net of current portion | 395,957,483 | 673,543,634 |
| Deferred input value-added tax, net of current portion | 712,101,076 | 400,111,566 |
| Deferred income tax assets, net | 1,743,305,282 | 997,642,914 |
| Financial asset at fair value through profit or loss (FVTPL) | 41,934,842 | 57,177,481 |
| Investment in joint ventures | 461,931,991 | 402,050,965 |
| Other non-current assets | 39,518,663 | 59,706,619 |
| Total non-current assets | 73,664,138,229 | 60,823,727,135 |
| **Total assets** | 100,573,781,455 | 81,863,997,709 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities** | | |
| Trade and other current liabilities | 19,194,243,835 | 18,598,375,374 |
| Due to related parties | 389,194,015 | 555,312,534 |
| Subscribers' deposits, current portion | 2,241,967,041 | 2,141,578,673 |
| Deferred revenue, current portion | 1,395,464,098 | 1,041,948,093 |
| Loans payable, current portion | 2,118,566,694 | 2,999,210,061 |
| Lease liabilities, current portion | 475,070,806 | 544,559,322 |
| Income tax payable | 777,975,717 | 1,002,612,908 |
| Total current liabilities | 26,592,482,206 | 26,883,596,965 |
| **Non-current liabilities** | | |
| Deferred revenue, net of current portion | 338,350,999 | 313,018,102 |
| Bonds payable | 9,865,880,529 | |
| Loans payable, net of current portion | 26,684,562,122 | 16,847,022,739 |
| Lease liabilities, net of current portion | 2,067,235,943 | 2,396,174,377 |
| Retirement benefit obligation | 154,943,991 | 121,650,104 |
| Subscribers' deposits, net of current portion | 98,771,048 | 191,576,422 |
| Total non-current liabilities | 39,209,744,632 | 19,869,441,744 |
| Total liabilities | 65,802,226,838 | 46,753,038,709 |
| **Equity** | | |
| Attributable to owners of the Parent Company | | |
| Share capital | 1,881,573,615 | 1,881,573,615 |
| Additional paid-in capital | 18,746,088,245 | 18,746,088,245 |
| Treasury shares | (6,498,544,185) | |
| Retained earnings | 20,404,641,290 | 14,297,177,227 |
| Reserve for remeasurements of retirement benefit obligation, net of tax | 43,963,816 | 43,963,816 |
| Reserve for share-based compensation | 193,519,336 | 141,843,597 |
| | 34,771,242,117 | 35,110,646,500 |
| Non-controlling interest | 312,500 | 312,500 |
| Total equity | 34,771,554,617 | 35,110,959,000 |
| **Total liabilities and equity** | 100,573,781,455 | 81,863,997,709 |

(The notes on pages 1 to 12 are integral part of these condensed consolidated interim financial statements)

**Converge Information and Communications Technology Solutions, Inc. and Subsidiaries**

Consolidated Interim Statements of Total Comprehensive Income
For each of the nine-month periods ended September 30, 2022 and 2021, and of the three-month periods ended September 30, 2022 and 2021
(All amounts in Philippine Peso)

| | Nine-month period ended September 30 | | Three-month period ended September 30 | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Revenues | 24,480,800,273 | 18,830,930,985 | 8,426,921,027 | 7,049,582,250 |
| Cost of services | (9,649,492,152) | (7,461,390,818) | (3,319,284,282) | (2,636,456,777) |
| **Gross profit** | 14,831,308,121 | 11,369,540,167 | 5,107,636,745 | 4,413,125,473 |
| General and administrative expenses | (4,635,619,654) | (3,272,083,155) | (1,558,621,242) | (1,147,517,057) |
| Provision for impairment of trade and other receivables | (1,193,672,336) | (777,876,916) | (386,046,335) | (253,635,487) |
| Unrealized fair value loss on financial asset at FVTPL | (15,690,059) | - | (7,943,886) | |
| Other (expense) income, net | 42,781,794 | (131,660,875) | 151,625,786 | (309,528,457) |
| **Profit from operations** | 9,029,107,866 | 7,187,919,222 | 3,306,651,068 | 2,702,444,473 |
| Finance costs | (1,181,009,287) | (447,907,802) | (495,138,760) | (184,335,038) |
| **Profit before income tax** | 7,848,098,579 | 6,740,011,420 | 2,811,512,308 | 2,518,109,435 |
| Income tax expense | (1,740,634,516) | (1,541,727,453) | (654,768,449) | (571,868,116) |
| **Profit for the period** | 6,107,464,063 | 5,198,283,967 | 2,156,743,859 | 1,946,241,319 |
| **Other comprehensive loss** | | | | |
| *Item that will not be reclassified to profit or loss* | | | | |
| Remeasurement loss on retirement benefit obligation, net of tax | - | - | - | - |
| **Total comprehensive income for the period** | 6,107,464,063 | 5,198,283,967 | 2,156,743,859 | 1,946,241,319 |
| **Profit attributable to:** | | | | |
| Owners of the Parent Company | 6,107,464,063 | 5,198,283,967 | 2,156,743,859 | 1,946,241,319 |
| Non-controlling interest | - | - | - | - |
| | 6,107,464,063 | 5,198,283,967 | 2,156,743,859 | 1,946,241,319 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the Parent Company | 6,107,464,063 | 5,198,283,967 | 2,156,743,859 | 1,946,241,319 |
| Non-controlling interest | - | - | - | - |
| | 6,107,464,063 | 5,198,283,967 | 2,156,743,859 | 1,946,241,319 |
| **Earnings per share** | | | | |
| Basic and diluted | 0.84 | 0.69 | 0.30 | 0.26 |

(The notes on pages 1 to 12 are integral part of these condensed consolidated interim financial statements)

**Converge Information and Communications Technology Solutions, Inc. and Subsidiaries**

Consolidated Interim Statements of Changes in Equity
For each of the nine-month periods ended September 30, 2022 and 2021
(All amounts in Philippine Peso)

| | Share capital | Additional paid-in capital | Treasury shares | Unappropriated Retained earnings | Reserve for remeasurements of retirement benefit obligation, net of tax | Share-based compensation reserve | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|
| **Balances at January 1, 2021** | 1,881,573,615 | 18,746,088,245 | - | 7,139,049,614 | 8,130,319 | - | 312,500 | 27,775,154,293 |
| **Share-based compensation** | - | - | - | - | - | 113,617,486 | | 113,617,486 |
| **Comprehensive income** | | | | | | | | |
| Profit for the period | - | - | - | 5,198,283,967 | - | - | - | 5,198,283,967 |
| Other comprehensive loss for the period | - | - | - | - | - | - | - | - |
| **Total comprehensive income for the period** | - | - | - | 5,198,283,967 | - | - | - | 5,198,283,967 |
| **Balances at September 30, 2021** | 1,881,573,615 | 18,746,088,245 | - | 12,337,333,581 | 8,130,319 | 113,617,486 | 312,500 | 33,087,055,746 |
| | | | | | | | | |
| **Balances at January 1, 2022** | 1,881,573,615 | 18,746,088,245 | - | 14,297,177,227 | 43,963,816 | 141,843,597 | 312,500 | 35,110,959,000 |
| **Transactions with owners** | | | | | | | | |
| Purchase of treasury shares | - | - | (6,498,544,185) | - | - | - | - | (6,498,544,185) |
| Share-based compensation | - | - | - | - | - | 51,675,739 | - | 51,675,739 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | - | - | - | 6,107,464,063 | - | - | - | 6,107,464,063 |
| Other comprehensive income for the year | - | - | - | - | - | - | - | - |
| **Total comprehensive income for the period** | - | - | - | 6,107,464,063 | - | - | - | 6,107,464,063 |
| **Balances at September 30, 2022** | 1,881,573,615 | 18,746,088,245 | (6,498,544,185) | 20,404,641,290 | 43,963,816 | 193,519,336 | 312,500 | 34,771,554,617 |

(The notes on pages 1 to 12 are integral part of these condensed consolidated interim financial statements)

**Converge Information and Communications Technology Solutions, Inc. and Subsidiaries**

Consolidated Statements of Cash Flows
For each of the nine-month periods ended September 30, 2022 and 2021
(All amounts in Philippine Peso)

| | Nine-month period ended September 30 | |
|---|---|---|
| | 2022 | 2021 |
| **Cash flows from operating activities** | | |
| Profit before income tax | 7,848,098,579 | 6,740,011,420 |
| Adjustments for: | | |
| Depreciation and amortization | 4,662,841,268 | 2,722,194,361 |
| Amortization of deferred contract costs | 1,810,842,206 | 1,220,424,361 |
| Provision for impairment of trade and other receivables | 1,193,672,336 | 777,876,916 |
| Finance costs | 1,181,009,287 | 447,907,802 |
| Provision for contingencies | | 37,665,632 |
| Loss on disposal of property, plant and equipment | 13,647,315 | 173,961 |
| Unrealized loss on FVTPL | 15,690,059 | - |
| Retirement benefit expense | 32,084,389 | 17,469,383 |
| Unrealized foreign exchange loss (gain), net | (213,261,310) | 293,974,389 |
| Interest income on cash and cash equivalents | (10,530,094) | (18,757,597) |
| Interest income on finance lease receivable | (5,018,730) | (11,526,256) |
| Interest income on financial asset at FVTPL | (1,828,250) | (2,034,258) |
| Share in net income of joint venture | (54,597,692) | (25,997,272) |
| Share-based compensation expense | 51,675,739 | 113,617,486 |
| Operating income before changes in assets and liabilities | 16,524,325,102 | 12,313,000,328 |
| (Increase) decrease in assets: | | |
| Trade and other receivables | (1,834,764,149) | (1,685,154,527) |
| Due from related parties | 50,217,843 | 410,281,105 |
| Network materials and supplies | (2,788,930,341) | (2,289,271,176) |
| Deferred contract costs | (1,353,006,221) | (1,903,766,724) |
| Other current assets and non-current assets | (61,869,402) | (1,047,468,339) |
| Deferred input valued-added tax | (311,989,510) | (782,118,651) |
| Increase (decrease) in liabilities: | | |
| Trade and other current liabilities | 1,700,937,454 | 3,600,137,661 |
| Subscribers deposits | 7,582,994 | (743,282,101) |
| Due to related parties | (166,118,519) | (89,050,008) |
| Deferred revenue | 378,848,902 | 500,322,738 |
| Cash from operations | 12,145,234,153 | 8,283,630,306 |
| Interest received | 10,530,094 | 31,206,691 |
| Income taxes paid | (2,710,876,649) | (1,372,818,166) |
| Net cash from operating activities | 9,444,887,598 | 6,942,018,831 |
| **Cash flows from investing activities** | | |
| Acquisitions of property plant, and equipment | (16,208,661,868) | (15,565,350,117) |
| Acquisitions of intangible assets | (605,936,949) | (339,092,143) |
| Acquisition of joint venture and associates | (5,283,334) | (363,465,000) |
| Net cash used in investing activities | (16,819,882,151) | (16,267,907,260) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of bonds | 9,865,880,529 | - |
| Purchase of treasury shares | (6,498,544,185) | - |
| Proceeds from loans payable | 11,462,500,000 | 8,833,250,000 |
| Payments of loans payable | (2,505,603,984) | (2,049,171,944) |
| Interest paid on loans payable | (991,459,883) | (322,147,683) |
| Payments on lease liabilities | (674,118,629) | (347,206,099) |
| Interest paid on lease liabilities | (142,663,457) | (87,197,483) |
| Net cash from financing activities | 10,515,990,391 | 6,027,526,791 |
| **Net (decrease) increase in cash and cash equivalents** | 3,140,995,838 | (3,298,361,638) |
| **Cash and cash equivalents, beginning** | 8,083,906,349 | 12,957,408,688 |
| Effects of exchange rate changes in cash and cash equivalents | 563,376,000 | (12,097,465) |
| **Cash and cash equivalents, ending** | 11,788,278,187 | 9,646,949,585 |

(The notes on pages 1 to 12 are integral part of these condensed consolidated interim financial statements)

**Converge Information and Communications Technology Solutions, Inc. and Subsidiaries**

Notes to the Consolidated Interim Financial Statements
As at September 30, 2022 and December 31, 2021 and
for the periods ended September 30, 2022 and 2021
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

## Note 1 - General information

### 1.1 Business information

Converge Information and Communications Technology Solutions, Inc. (the "Parent Company") is a domestic corporation registered with the Securities and Exchange Commissions (SEC) on October 17, 2007 to construct, install, maintain and operate in the Philippines information and communications system, ICT network and associated equipment and facilities for the purpose of supplying at competitive and reasonable cost and without discrimination information and communications services within the Philippines to government agencies including all its instrumentalities, to corporations and consumers and all other entities and utilities that might use such information and communications services. The Parent Company is a grantee of a congressional franchise (under Republic Act No. 9707) to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines and between the Philippines and other countries and territories. The term of the franchise is twenty-five (25) years effective until August 2034.

On September 24, 2020 and September 30, 2020, the Philippine SEC and Philippine Stock Exchange (PSE), respectively, approved the Parent Company's application for its initial public offering. The Parent Company attained its status as "public company" on October 26, 2020 when it listed its shares in the main board of the PSE. As a public company, it is covered by the Securities Regulation Code (SRC) Rule 68. As at September 30, 2022, there has been no follow-on offering after the initial public offering.

Subsequent to the listing, the Parent Company eventually became 63.74% owned by Comclark Network and Technology Corp. (Comclark), a company organized and existing under the laws of the Philippines. Its ultimate parent company is Pentastar Holding Co. Inc. (Pentastar), a company organized and existing under the laws of the Philippines to, among others, purchase or otherwise acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, without however engaging as an investment company under the Investment Company Act or a finance company or as a dealer in securities or stocks or as real estate broker or a real estate development company but only holds the foregoing assets for purely investment purposes. Pentastar's ultimate beneficial owners are Maria Grace Y. Uy and Dennis Anthony H. Uy.

In 2022, the Parent company had a buy-back of shares from one of its investors. Please refer to Note 2.12.

The total shares outstanding are held by the following shareholders are as follows:

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Comclark Network and Technology Corp. | 66.02% | 63.74% |
| Coherent Cloud Investments B.V. (CCI) | 3.07% | 10.25% |
| Publicly held | 30.91% | 26.01% |
| | 100.00% | 100.00% |

Subsequently, on October 17, 2022, Maria Grace Y. Uy and Dennis Anthony H. Uy bought 111,378,870 and 111,378,869 shares, respectively, from CCI, thereby reducing CCI's outstanding shares to 0.

### 1.2 Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and the type or class of customers. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group's management assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily the operation of telecommunications systems throughout the Philippines. Therefore, management considers there is only one operating segment under the requirements of PFRS 8, Operating Segments. In this regard, no segment information is presented.

No geographic information is shown as the revenue and profit from operations of the Company are presently solely derived from its activities in the Philippines.

### 1.3 Approval of the condensed consolidated interim financial statements

The condensed consolidated interim financial statements of the Group as at September 30, 2022 have been approved and authorized for issuance by the Parent Company's Board of Directors (BOD) on November 9, 2022.

### 1.4 Consolidation

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries namely, Pentagon Holding Co., Inc. (Pentagon), Converge ICT Solutions (Global) Limited (Converge Global) and Converge ICT Singapore Pte. Ltd. (Converge Singapore). These consolidated financial statements also include Pentagon's subsidiary, Metroworks ICT Construction Inc. (Metroworks) as well as Metroworks' subsidiary, Myriad ICT Services Inc (Myriad).

## Note 2 - Additional notes in compliance with PAS 34

### Selected Notes to the Condensed Consolidated Interim Financial Statements

1. The same accounting policies and methods of computation were followed in the interim consolidated financial statements consistent with those adopted for the Group's annual consolidated financial statements for the year ended December 31, 2021.

2. There are no seasonal aspects that have a material effect on the condensed consolidated interim financial statements.

3. The Group had total additions to property, plant and equipment, net amounting to P15,084,118,709.

   Significant acquisitions mainly pertain to investments in outside plant equipment amounting to P8,940,502,093, which primarily consists of passive network equipment related to the construction of its end-to-end fiber network, and inside plant and facilities amounting to P2,873,396,912, which primarily consists of active network equipment. Other significant acquisitions pertain to customer premise equipment amounting to P2,226,684,895, and other general IT related investments.

These additions are partially offset by the recognition of depreciation expense for the periods ended September 30, 2022.

4. In 2022, the Parent Company acquired the rights to operate a professional basketball team (the "PBA Franchise") for a consideration of P80,000,000. In addition, to complete the sale, the company remitted directly to Philippine Basketball Association a fixed transfer fee, amounting to P10,000,000. Both amounts are recognized as part of intangible assets.

5. Related party transactions include collections, reimbursement of expenses, sale of property, plant and equipment, transfer and purchase of network materials and supplies, transfer of retirement obligation, management service fees, advances, finance lease receivable, interest income from finance lease receivable, dividend income, financial asset at fair value through profit or loss, interest income from financial asset at fair value through profit or loss, subcontractor costs, bandwidth costs, rental expenses, subscription payables and lease liabilities with related parties.

| | Transactions | | Outstanding balances | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| ***Due from related parties*** | | | | |
| *Collections made on behalf of the Group* | | | | |
| Immediate parent company | 53,971,138 | 87,615,201 | 240,622,228 | 186,694,867 |
| Entities under common control | 400,993,674 | 398,756,109 | 531,515,136 | 669,270,806 |
| | 454,964,812 | 486,371,310 | 772,137,363 | 855,965,673 |
| *Reimbursements of expenses from related parties* | | | | |
| Ultimate parent company | - | - | 12,386 | 12,386 |
| Immediate parent company | 268,927 | 4,152,635 | 4,421,562 | 4,152,635 |
| Entities under common control | 9,274,011 | 13,381,287 | 63,695,847 | 56,136,161 |
| Joint venture | 13,024,546 | | 13,024,546 | |
| | 22,567,483 | 17,533,922 | 81,154,341 | 60,301,182 |
| *Sale of property, plant and equipment and intangibles* | | | | |
| Entity under common control | - | - | 5,600,000 | 5,600,000 |
| *Transfer of retirement obligation from related parties (Note 11)* | | | | |
| Entities under common control | - | - | 395,114 | 395,114 |
| *Transfer of network materials and supplies (Note 17)* | | | | |
| Immediate parent company | 850,236 | 4,714,375 | 5,564,611 | 4,714,375 |
| Entities under common control | 3,982,377 | 26,693,333 | 138,471,887 | 134,489,511 |
| | 4,832,614 | 31,407,708 | 144,036,498 | 139,203,886 |
| *Management service fees (Note 17)* | | | | |
| Joint venture | 2,700,000 | 1,828,778 | 2,700,000 | 4,987,778 |
| Entities under common control | 1,260,000 | 1,828,778 | 6,247,778 | 4,987,778 |
| | 3,960,000 | 1,828,778 | 8,947,778 | 4,987,778 |
| *Advances to related parties* | | | | |
| Ultimate parent company | - | - | 32,000,030 | 32,000,030 |
| Immediate parent company | - | - | 52,000,000 | 52,000,000 |
| Shareholder | - | 2,070,332 | 2,070,332 | 2,070,332 |
| Entities under common control | - | 5,000,000 | 1,780,000 | 1,780,000 |
| Joint venture | - | 697,075 | 697,075 | 697,075 |
| | - | 7,767,407 | 88,547,437 | 88,547,437 |
| *Finance lease receivable* | | | | |
| Entities under common control | - | - | 160,764,720 | 163,422,374 |
| *Interest income from finance lease receivable* | | | | |
| Entities under common control | 11,641,078 | 10,231,874 | 36,810,450 | 25,169,372 |
| | | | 1,298,393,703 | 1,343,592,816 |
| Due from related parties, net – current | | | 1,140,551,198 | 1,183,275,618 |
| Due from related parties, net – non-current | | | 157,842,505 | 160,317,198 |
| | | | 1,298,393,703 | 1,343,592,816 |

| | Transactions | | Outstanding balances | |
|---|---|---|---|---|
| ***Trade and other receivables*** | | | | |
| *Interest income from financial asset at FVTPL* | | | | |
| Ultimate parent company | 1,274,975 | 3,491,219 | 4,334,915 | 3,059,940 |
| ***Financial asset at FVTPL*** | | | | |
| Ultimate parent company | - | - | 41,934,842 | 57,177,481 |
| ***Accruals*** | | | | |
| *Service fees (Note 15)* | | | | |
| Entities under common control | 382,788,823 | 532,124,191 | 123,834,264 | 671,975,254 |
| *Bandwidth cost (Note 15)* | | | | |
| Immediate parent company | 20,704,887 | 47,758,825 | 34,781,356 | 14,076,469 |
| | 403,493,710 | | 158,615,620 | 686,051,723 |
| ***Due to related parties*** | | | | |
| *Acquisition of customer lists (Note 7)* | | | | |
| Entity under common control | - | 384,012,875 | - | 186,200,000 |
| *Collections made on behalf of related parties* | | | | |
| Immediate parent company | 1,221,938 | | 1,221,938 | |
| Entities under common control | 335,796,214 | 366,256,740 | 250,375,502 | 147,366,837 |
| | 337,018,152 | 366,256,740 | 251,597,440 | 147,366,837 |
| *Reimbursements of expenses to related parties* | | | | |
| Immediate parent company | 16,760,717 | 10,542,590 | 21,209,907 | 4,449,190 |
| Entities under common control | 58,280,000 | 156,595,306 | 91,762,633 | 192,672,472 |
| | 75,040,717 | 167,137,896 | 112,972,540 | 197,121,662 |
| *Purchase of network materials and supplies* | | | | |
| Entity under common control | - | - | 5,874,135 | 5,874,135 |
| *Advances from a related party* | | | | |
| Shareholder | - | - | 18,749,900 | 18,749,900 |
| | | | 389,194,015 | 555,312,534 |
| ***Lease liabilities*** | | | | |
| Immediate parent company | - | 853,235,782 | 1,262,014,431 | 1,586,950,726 |
| Entities under common control | - | 550,815,765 | 519,999,466 | 574,218,669 |
| | - | 1,404,051,547 | 1,782,013,897 | 2,161,169,395 |

6. Below is the disaggregation of the Group's revenue from contracts with customers recognized over time for the period ended September 30, 2022 and 2021:

| | Nine months ended September 30 | | Three months ended September 30 | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Residential | 21,362,190,244 | 16,374,326,769 | 7,277,935,737 | 6,162,084,354 |
| Corporate | 3,118,610,029 | 2,456,604,216 | 1,148,985,290 | 887,497,896 |
| | 24,480,800,273 | 18,830,930,985 | 8,426,921,027 | 7,049,582,250 |

7. There were no items not in the ordinary course of business that affected assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence.

8. There were no changes in management's use of estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

9. As of September 30, 2022, the Group has entered into agreements with various suppliers for the construction, delivery and installation of property and equipment amounting to P21.1 billion. There were no other off-balance sheet arrangements or obligations that were likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

10. During the period ended September 30, 2022, the Parent Company entered into new credit facilities with the following banks:

    Bank 1

    On February 3, 2022, the Parent Company availed P1.5 billion long-term loan with fixed interest rate of 4.20% and payable in equal quarterly payments starting May 2024 with Bank 1 to finance its on-going nationwide network roll-out. The loan will mature on February 3, 2029.

    On May 25, 2022, the Parent Company availed additional P6.5Bn long-term loan with fixed interest rate of 5.58% and payable in equal quarterly payments starting May 2024. As at September 30, 2021 the Company have fully exhausted the credit facility.

    Bank 4

    On February 8, 2022, the Parent Company availed P1.5 billion long-term loan with fixed interest rate of 4.23% and payable in equal quarterly payments starting June 2023 with Bank 4. The loan will mature on June 16, 2028. The Company has fully exhausted the credit facility.

    Bank 8

    On March 18, 2022, the Parent Company availed P2 billion long-term loan with fixed interest rate of 6.44% and payable in equal quarterly payments starting June 2024 with Bank 8. The loan will mature on March 18, 2029.

    As of September 30, 2022, the Parent Company has unused credit lines from local banks amounting to ₱9.5 billion.

    The Parent Company is compliant with its debt covenants as of September 30, 2022.

11. On March 28, 2022, the Parent Company has received the Certificate of Permit to Offer Securities for Sale from the Securities and Exchange Commission (SEC) for the issuance of the Company's first P10 billion peso-denominated fixed-rate bonds under its P20 billion shelf registration program. On April 8, 2022, the Parent Company listed its bond issuance on the Philippine Dealing & Exchange Corp (PDEx). As of September 30, 2022, the book value of the bonds amounted to P9,865,880,529, net of transactions costs.

12. On May 23, 2022, the Board of Directors approved a share buy-back program as part of its objective to increase shareholder value. As part of this buy-back program, the Company has acquired 259,721,400 shares amounting to P6,498,544,185, including transaction costs.

13. On July 22, 2022, Metroworks invested in Myriad ICT Services Inc. (Myriad). Myriad was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 7, 2011. Myriad is formed to engage in the business of providing consultancy, administrative, technical, operation and managed services to persons, partnerships, corporations, institutions and other entities in the telecommunications, information and communications technology, and broadcast industries. Metroworks obtained 100% of Myriad's shares, for P312,200.

14. Aside from interest earnings from the Group's cash deposits, there are no significant elements of income or loss that did not arise from the issuer's continuing operations.

15. Any material changes from period to period in any line items of the Group's condensed consolidated interim financial statements that have not been explained were the results of normal fluctuations in operations.

16. The condensed consolidated interim financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

## Note 3 - Additional disclosures on risk management and financial instruments

### 3.1 Financial risk factor

The Group's activities expose it to a variety of financial risks and these activities involve the analysis, evaluation and management of some degree of risk or combination of risks. The Group's over-all risk management program focuses on the unpredictability of financial markets, aims to achieve an appropriate balance between risk and return and seeks to minimize potential adverse effects on the Group's financial performance.

The most important types of risk the Group manages are credit risk, market risk and liquidity risk. Market risk includes foreign currency exchange risk, interest rate risk and price risk.

### 3.2 Components of financial assets and financial liabilities

*3.2.1 Financial assets*

Details of the Group's financial assets are as follows:

| | September 30, 2022 (Unaudited) | December 31, 2021 (Audited) |
|---|---|---|
| *At amortized cost* | | |
| Cash and cash equivalents | 11,788,278,187 | 8,083,906,349 |
| Trade and other receivables, gross | 6,749,330,518 | 4,919,530,143 |
| Due from related parties | 1,298,393,703 | 1,343,592,816 |
| | 19,836,002,408 | 14,347,029,308 |
| *At FVTPL* | 41,934,842 | 57,177,481 |
| | 19,877,937,250 | 14,404,206,789 |

Trade and other receivables above exclude advances to employees which are subject to liquidation as at September 30, 2022 amounting to P11,195,683 (December 31, 2021 - P6,231,908) and are presented gross of allowance for impairment amounting to P3,086,665,236 (December 31, 2021 - P1,892,992,900).

As at September 30, 2022, financial asset at FVTPL pertains to the Group's investment in exchangeable bonds issued by its Ultimate Parent. The Group has classified these debt instruments as financial assets at FVTPL considering the contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

*3.2.2 Financial liabilities*

The Group's financial liabilities, categorized as liabilities at amortized cost, are as follows:

| | September 30, 2022 (Unaudited) | December 31, 2021 (Audited) |
|---|---|---|
| Trade and other liabilities | 18,105,607,652 | 17,552,058,194 |
| Due to related parties | 389,194,015 | 555,312,534 |
| Bonds payable | 9,865,880,529 | - |
| Loans payable | 28,803,128,816 | 19,846,232,800 |
| Lease liabilities | 2,542,306,749 | 2,940,733,699 |
| | 59,706,117,761 | 43,227,492,322 |

Trade and other liabilities presented above exclude the following non-financial liabilities:

| | September 30, 2022 (Unaudited) | December 31, 2021 (Audited) |
|---|---|---|
| Deferred output VAT | 808,099,758 | 728,086,038 |
| Payable to government agencies | 127,761,432 | 165,456,149 |
| Provision for contingencies | 152,774,993 | 152,774,993 |
| | 1,088,636,183 | 1,046,317,180 |

## 3.3 Credit risk

Credit risk is the risk of financial loss to the Group if a subscriber or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from its subscribers.

The Group continuously reviews credit policies and processes and implements various credit actions, depending on assessed risks, to minimize credit exposure. Applications for service are subjected to standard credit evaluation and verification procedures. Receivable balances of subscribers are being monitored on a regular basis and appropriate credit treatments are applied at various stages of delinquency.

The maximum exposure to credit risk equals the carrying amount of the financial assets, except for trade receivables secured by subscribers' deposits which cover for anticipated losses on default payments.

The Group has the following financial assets as at reporting dates where the expected credit losses (ECL) model has been applied:

| | At gross amounts | Allowance provided | Net carrying amount | Internal credit rating | Basis for recognition of ECL |
|---|---|---|---|---|---|
| *September 30, 2022* | | | | | |
| Cash and cash equivalents | 11,780,969,921 | | 11,780,969,921 | Performing | 12-month ECL |
| Trade receivables | | | | | |
| Residential - Group 2 | 1,959,708,261 | (142,217,235) | 1,817,491,026 | Collective assessment | Lifetime ECL |
| Residential - Group 3 | 2,692,338,672 | (2,150,739,864) | 541,598,808 | Credit impaired | Lifetime ECL |
| Corporate - Group 1 | 274,590,428 | | 274,590,428 | Collective assessment | Lifetime ECL |
| Corporate - Group 2 | 821,604,846 | (94,884,855) | 726,719,991 | Collective assessment | Lifetime ECL |
| Corporate - Group 3 | 744,446,099 | (698,823,283) | 45,622,816 | Credit impaired | Lifetime ECL |
| Other receivables - Group 1 | 256,642,213 | | 256,642,213 | Performing | 12-month ECL |
| Due from related parties | 1,298,393,703 | | 1,298,393,703 | Performing | 12-month ECL |
| | 19,828,694,143 | (3,086,665,237) | 16,742,028,906 | | |
| *December 31, 2021* | | | | | |
| Cash and cash equivalents | 8,076,668,352 | - | 8,076,668,352 | Performing | 12-month ECL |
| Trade receivables | | | | | |
| Residential - Group 2 | 2,478,969,716 | (781,102,646) | 1,697,867,070 | Collective assessment | Lifetime ECL |
| Residential - Group 3 | 553,910,464 | (445,752,386) | 108,158,078 | Credit impaired | Lifetime ECL |
| Corporate - Group 1 | 282,509,730 | - | 282,509,730 | Collective assessment | Lifetime ECL |
| Corporate - Group 2 | 817,826,331 | (89,531,751) | 728,294,580 | Collective assessment | Lifetime ECL |
| Corporate - Group 3 | 576,606,117 | (576,606,117) | - | Credit impaired | Lifetime ECL |
| Other receivables - Group 1 | 209,707,785 | - | 209,707,785 | Performing | 12-month ECL |
| Due from related parties | 1,343,592,816 | - | 1,343,592,816 | Performing | 12-month ECL |
| | 14,339,791,311 | (1,892,992,900) | 12,446,798,411 | | |

Credit quality of subscribers and counterparties are classified as follows:

- Group 1 - Subscriber and counterparty balances without history of default and assessed to be fully recoverable.

- Group 2 - Subscriber and counterparty balances with some defaults in the past.

- Group 3 - Individually assessed subscribers and counterparties with defaults and which the Group no longer expects to recover the balance despite its collection efforts.

Cash and cash equivalents exclude cash on hand as at September 30, 2022 amounting to P7,308,266 (December 31, 2021 - P7,237,997) which is not subject to credit risk.

As at September 30, 2022, the Company is also exposed to credit risk in relation to its investment in exchangeable bonds that are measured at fair value through profit or loss and investment in short-term government securities. The maximum exposure at September 30, 2022 is the carrying amount of the investments aggregating to P41,934,842. The Company's investments in exchangeable bonds and short-term government securities are considered to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.

Trade receivables from residential and corporate subscribers are secured by subscribers' deposits which cover anticipated losses on default payments. The Group does not hold any collateral as security for the rest of the financial assets.

None of the fully performing financial assets have been renegotiated during the periods ended September 30, 2022 and December 31, 2021.

*Cash and cash equivalents*

To minimize credit risk exposure from cash, the Group deposits its cash in universal banks with good credit ratings.

*Trade receivables*

*Residential subscribers (Group 2)*

To measure the ECL, residential subscription receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of subscribers and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors such as gross domestic product and inflation rate affecting the ability of the subscribers to settle the receivables.

On that basis, the loss allowances as at reporting dates were determined as follows:

| | Current | 1-30 days | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|---|
| *September 30, 2022* | | | | | | |
| Carrying amount, gross | 1,441,472,554 | 257,876,215 | 148,203,341 | 112,156,150 | - | 1,959,708,261 |
| Loss allowance | 13,842,829 | 18,392,006 | 18,035,814 | 91,946,586 | - | 142,217,235 |
| *December 30, 2021* | | | | | | |
| Carrying amount, gross | 1,110,373,747 | 220,683,180 | 160,449,838 | 123,673,412 | 863,789,539 | 2,478,969,716 |
| Loss allowance | 10,749,776 | 9,794,876 | 25,753,690 | 108,772,151 | 626,032,153 | 781,102,646 |

As a result of management's review of receivables provisioning in light of the on-going pandemic, management has transferred balances from certain residential subscribers from Group 2 to Group 3 and full provisioning have been made to these individually impaired accounts.

As at September 30, 2022, credit impaired receivables from certain residential subscribers (Group 3) amounting P2,692,338,672 (December 31, 2021 - P553,910,464) which are deemed uncollectible despite collection efforts have been fully provided with an allowance for impairment. The allowance provided, amounting to P2,150,739,864 (December 31, 2021 - P445,752,386), is net of the applicable subscriber deposit.

*Corporate subscribers*

In relation to corporate subscription receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each corporate subscriber. The credit quality of corporate subscription receivables is further classified and assessed by reference to historical information about each of the counterparty's historical default rates.

Group 1 corporate subscribers have no history of default and assessed to be fully recoverable. ECL on these balances have therefore been assessed to be insignificant.

For Group 2 corporate subscribers, expected loss rates are based on the payment profiles of subscription and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on factors such as gross domestic product and inflation rate affecting the ability of the subscribers to settle the receivables.

On that basis, the loss allowances were determined as follows:

| | Current | 1-30 days | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|---|
| *September 30, 2022* | | | | | | |
| Carrying amount, gross | 269,426,598 | 172,980,647 | 14,152,673 | 99,607,818 | 265,437,109 | 821,604,846 |
| Loss allowance | 30,335,390 | 20,121,313 | 1,681,021 | 11,475,365 | 31,271,767 | 94,884,855 |
| *December 31, 2021* | | | | | | |
| Carrying amount, gross | 246,298,874 | 170,931,503 | 137,039,823 | 95,017,465 | 168,538,666 | 817,826,331 |
| Loss allowance | 24,203,846 | 16,967,317 | 13,144,040 | 8,708,441 | 26,508,107 | 89,531,751 |

As at September 30, 2022, credit impaired receivables from certain corporate subscribers (Group 3) amounting P744,446,099 (December 31, 2021 - P576,606,117) which are deemed uncollectible despite collection efforts have been fully provided with an allowance for impairment. The allowance provided, amounting to P698,823,283 (December 31, 2021 - P576,606,117) is net of the applicable subscriber deposit.

*Other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. The credit quality of other receivables is further classified and assessed by reference to historical information about each of the counterparty's historical default rates.

Credit risk on other receivables have been assessed to be insignificant considering no historical defaults and counterparties' high credit ratings.

*Due from related parties*

Based on assessment of qualitative and quantitative factors that are indicative of the risk of default, including but not limited to, availability of accessible highly liquid asset and internal and external funding of related parties, the Group has assessed that the outstanding balances are exposed to low credit risk. ECL on these balances have therefore been assessed to be insignificant.

## 3.4 Market risk

*a) Foreign currency exchange risk*

Foreign currency exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the Group's functional currency.

The Group has transactional currency exposures. Such exposures arise mainly from cash, trade and other receivables, trade and other current liabilities and dividends payable denominated in US Dollar as at September 30, 2022 and December 31, 2021.

The Group manages its US Dollar exchange risk by maintaining sufficient cash in US Dollar to cover its maturing obligations.

At September 30, 2022, if the US Dollar had weakened or strengthened by 1% (December 31, 2021 - 0.10%) against the Philippine Peso, with all other variables held constant, pre-tax profit for the year ended September 30, 2022 and equity would have been P31,856,229 lower or higher (December 31, 2021 - P4,860,038 higher or lower), mainly as a result of foreign exchange losses or gains on translation of net US Dollar denominated monetary assets (December 31, 2021 - net US Dollar denominated monetary liabilities). The assumed shift in foreign currency exchange rate used in the sensitivity analysis is the rate of change between the US Dollar and the Philippine Peso at the end of the reporting period and the Philippine Peso equivalent determined 30 days after the reporting period, by which management is expected to settle or receive the Group's foreign currency denominated monetary assets or liabilities.

*b) Cash flow and fair value interest rate risks*

Cash flow interest rate risk is the risk that the future cash flows of financial assets and liabilities will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of financial assets and liabilities will fluctuate because of changes in market interest rates.

The Group's exposure to cash flow interest rate risk relates to borrowings which are subject to interest rates that are repriced at periodic intervals in accordance with the terms of the agreement. The Group's practice is to manage its interest cost by reference to current market rates in borrowings.

As at September 30, 2022, there are no borrowings which are subject to interest rates that are repriced at periodic intervals.

As at December 31, 2021, if interest rates increased/decreased by 20 basis points, with all other variables held constant, profit for the period ended December 31, 2021 would have been P11,209,360 lower/higher, mainly as a result of higher/lower interest expense based on variable rates.

Changes in the market interest rates of the Group's borrowing with fixed interest rates only affect income if these are measured at their fair value. As such, the Group's financial liabilities with fixed interest rates that are measured at amortized cost are not subject to fair value interest rate risk as defined in PFRS 7.

*c) Price risk*

The Group's financial asset at FVTPL representing investment in exchangeable bonds issued by a related party is carried at fair value determined based on Level 3 category. The fair value measurement of investment in exchangeable bonds was computed based on the discounted value of future cash flows using the applicable BVAL rates adjusted for the issuer's credit spread and premium on the embedded exchange option. Disclosure of valuation method, significant inputs to the valuation, and sensitivity analysis relating to the exchangeable bonds.

The carrying value of the financial assets and liabilities classified as current approximates its fair values as the impact of discounting is not considered significant as these financial assets and liabilities generally have short-term maturities. The fair value of long-term borrowings also approximates its

carrying value as the nominal interest rates approximate market interest rates.

As at September 30, 2022, the Group is exposed to price risk in relation to its investment in financial asset carried at fair value through profit or loss amounting to P41,934,842. Profit or loss would increase or decrease as a result of gains or losses on this financial asset measured at fair value at the end of each reporting period. Management monitors such financial asset based on discounted value of future cash flows using the applicable BVAL rates adjusted for the issuer's credit spread and premium on the embedded exchange option or which in this case is at 8.683%. This financial asset is managed on an individual basis thereby reducing the Group's exposure to equity price risk at an acceptably low level.

The sensitivity of the FVTPL to changes in the principal assumptions are as follows:

| | Impact on FVTPL | | |
|---|---|---|---|
| | Change in assumption | Increase in assumption | Decrease in assumption |
| September 30, 2022 | | | |
| Adjusted BVAL rate | +/- 1.00% | (4,851,750) | 5,939,568 |
| December 31, 2021 | | | |
| Adjusted BVAL rate | +/- 1.00% | (7,789,537) | 9,737,253 |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the FVTPL to significant assumptions, the same method has been applied as when calculating the FVTPL recognized within the consolidated statement of financial position.

As at September 30, 2022, the Group has no financial assets and liabilities that are price sensitive nor does it hold significant equity investments that are subject to price fluctuations. As such, the Group is not exposed to significant price risk.

### 3.5 Liquidity risk

Liquidity risk arises from the possibility that the Group will encounter difficulty in raising funds to meet associated commitments with financial instruments.

The Group manages the liquidity risk by maintaining a balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves and reserve borrowing facilities as necessary in accordance with internal policies. Short-term loans are availed to cover for immediate expenses and maturing obligations. The Group is also able to defer payments of some of its due to related party balances.

The table below presents the Group's financial liabilities as at reporting dates:

| | Within 12 Months | More than 12 months | Total |
|---|---|---|---|
| *September 30, 2022* | | | |
| Trade and other liabilities | 18,105,607,652 | | 18,105,607,652 |
| Subscribers' deposits | 2,241,967,041 | 98,771,048 | 2,340,738,089 |
| Due to related parties | 389,194,015 | | 389,194,015 |
| Loans payable | 2,118,566,694 | 26,684,562,122 | 28,803,128,816 |
| Bonds payable | | 9,865,880,529 | 9,865,880,529 |
| Lease liabilities, gross of discount | 401,202,450 | 2,066,971,915 | 2,468,174,365 |
| Future interest payable | 1,838,025,192 | 5,052,213,693 | 6,890,238,885 |
| | 25,094,563,044 | 43,768,399,307 | 68,862,962,351 |

| | Within 12 Months | More than 12 months | Total |
|---|---|---|---|
| *December 31, 2021* | | | |
| Trade and other liabilities | 17,552,058,194 | - | 17,552,058,194 |
| Subscribers' deposits | 2,141,578,673 | 191,576,422 | 2,333,155,095 |
| Due to related parties | 555,312,534 | - | 555,312,534 |
| Loans payable | 2,999,210,061 | 16,847,022,739 | 19,846,232,800 |
| Lease liabilities, gross of discount | 725,187,348 | 3,002,507,655 | 3,727,695,003 |
| Future interest payable | 923,282,302 | 2,278,452,740 | 3,201,735,042 |
| | 24,896,629,112 | 22,319,559,556 | 47,216,188,668 |

Lease liabilities disclosed above represent the contractual undiscounted cash flows.
The Group expects to settle the above financial obligations due within 12 months in accordance with their contractual maturity of 30 to 60 days.

There are no trends, demands, commitments, events or uncertainties known to management that will have a material adverse impact on the Group's liquidity.

### 3.6 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, obtain borrowings from banks or related parties, and issue new shares. The capital that the Group manages is the total equity attributable to owners of the Parent Company less reserve for remeasurements of retirement benefit obligation and other reserves as shown in the consolidated statements of financial position.

The Group is not subject to any externally imposed capital requirements.

The Group's loan agreements include compliance with certain ratios.

## Note 4 - Basis of preparation

This condensed consolidated interim financial statements for the periods ended September 30, 2022 has been prepared in accordance with Philippines Accounting Standard (PAS) 34 Interim Financial Reporting. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The condensed consolidated interim financial statements do not include all the notes normally included in an annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial statements for the year ended December 31, 2021 and any public announcements made by the Group during the nine-month period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

There are no new accounting standards or amendments effective January 1, 2022 that have a material impact on these condensed consolidated interim financial statements.

There are no other future standards, amendments or interpretations that are effective beginning on or after January 1, 2022 that are expected to have a material impact on the Group's financial statements.

**CONVERGE INFORMATION AND COMMUNICATIONS TECHNOLOGY SOLUTIONS, INC. AND SUBSIDIARIES**

AGING ANALYSIS OF RECEIVABLES

SEPTEMBER 30, 2022

The table below shows the aging analysis of the Group's trade receivables as of September 30, 2022:

| | Current | 1-30 days | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|---|
| Residential subscribers | 1,446,074,648 | 265,499,523 | 172,524,704 | 185,969,059 | 2,581,979,000 | 4,652,046,934 |
| Corporate subscribers | 295,234,612 | 196,138,775 | 14,155,173 | 119,958,820 | 1,215,153,992 | 1,840,641,372 |

**CONVERGE INFORMATION AND COMMUNICATIONS TECHNOLOGY SOLUTIONS, INC. AND SUBSIDIARIES**

SCHEDULE OF FINANCIAL SOUNDNESS INDICATOR
SEPTEMBER 30, 2022

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Current ratio[a] | 1.01x | 0.8x |
| Acid test ratio[b] | 0.6x | 0.5x |
| Solvency ratio[c] | 0.4x | 0.7x |
| Debt-to-equity ratio[d] | 1.11x | 0.6x |
| Asset-to-equity ratio[e] | 2.9x | 2.3x |
| Interest rate coverage ratio[f] | 15.5x | 30.5x |
| Debt service coverage ratio[g] | 4.0x | 4.4x |
| Net debt/ EBITDA[h] | 1.4x | 0.8x |
| Earnings per share (PHP) [i] | 0.84 | 0.95 |
| Book value per share[j] | 4.79 | 4.67 |
| Return on Assets[k] | 6.7% | 10.3% |
| Return on Equity[l] | 17.5% | 22.8% |
| Net profit margin[m] | 24.9% | 27.0% |

[a]Current assets/ current liabilities
[b]Cash and cash equivalents + Trade and other receivables, net + Due from related parties current portion / Current liabilities
[c]Net operating profit after tax + depreciation and amortization for the last 12 months / Loans payable
[d]Loans payable + Bonds payable/ Total equity
[e]Total assets/ Total equity
[f]Earnings before interest, taxes, depreciation and amortization, amortization for SAC for the last 12 months / Interest expense
[g]Earnings before interest, taxes, depreciation and amortization, amortization for SAC for the last 12 months / (annual debt service requirements due over the same corresponding period which are the interests, principal and lease payments.)
[h]Loans payable less cash and cash equivalents/ Earnings before interest, taxes, depreciation and amortization, amortization for SAC for the last 12 months
[i]Net income attributable to ordinary equity holders of the Parent Company/ Weighted average number of ordinary shares
Earnings per share information have been retroactively adjusted to reflect the stock split
[j]Total equity less Preferred Equity/ Total number of shares outstanding
Book value per share information have been retroactively adjusted to reflect the stock split
[k]Net income attributable to owners of the Parent Company / Average total assets
[l]Net income attributable to owners of the Parent Company / Average total equity
[m]Net income/ Revenues