



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

New Street Building, McArthur Highway, Balibago, Angeles City, Pampanga, Philippines
Telephone Number: (632) 8248 7227

Up to ₱20.0 Billion Debt Securities Program

First Tranche:

**Up to ₱5.0 Billion principal amount of Fixed-Rate Bonds due
2027 with an Oversubscription Option of up to ₱5.0 Billion**

Issue Price: 100% of Face Value

Interest Rate: 5.5942% % p.a.

To be listed and traded through the Philippine Dealing & Exchange Corp.

Issue Manager



Joint Lead Underwriters and Bookrunners



Selling Agents

**Land Bank of the Philippines
RCBC Capital Corporation**

Trustee

BDO Unibank, Inc. – Trust and Investments Group

The date of this Prospectus is 23 March 2022

**THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES
OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY
REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE
REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.**

CONVERGE INFORMATION AND COMMUNICATIONS TECHNOLOGY SOLUTIONS, INC.

New Street Building, McArthur Highway
Balibago, Angeles City
Pampanga, Philippines
Telephone Number: +63 2 8867 0888
<https://www.convergeict.com/>

Converge Information and Communications Technology Solutions, Inc. ("Converge", the "Issuer" or the "Company") filed a registration statement for a total of up to ₱20,000,000,000 in aggregate principal amount of debt securities (the "Debt Securities") to be issued in one or more tranches (each a "Tranche") under the rules and regulations of the Securities and Exchange Commission ("the SEC") (the "Shelf Registration") as authorized by resolutions of the Board of Directors of the Company dated December 16, 2021 (the "Debt Securities Program"). The first Tranche to be issued under the Debt Securities Program are Peso-denominated fixed rate bonds with a principal amount of up to ₱5,000,000,000 (the "Base Offer") with an oversubscription option of up to ₱5,000,000,000 (the "Oversubscription Option," together with the Base Offer, the "Offer" or the "Bonds" or the "Issue"), under this prospectus ("the Prospectus"). The succeeding issuances are proposed to be issued under the Debt Securities Program within three (3) years from the date of effectivity of the registration statement covering the Shelf Registration, under offering supplements to this Prospectus.

After the close of the Offer for the first Tranche and within three (3) years following the effectivity of the registration statement covering the Debt Securities Program (the "Shelf Period"), the Company may, at its sole discretion, offer any or all of the remaining balance of the aggregate principal amount of the Debt Securities covered by such registration statement, in one or more subsequent tranches under Rule 8.1.2 of the Implementing Rules and Regulations of the Securities Regulation Code. Such a shelf registration provides the Company with the ability to take advantage of opportunities in a volatile debt capital market, as these occur.

The Bonds will be comprised of 5-year Bonds due 2027, and shall be issued on April 8, 2022 or such other date as may be agreed by the Issuer and the Joint Lead Underwriters and Bookrunners.

After their issuance, the Issue shall have a term ending five (5) years from the Issue Date, or on April 8, 2027, with a fixed interest rate of 5.5942% per annum (See "Determination of Offer Price"). Interest on the Bonds shall be payable quarterly in arrear commencing on July 8, 2022 and thereafter on October 8, January 8, April 8, and July 8 of each year while the Bonds are outstanding, or the immediately succeeding Business Day without adjustment to the amount due if such Interest Payment Date is not a Business Day. The last Interest Payment Date shall fall on the relevant Maturity Date while the Bonds are outstanding, or the immediately succeeding Business Day if such date is not a Business Day, without any adjustment to the amount due (see "Description of the Bonds" – "Interest"). Interest on the Bonds shall be calculated on a European 30/360-day count basis. Other securities shall be issued as provided by applicable SEC rules and regulations effective at the time of issuance.

In the event that the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the unexercised portion shall be placed under the Shelf Registration to be issued within the Shelf Period and, consequently, the Bonds under Shelf Registration will be automatically increased by such principal amount of the Oversubscription Option that will not be taken up or exercised.

The Bonds shall constitute the direct, unconditional, unsubordinated, and unsecured obligations of Converge and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsubordinated and unsecured obligations of Converge, except for any statutory preference or priority established under Philippine law. The Bonds shall effectively be subordinated in right of payment to, among others, all of Converge's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines without a waiver of preference or priority. For further discussion please refer to the risk discussion on "*The Securities have no Preference under Article 2244(14) of the Civil Code*" on page 40 of this Prospectus.

Each Tranche under the Debt Securities Program, including the Bonds, will be rated by Philippine Rating Services Corporation ("PhilRatings"), as may be applicable. Such ratings are not recommendations to buy, sell, or hold the Debt Securities, and may be subject to revision, suspension, or withdrawal at any time by PhilRatings. The Bonds have been rated PRS Aaa by PhilRatings. A rating of PRS Aaa is

assigned to long-term debt securities of the highest quality with minimal credit risk. A rating of PRS Aaa is the highest credit rating on PhilRatings' long-term credit rating scale.

The Bonds shall be offered to the public at face value through BDO Capital & Investment Corporation ("BDO Capital") and BPI Capital Corporation ("BPI Capital" and together with BDO Capital, the "Joint Lead Underwriters and Bookrunners"), with the Philippine Depository & Trust Corp. ("PDTC") as the Registrar of the Bonds. It is intended that upon issuance, the Bonds shall be issued in scripless form, with PDTC maintaining the scripless Register of Bondholders, and listed in the Philippine Dealing & Exchange Corp. ("PDEX"). The Bonds shall be issued in denominations of ₱20,000.00 each, as a minimum, and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market.

Converge expects to raise gross proceeds of up to ₱20.0 billion from one or more tranches of its Debt Securities Program. For the first Tranche, the net proceeds from the Base Offer are estimated to be ₱4,927,238,713.75 billion after deducting fees, commissions, and expenses relating to the issuance. Assuming the Oversubscription Option is fully exercised, the net proceeds are estimated to be approximately ₱9,868,334,181.50 billion after deducting fees, commissions, and expenses relating to the issuance. Proceeds of the Offer are intended to be used for capital expenditures in connection with (i) outside plant equipment, (ii) inside plant equipment, and (iii) other property, plant and equipment and intangible assets, for the expansion of the Company's nationwide fiber network; and other general corporate purposes (see "Use of Proceeds"). The Joint Lead Underwriters and Bookrunners shall receive a fee of up to 0.40% on the final aggregate nominal principal amount of the Bonds, which is inclusive of the fees to be paid to the other participating underwriters or selling agents, if any.

However, there can be no assurance in respect of: (i) whether Converge will issue such securities at all; (ii) the size or timing of any individual issuance or the total issuance of such securities; or (iii) the specific terms and conditions of any such issuance. Any decision by Converge to offer securities will depend on a number of factors at the relevant time, many of which are not within Converge's control, including but not limited to: prevailing interest rates, the financing requirements of Converge's business and prospects, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

The Offer is being conducted exclusively in the Philippines and pursuant to requirements under Philippine laws, rules and regulations that may be different from those of other countries and jurisdictions. No action has been or will be taken by the Issuer or any person on behalf of the Issuer to permit an offering of the Bonds in any jurisdiction other than the Philippines, where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, nor may any offering material relating to the Bonds be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws, rules and regulations of any such country or jurisdiction.

No dealer, salesman or other person has been authorized by Converge and the Joint Lead Underwriters and Bookrunners to give any information or to make any representation concerning the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by Converge or the Joint Lead Underwriters and Bookrunners.

The Company confirms that this Prospectus contains all information relating to the Company, its subsidiaries and affiliates which are, in the context of the issue and offering of the Bonds, material (including all information required by the applicable laws of the Republic of the Philippines). There are no other facts that the omission of which would make any statement in this Prospectus misleading in any material respect. The Company confirms that it has made all reasonable inquiries in respect of the information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into this Prospectus. The Company, however, has not independently "verified" any such publicly available information, data or analysis.

Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company and its subsidiaries since such date.

Market data and certain industry forecasts used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Company and the Joint Lead Underwriters and Bookrunners make any representation as to the accuracy of such information.

Each person contemplating an investment in the Bonds should make his own investigation and analysis of the creditworthiness of Converge and his own determination of the suitability of any such investment. The risk disclosure herein does not purport to disclose all the risks and other significant aspects of investing in the Bonds. A person contemplating an investment in the Bonds should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially those high-risk securities. For a discussion of certain factors to be considered in respect of an investment in the Bonds, see the sections entitled "*Risk Factors and Other Considerations*".

Converge is organized under the laws of the Republic of the Philippines. Its principal office is at New Street Building, McArthur Highway, Balibago, Angeles City, Pampanga, with telephone number (+632) 8248 7227.

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ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED
HEREIN ARE TRUE AND CURRENT.

CONVERGE INFORMATION AND COMMUNICATIONS TECHNOLOGY SOLUTIONS, INC.

By:


CHRISTINE RENEE R. BLABAGNO
Authorized Signatory


ELVIRA C. OQUENDO
Authorized Signatory

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) S.S.

Before me, a notary public in and for the city named above, personally appeared Christine Renee R. Blabagno and Elvira C. Oquendo known to me and to me known as the same person who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument, with Passport No. P0151233B issued by the DFA Cotabato on 8 January 2019 and Driver's License No. N02-89-104675 valid until 24 May 2023, respectively.

Witness my hand and seal this MAR 23 2022 at Makati City.

Doc No. 424 :
Book No. 86 :
Page No. VIII :
Series of 2022.


KATHRINE T. TING
Appointment No. M-572
Notary Public for Makati City
Until December 31, 2020
Liberty Center-Picazo Law
104 H.V. Dela Costa Street, Makati City
Roll of Attorney's No. 73546
PTR No. 8855516/Makati City/01-04-2022
IBP No. 171542/PPLM/01-03-2022
MCLE Exempted-Admitted to the bar in 2019
Extended Until June 30, 2022

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FORWARD-LOOKING STATEMENTS AND PRESENTATION OF FINANCIAL INFORMATION

Forward-Looking Statements

This Prospectus contains certain “forward-looking statements.” These forward-looking generally can be identified by use of statements that include words or phrases such as “aims,” “believes,” “expects,” “anticipates,” “intends,” “plans,” “foresees,” “seeks,” “may,” “might,” “can,” “could,” “will,” “would,” “shall,” “should,” “is/are likely to,” or other words or phrases of similar import. Similarly, statements that describe Converge’s objectives, plans or goals are also forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that the forward-looking events and circumstances discussed in this Prospectus might not occur. Actual results could differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from the expectations of Converge include, among others:

- *General economic and business conditions in the Philippines;*
- *Intensive capital requirements of Converge and its subsidiaries and affiliates in the course of business;*
- *Increasing competition in the industries in which Converge and its subsidiaries and affiliates operate;*
- *Industry risk in the areas in which Converge and its subsidiaries and affiliates operate;*
- *Changes in laws and regulations that apply to the segments or industries in which Converge, its subsidiaries and affiliates operate;*
- *Changes in political conditions in the Philippines;*
- *Changes in foreign exchange control regulations in the Philippines; and*
- *Changes in the value of the Philippine Peso.*

For a further discussion of such risks, uncertainties and assumptions, see the “*Risk Factors and Other Considerations*” section of this Prospectus. Prospective purchasers of the Bonds are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included herein are made only as of the date of this Prospectus and Converge undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

Presentation of Financial Information

Amounts presented throughout this Prospectus have been subject to rounding adjustments to facilitate their presentation. Accordingly, numbers shown for the same item of information may vary and may not precisely reflect the absolute figures or the arithmetic aggregate of their components due to rounding adjustments.

DEFINITION OF TERMS

As used in this Prospectus, the following terms shall have the meanings ascribed to them:

DEFINITION OF TECHNICAL TERMS

“5G” shall mean fifth generation mobile network technology

“ADSL” shall mean asymmetric digital subscriber line, a type of DSL broadband communications technology used for connecting to the internet

“ARPU” shall mean average revenue per user. 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. 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.

“broadband” shall mean a term that is commonly associated with high-speed data transfer connections

“BPO” shall mean business process outsourcing and refers to the contracting of non-primary business activities and functions to a third-party provider

“C2C” shall mean consumer to consumer

“CDN” shall mean content delivery network. A geographically distributed group of servers which work together to provide fast delivery of internet content

“churn” shall mean a customer’s voluntary or involuntary discontinuation or termination of a service

“churn rate” shall mean 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 Residential Business 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. Our Enterprise Business churn rate 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.

“colocation” shall mean housing of servers and storage equipment or other communications equipment within a physically secured and electrically powered location. Operators of colocation facilities typically also provide interconnection services to customers.

“circuit” shall mean one fiber data or broadband connection of our enterprise customers

“CPE” shall mean customer premise equipment. A network terminal located at a subscriber’s premises used to originate, route, or terminate telecommunications between the customer premises and the provider’s telecommunication circuits

“data center” shall mean a facility used to house computer systems, backup storage devices, routers and other internet and telecommunications equipment domestic backbone our primary nationwide backbone loop

“DSL” shall mean digital subscriber line. A wireline transmission technology that transmits data over traditional copper telephone lines already installed to homes and businesses. The term “xDSL” is commonly used as a generic term for several variants of this technology (see also, ADSL and VDSL)

“DOCSIS” shall mean Data Over Cable Service Interface Specification. An international telecommunications standard that allows for the addition of high-bandwidth data transfer to an existing coaxial cable TV system

“DWDM” shall mean Dense Wavelength Division Multiplexing, a technology that puts data from different sources together for transmission over optical fiber

“fiber-optic cable” shall mean a high-speed data transmission medium capable of transmitting digital data through the cable at the speed of light

“FiberX 1500” shall mean the entry-level FTTH subscription plan offered by Converge to residential subscribers

“fixed broadband” shall mean fixed data transmission to homes and businesses using technologies such as FTTx, DOCSIS, xDSL etc., but excluding fixed wireless broadband technologies such as FWA

“FTTH” shall mean fiber-to-the-home

“FTTH homes passed” shall mean the number of FTTH homes passed is derived from the number of homes within a 300-meter radius from a NAP that we have installed in a coverage area. Each NAP has eight or sixteen ports, and one port serves one home

“FTTH ports installed” shall mean each FTTH port installed represents both activated FTTH connections and ports available for immediate activation once a new subscription is approved

“FTTx” shall mean “fiber-to-the-x” is a collective term for various optical fiber delivery topologies that are categorized according to where the fiber terminates (e.g., FTTH for fiber-to-the-home)

“FWA” shall mean fixed wireless access, a broadband communication technology that uses wireless communication systems to connect two fixed locations with a wireless link

“Gbps” shall mean gigabits per second, a unit of measurement for the capacity and speed of data transfer. 1 Gbps is equal to 1,024Mbps

“GDP” shall mean gross domestic product

“GNI” shall mean gross national income

“GPON” shall mean gigabit passive optical network. A fiber-optic telecommunications technology for delivering broadband network access to end-customers

“HDD” shall mean horizontal directional drilling, a technology used for installing cable underground through a vertical hole instead of digging a trench on the surface

“HFC” shall mean hybrid fiber-coaxial, refer to a network technology that combines fiber and coaxial cables. Fiber is used for backhaul while coaxial cables are used from optical node to the user’s premises.

“HFC homes passed” shall mean 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

“HFC ports installed” shall mean each HFC port 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

“ICT” shall mean information and communications technology

“high-speed broadband” shall mean broadband connections with a minimum of 25Mbps download speeds. For example, the U.S. Federal Communications Commission defines high-speed broadband connections as connections with a minimum of 25 Mbps download and 3 Mbps upload speeds

“high-speed technology” shall mean HFC and FTTx broadband technologies

“homes passed” shall mean the number of homes and other residential units (such as condominium units) that are connected or can be connected to our network. This measure involves our management’s estimates of potential connections to our network and the accuracy of these estimates may vary. (See also HFC homes passed and FTTH homes passed)

“household coverage” shall mean is calculated as total homes passed over total number of homes

“IP” shall mean internet protocol, the method by which data is sent from one device to another over the internet

“IRU” shall mean indefeasible right of use

“ISP” shall mean internet service provider

“KMH” shall mean Keppel Midgard Holdings Pte. Ltd

“last mile” shall mean the portion of network cabling stretching from a utility pole or underground cable to the end-user’s premise and is the part of the network that is directly connected to the customer

“Mbps” shall mean megabits per second, a unit of measurement for the capacity and speed of data transfer

“MPA” shall mean Media Partners Asia

“MPLS” shall mean Multi Protocol Label Switching, a protocol for speeding up and shaping network traffic flows

“MT” shall mean microtrenching, a technology used for installing fiber cables underground by using specialized equipment to create a trench that is generally not more than two inches wide and not more than two feet deep, minimizing any disturbance on the surface.

“NAP” shall mean network access point

“NOC” shall mean network operating center

“ODN” shall mean optical distribution network

“OTT” shall mean over-the-top, which refers to the delivery of audio, video and other content over the internet, without the involvement of an operator (e.g., a traditional subscription)

“POP” shall mean point of presence

“peer-to-peer” shall mean a system in which each computer in a network functions as a client or server for other computers within the same network, providing shared access to various resources without the need for a central server

“port” shall mean one slot in a NAP that connects one customer to the network

“port utilization ratio” shall mean ratio of ports utilized over total number of ports deployed

“ROIC” shall mean return on invested capital

“SLA” shall mean Service-Level Agreement is a commitment on a set of defined service level quality parameters between a service provider and a client

“SMS” shall mean short message service

“take-up rate” calculated as total FTTH subscribers, net, as a percentage of our total available FTTH ports (including ports in use). Also referred to as port utilization ratio

“Tbps” shall mean terabits per second, a unit of measurement for the capacity and speed of data transfer. 1 Tbps is equal to 1,024 Gbps

“VDSL” shall mean very high-speed digital subscriber line, a type of DSL broadband communications technology that uses copper wires or fiber-optic cables in phone line to deliver high-speed internet

“vintage” or the “vintage of deployed ports” shall refer to a particular time period (year or month) during which a group of ports was installed

“WDN” shall mean Wireless Data Networks

“WAN” shall mean Wide Area Network

“WFH” shall mean work-from-home

DEFINITION OF TERMS RELATING TO THE OFFER AND TO OUR COMPANY AND ITS BUSINESS

“Application to Purchase” shall mean the document to be executed by any Person or entity qualified to become a Bondholder for the Bonds.

“BAP” shall mean Bankers Association of the Philippines

“Base Offer” means the public offer of the fixed rate bonds ₱5.0 Billion.

“BDO Capital” shall refer to BDO Capital & Investment Corporation, a corporation duly licensed and authorized to operate in the Philippines, with address at the 17th Floor, BDO Equitable Tower, 8751 Paseo de Roxas, Makati City.

“Beneficial Owner” shall mean any person (and “Beneficial Ownership” shall mean ownership by any person) who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting of such security; and/or investment returns or power in respect of any security, which includes the power to dispose of, or to direct the disposition of, such security; provided, however, that, a person shall be deemed to have an indirect beneficial ownership interest in any security which is:

- i. held by members of his immediate family sharing the same household;
- ii. held by a partnership in which he is a general partner;
- iii. held by a corporation of which he is a controlling shareholder; or
- iv. subject to any contract, arrangement or understanding which gives him voting power or investment power with respect to such securities; provided, however, that, the following persons or institutions shall not be deemed to be beneficial owners of securities held by them for the benefit of third parties or in customer or fiduciary accounts in the ordinary course of business, so long as such securities were acquired by such persons or institutions without the purpose or effect of changing or influencing control of the issuer:
 - a. A broker dealer;
 - b. An investment house registered under the Investment Houses Law;
 - c. A bank authorized to operate as such by the BSP;
 - d. An insurance company subject to the supervision of the Office of the Insurance Commission;
 - e. An investment company registered under the Investment Company Act;

- f. A pension plan subject to regulation and supervision by the BIR and/or the Office of the Insurance Commission or relevant authority; and
- g. A group in which all of the members are persons specified above.

“BIR” shall mean Bureau of Internal Revenue.

“Board” or **“Board of Directors”** shall mean the board of directors of Converge.

“Bond Agreements” shall mean, collectively, the Trust Indenture, the Terms and Conditions, the Master Certificate of Indebtedness, the Registry and Paying Agency Agreement, the Underwriting Agreement, and any other document, certificate or writing contemplated thereby.

“Bondholders” shall mean the holders of the Bonds.

“Bonds” shall refer to the fixed-rate bonds in the aggregate principal amount of ₱5.0 billion with an Oversubscription Option of up to ₱5.0 billion to be issued by Converge on the Issue Date.

“BPI Capital” refers to BPI Capital Corporation with principal address at 11th Floor, Ayala North Exchange Tower One, 6796 Ayala Avenue corner Salcedo Street, Legazpi Village, Makati City, 1229, Metro Manila

“BPO” refers to Business Process Outsourcing.

“BSP” refers to Bangko Sentral ng Pilipinas.

“Business Day” shall refer to a day, except Saturday, Sunday, and public holidays, on which commercial banks are not required or are authorized to close by law for business in Makati City, Metro Manila.

“CAGR” shall mean compound annual growth rate

“Call Option” means the option granted to Converge under the Terms and Conditions to call and redeem the whole of the Bonds, as the case may be.

“Coherent Cloud” shall mean Coherent Cloud Investments B.V., a private company incorporated with limited liability in the Netherlands

“Comclark” refers to Comclark Network and Technology Corporation

“Converge” or the **“Company”** or the **“Issuer”** refers to Converge Information and Communications Technology, Inc.

“Corporate customers” comprise large corporations that are generally ranked between the top 5,000 and top 10,000 corporations in the country, by revenue

“CPCN” shall mean Certificate of Public Convenience and Necessity, the authority granted by the NTC to a qualified applicant to own, install, operate and maintain fixed (wired and wireless) networks, mobile networks, and offer all types of national and international telecommunications services including broadband. This is equivalent to a telecommunications license in other jurisdictions.

“COVID-19” refers to Coronavirus Disease 2019

“DBM” shall mean Department of Budget and Management of the Philippines

“Debt to Equity Ratio” shall mean Total Debt divided by Total Shareholders' Equity

“Debt to Service Coverage Ratio” shall mean the ratio of (a) the annual EBITDA in the immediately preceding financial year to (b) the annual debt service requirements due over the same corresponding period, including interests, principal and lease payments, both as of relevant date for calculation or the latest definition under the prevailing generally accepted accounting principles in the Philippines. The calculation of the Borrower's Debt Service Coverage Ratio shall be based on its audited financial statements.

“DENR” shall mean Department of Environment and Natural Resources of the Philippines

“DOLE” shall mean Department of Labor and Employment of the Philippines

“EBITDA” shall refer to the profit for the year before depreciation and amortization (including amortization of subscriber acquisition costs as their corresponding revenue impact has not been adjusted), finance costs, income tax expense.

“ECC” shall mean Environmental Compliance Certificate

“ECQ” shall mean enhanced community quarantine, a COVID-19 measure imposed by the Government that limited movement over the entire of Luzon, including Metro Manila

“EIS” shall mean Environmental Impact Statement

“Enterprise Business” shall mean one of our two primary businesses; offers high-speed fixed broadband internet services, private data network solutions, cloud and colocation services and other connectivity solutions to enterprise customers of varying sizes, industries and types

“ESOP” shall mean employee share option plan of Converge

“Founders” shall mean Mr. Dennis Anthony H. Uy and Ms. Maria Grace Y. Uy

“FTK” shall mean full turnkey contractors

“Group” refers to Converge and its subsidiaries and affiliates.

“Interest Payment Date” shall mean July 8, 2022 for the first Interest Payment Date and October 8, January 8, April 8, and July 8 of each year for each subsequent Interest Payment Date at which the Bonds are outstanding; and in the event that any of such Interest Payment Dates are not Business Days, such Interest Payment Dates shall be deemed to be the immediately succeeding Business Day without any adjustment to the amount due. The last Interest Payment Date shall fall on the Maturity Date, or the immediately succeeding Business Day if such date is not a Business Day, without any adjustment to the amount due.

“Investment” refers to the commitment made by Warburg Pincus, through Coherent Cloud, in 2019 to invest U.S.\$225,000,000 in Converge, all of which have now been invested

“Issue Date” shall mean April 8, 2022 or the immediately succeeding Business Day if such Issue Date is not a Business Day, or such other date as may be agreed upon between the Issuer and the Joint Lead Underwriters and Bookrunners with advice to the SEC, PDTC, and PDEX.

“Issue Manager” shall refer to BDO Capital.

“Joint Lead Underwriters and Bookrunners” shall refer to BDO Capital and BPI Capital, being the Joint Lead Underwriters and Bookrunners appointed by the Issuer under the Underwriting Agreement.

“Labor Code” shall mean Labor Code of the Philippines

“Land Bank” shall mean Land Bank of the Philippines, a corporation duly licensed and authorized to operate in the Philippines, with address at the Land Bank Plaza, 1598 M.H. del Pilar cor. Dr. J. Quintos Streets, Malate, Manila

“Large Enterprise” shall mean the largest companies in the Philippines, which generally are among the top 5,000 corporations in the country by revenues

“LGC” shall mean Republic Act No. 7160, otherwise known as the Local Government Code

“LGU” shall mean local government unit

“Lien” shall mean any mortgage, pledge, lien or encumbrance constituted on any of the Issuer’s properties for the purpose of securing its or its Affiliate’s obligations.

“Majority Bondholders” shall mean Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Bonds.

“Master Certificate of Indebtedness” means the certificate to be issued by Converge to the Trustee evidencing and covering such amount corresponding to the Bonds.

“Maturity Date” means April 8, 2027 or five (5) years after Issue Date; provided that, in the event that the Maturity Date falls on a day that is not a Business Day, the Maturity Date shall be the immediately succeeding Business Day, without adjustment to the amount of interest and principal to be paid.

“MECQ” shall mean modified enhanced community quarantine

“Metro Manila” refers to the metropolitan area comprising the capital city Manila and the surrounding cities of Caloocan, Las Piñas, Navotas, Makati, Malabon, Mandaluyong, Marikina, Muntinlupa, Parañaque, Pasay, Pasig, Quezon, San Juan, Taguig and Valenzuela and the municipality of Pateros

“MetroWorks” shall mean MetroWorks ICT Construction, Inc.

“MSA” shall mean marketing service agencies

“MSP” shall mean managed service provider

“National Backbone” refers to our domestic backbone, comprising a terrestrial (dry) and a submarine (wet) segment, which, when completed, will connect the three major Philippine islands of Luzon, Visayas and Mindanao in a single continuous loop

“NPS” shall mean the net promoter score, which is the likelihood that a user will recommend a service to others, calculated as the total percentage of promoters (customers that give a score of nine or ten out of ten) less the total percentage of detractors (customers that give a score of less than or equal to six out of ten)

“NTC” shall mean National Telecommunications Commission of the Philippines

“Offer” shall mean the offering of Bonds by the Issuer under the Terms and Conditions.

“Offer Period” shall refer to the period commencing at 9:00 a.m. on March 28, 2022 and ending at 5:00 p.m. on April 1, 2022, or such earlier or later days as may be determined by the Issuer and the Joint Lead Underwriters and Bookrunners.

“OFW” shall mean overseas Filipino workers

“Oversubscription Option” means the option exercisable by the Joint Lead Underwriters and Bookrunners, with the consent of the Issuer, to increase the Base Offer by up to ₱5.0 Billion.

“PAS” shall mean Philippine Accounting Standards.

“Paying Agent” shall mean the PDTC

“PCD” shall mean Philippine Central Depository

“PDEX” shall refer to the Philippine Dealing & Exchange Corp.

“PDS” shall mean Philippine Dealing System

“PDTC” shall mean the Philippine Depository & Trust Corp.

“Pentagon” shall mean Pentagon Holding Co.

“Person” means an individual, firm, partnership, limited liability company, joint venture, association, trust, corporation, government, committee, department, authority, or any body, incorporated or unincorporated, whether having a distinct legal personality or not.

“Pesos,” “P” and **“Philippine currency”** shall mean the legal currency of the Republic of the Philippines.

“PFRS” shall mean Philippine Financial Reporting Standards.

“Philippine National” shall mean a citizen of the Philippines; or a domestic partnership or association wholly owned by citizens of the Philippines; or a corporation organized under the laws of the Philippines of which at least sixty percent (60%) of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines; or a corporation organized abroad and registered as doing business in the Philippines under the Corporation Code of which one hundred percent (100%) of the capital stock outstanding and entitled to vote is wholly owned by Filipinos or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least sixty percent (60%) of the fund will accrue to the benefit of Philippine nationals: Provided, that where a corporation and its non-Filipino stockholders own stocks in a Securities and Exchange Commission (“SEC”) registered enterprise, at least sixty percent (60%) of the capital stock outstanding and entitled to vote of each of both corporations must be owned and held by citizens of the Philippines and at least sixty percent (60%) of the members of the Board of Directors of each of both corporations must be citizens of the Philippines, in order that the corporation shall be considered a Philippine national

“Philippines” shall mean the Republic of the Philippines.

“Philippine SEC” shall mean the Securities and Exchange Commission of the Philippines

“Prospectus” shall mean this Prospectus and any amendments, supplements and addenda thereto relating to the public offer for sale, distribution, and issuance of the Securities.

“Provincial Backbone” shall mean our distribution network that serves as the regional access networks

“PSE” shall refer to The Philippine Stock Exchange, Inc.

“R.A. No. 7925” shall mean Republic Act No. 7925, the Public Telecommunications Policy Act of the Philippines

“R.A. No. 9707” shall mean Republic Act No. 9707, granting our Company our franchise

“RCBC Capital” shall mean RCBC Capital Corporation, a corporation duly licensed and authorized to operate in the Philippines, with address at the 21st Floor RCBC Plaza Tower 2, 0727, 6819 Ayala Ave, Makati, 1227 Metro Manila

“Record Date” shall refer to the cut-off date in determining Bondholders entitled to receive interest or principal amount due.

“Register of Bondholders” shall mean the electronic records of the Registrar bearing the official information on the names and addresses of the Bondholders and the number of Bonds they respectively hold, including all transfers of the Bonds and the names of subsequent transferee Bondholders, maintained pursuant to and under the Registry and Paying Agency Agreement.

“Registry and Paying Agency Agreement” means the Registry and Paying Agency Agreement dated March 23, 2022, between Converge and the Registrar and Paying Agent.

“Registrar” shall mean the Philippine Depository & Trust Corp.

“Residential Business” refers to one of our two primary businesses; offers high-speed fixed broadband internet services to residential customers

“SEC” means the Philippine Securities and Exchange Commission or its successor agency/ies.

“SEC Permit” shall mean the certificate of permit to offer securities for sale issued by the SEC in connection with the Offer.

“Securities” shall mean the debt and other securities as provided by applicable SEC rules and regulations effective at the time of issuance under the Debt Securities Program, to be issued in one or more Tranches.

“Securities Regulation Code” shall mean the Securities Regulation Code of the Philippines (Republic Act No. 8799) and its implementing rules and regulations, as they may be amended from time to time.

“Selling Agents” shall mean Land Bank and RCBC Capital

“SME” shall mean small to medium sized companies, with 10 to 199 employees

“SRC” shall mean the Securities Regulation Code of the Philippines (Republic Act No. 8799)

“STK” shall mean semi-turnkey contractors

“Stock Split” shall mean the stock split approved on June 10, 2020 by our Board of Directors, pursuant to which Converge’s authorized capital stock of ₱5,000,000,000 was split into the following classes of shares: (i) 16,900,000,000 common shares; (ii) 3,060,000,000 preferred shares; and (iii) 4,000,000,000 preferred B shares

“Tax Code” shall mean the National Internal Revenue Code, as amended, and its implementing rules and regulations.

“Taxes” shall mean any present or future taxes including, but not limited to, documentary stamp tax, levies, imposts, filing and other fees or charges imposed by the Republic of the Philippines or any political subdivision or taxing authority thereof including surcharges, penalties and interests on said taxes, but excluding final withholding tax, gross receipts tax, and taxes on the overall income of the Joint Lead Underwriters and Bookrunners or of the Bondholders.

“Terms and Conditions” shall mean the terms and conditions of the Bonds as herein contained.

“Total Debt” shall mean the sum of current and noncurrent loans payable on a consolidated basis and shown on the consolidated financial statements of the Issuer and its Subsidiaries.

“Total Shareholders’ Equity” shall mean the aggregate (as of the relevant date for calculation) of the par value of the outstanding common stock, preferred stock, capital surplus, retained earnings appraisal surplus arising from past appraisal and any further appraisal surplus arising from subsequent independent certified appraisal of the property, plant and equipment of the Issuer effected in compliance with the Philippine Financial Reporting Standards, and any reserve for expansion projects, less treasury stocks.

“Tranche” shall mean a tranche of Securities issued under the Debt Securities Program.

“Trust Indenture” means the Trust Indenture dated March 23, 2022, between Converge and the Trustee.

“Trustee” shall refer to BDO Unibank, Inc. – Trust and Investments Group appointed by the Issuer under the Trust Indenture for the Bonds.

“Underwriter” shall mean the Issue Manager, and the Joint Lead Underwriters and Bookrunners.

“Underwriting Agreement” means the Underwriting Agreement dated March 23, 2022 among Converge and the Joint Lead Underwriters and Bookrunners.

“VAT” shall mean value-added tax

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in this Prospectus. Because it is a summary, it does not contain all of the information that a prospective purchaser should consider before investing. Prospective investors should read the entire Prospectus carefully, including the section entitled “Risk Factors and Other Considerations,” the reviewed condensed consolidated interim financial statements and the audited consolidated financial statements and the related notes to those statements included in this Prospectus.

OVERVIEW

Converge is the only pure-play high-speed fixed broadband operator in the Philippines, with an exclusive focus on serving the Philippines with industry leading optical fiber-based connectivity services. This singular focus on highspeed fixed broadband services is deeply ingrained in the organization, which permeates all aspects of our operations, including our network rollout, product and service offerings, sales and customer service. As the fastest growing fixed broadband operator in the country, the Company deployed a record number of new FTTH ports during the third quarter of 2021 at 654,188. The Company’s proprietary network has reached more than 9.6 million homes as of the end of this period and is being further expanded to reach the accelerated target of 55% households in the Philippines by 2023, 24 months earlier than projected during the Initial Public Offering (“IPO”) in October 2020. As of September 30, 2021, our residential subscriber base has reached almost 1.58 million subscribers, 75% higher than in September 30, 2020.

Our Vision and Purpose

Mr. Dennis Anthony H. Uy, our CEO, and Ms. Maria Grace Y. Uy, our President, Chief Risk Officer and Chief Resources Officer (together, the “Founders”) established Converge with a vision—to build a business focused on providing high- speed fixed broadband to millions of unserved and underserved households and businesses across the Philippines. Our Founders assembled a world-class team of like-minded professionals, and together, built Converge into an organization focused on becoming the market-leader in the high-speed fixed broadband market. This vision and focus is deeply ingrained in our organization, and is the foundation of our key competitive advantages, including the differentiated products and services that we offer and the extensive proprietary network that we build and operate.

Our Differentiated Offering

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 design our residential broadband packages to address our customers’ priorities for faster, more reliable internet at affordable prices. To celebrate the Company reaching 1.5 million residential subscribers as of the end of September 2021, we gave free speed upgrades to all existing subscribers effective November 9, 2021, which are also extended to new subscribers. This is on top of the speed increase implemented last December 2020 for reaching its one million subscriber milestone. This strengthens the Company’s commitment to provide better quality broadband service with the best value. With up to four times the speeds, our subscribers will be much more equipped to adapt to the rapid transition to the digital lifestyle – including leisure, work, and education.

In November 2021, three new FiberX plans were rolled out — starting with Plan FiberX1500 for 50 Mbps with an exclusive add-on option for 10Mbps for only ₱99, Plan 2500 for 300 Mbps, and Plan 3500 for 800 Mbps, making Converge now unmatched in the Philippine telecommunications industry as the most affordable internet plan.

Our Proprietary Network

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 almost 90,000 kilometers of fiber as of September 30, 2021, our backbone 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 its southernmost end, as well as a fiber distribution and last-mile network that passes through 440 cities and municipalities across Luzon (including Metro Manila), Visayas and Mindanao as of September 30, 2021. Our network reached approximately 9.6 million homes as of this period, covering 37.6% of nationwide households. Our network consists of 100% high-speed technologies, by enabling fixed broadband connections utilizing FTTH and HFC technologies.

In 2019, we commenced expanding our network beyond Luzon to the rest of the Philippines. We completed our domestic submarine cable project that connects the country's major islands from Luzon to the Visayas and Mindanao to its national fiber backbone. The 1,800-kilometer subsea cable made its final landing in Coron, Palawan.

The subsea cables that connect to the domestic backbone of Converge are laid out in a way that there is redundancy in the network, assuring service availability even in the case of fiber cuts.

Converge interconnected Visayas and Mindanao during Phase 1 of its domestic subsea backbone rollout, first landing in Bogu, Cebu and Cagayan De Oro. Then in Phase 2, re-entered Visayas through Roxas City, Capiz in Panay Island and Mindanao through Buenavista, Agusan del Norte - closing the loops in its network. This is supported by 20 cable landing stations across the archipelago.

Our Achievements

Our financial performance has been consistently strong with industry-leading quarterly and annual metrics. Our revenues grew at a CAGR of 70% between 2016 and 2020 and at a year-on-year growth of 76% in the first nine months of 2021. Our EBITDA margin was at 52.5% by 2020 year-end and 55.1%, in the first nine months of 2021. Our ROIC was 20.0% in 2020 and 21.7% in the first nine months of 2021 (annualized). With these, we had industry leading growth, margins and ROIC metrics.

For the year ended December 31, 2020, we reported ₱15,652.3 million of revenues and ₱8,218.4 million EBITDA. For the first nine months ended September 30, 2021, our revenues were ₱18,830.9 million with EBITDA of ₱10,370.6 million, already significantly higher than our 2020 full year financials.

Converge has been able to maintain its strong balance sheet and cash flows with ample liquidity and gearing comfortably within bank covenants, in spite of the drawdowns from available facilities to finance the significant network expansion done in 2021. The Company's net debt position (as measured by total financial debt less cash and cash equivalents) increased to ₱8,451 million as of September 30, 2021. Our resulting Net Debt to EBITDA ratio, based on the last twelve months EBITDA over the period from October 2020 to September 2021, was 0.6 times. This conservative leverage level gives us, together with our increasing and strong cash flow generation, ample headroom to execute our capital expenditure plans, and capitalize on the massive opportunity for high-speed fixed broadband infrastructure in the Philippines. Furthermore, as of September 30, 2021, our Debt to Equity ratio stands at 0.5x, which is well below our existing covenant to maintain a Debt to Equity ratio of no more than 2.33x and our Debt Service Coverage ratio is at 4.4x, which is above our existing covenant to maintain a Debt Service Coverage ratio of no less than 1.2x.

STRENGTHS AND STRATEGIES

Strengths

Market leader in the Philippine high-speed fixed broadband market, a market with significant existing unserved demand and which is at an inflection point

We are the fastest growing high-speed fixed broadband operator in the Philippines, by high-speed residential fixed broadband subscriptions, with a 45% market share of net additions during the first nine months of 2021. We believe that the Philippine fixed broadband market is currently at an inflection point, with Converge, in particular, serving as a catalyst for market growth as it continues to lead efforts to address current unserved demand. Broadband subscriptions have recently begun to increase

significantly, and we expect this trend to accelerate in the near term, following the trajectory that other comparable Asian countries (such as Thailand) experienced in the last five years, according to MPA. We expect demand for broadband subscriptions to increase as supply continues to meet the significant latent demand.

Focused exclusively on the Philippine high-speed fixed broadband market as a pure-play fixed broadband Operator

We are the only pure-play fixed broadband provider with an exclusive focus on serving the Philippine fixed broadband market, according to MPA. Our Founders, CEO Mr. Dennis Anthony H. Uy and President, Chief Risk Officer, and Chief Resources Officer, Ms. Maria Grace Y. Uy, established and expanded Converge with a vision—to build a business dedicated to providing high-speed fixed broadband access to millions of unserved and underserved households and businesses across the Philippines. Our organization has been focused on understanding and serving the needs of fixed broadband customers. As a result, we believe that we are well-positioned to grow our subscriber base as we continue to expand our coverage and deepen our presence. Furthermore, we are not constrained by legacy infrastructure or dated service models, which we believe makes us more agile and adept at anticipating and addressing customer needs.

Superior offering rooted in a deep understanding of customers' priorities

We outperformed other providers on top criteria that customers consider in choosing operators and products: internet speed, connection reliability, and perception of affordability.

- **Speed:** As of October 2021, we were ranked by Netflix as the co-#1 internet service provider in terms of speed. With the speed upgrade effectively implemented in November, we are furthering improving the speed offering of our packages.
- **Connection Reliability:** We were able to deliver superior network availability for its subscribers. During the third quarter of 2021, outage.report/ph reported that we experienced less than 500 network outages per month, less than half of our largest industry peer.
- **Perception of Affordability:** Closely listening to our consumer's pain points, we identified a gap to fill in order to offer better value for their money with no additional costs, yet fast speeds. Our newest plans are now the cheapest in the market with unlimited capacity and the corresponding speeds.

An extensive and proprietary end-to-end fiber infrastructure, with in-house expertise in network rollout

We own and operate a proprietary, end-to-end fiber network in the Philippines that extends from the backbone to the last mile. With an average age of fiber of 2.5 years by the end of 2021, our fiber network is among the newest in the Philippines. Our network is comprised of a fiber backbone that stretches from the northernmost tip of Luzon Island to its southernmost end with extensions to Visayas and Mindanao stretching almost 90,000 kilometers as of September 30, 2021, as well as a fiber distribution and last-mile network that passes through 440 cities and municipalities nationwide. Our network covered in aggregate more than 9.6 million homes passed, covering 37.6% of households nationwide.

Well-positioned to serve a fast-growing and underserved enterprise market

The Philippine enterprise fixed broadband market is significant and fast-growing, underpinned by substantial and rapidly-growing demand for fixed broadband from Philippine businesses, particularly those in the services sector, where internet access is critical.

For larger businesses with complex connectivity needs including the requirements for redundancy and back-up support, there is an undersupply of reliable alternative providers, with many areas in the Philippines serviced by only one or two enterprise operators. For smaller businesses with simpler connectivity requirements but for whom connectivity represents a critical need, many are unserved with more than two thirds of all MSMEs (microbusinesses and SMEs) not having access to fixed broadband.

We believe that our enterprise platform is strategically structured to address this underserved demand, and enables us to effectively acquire, service and grow with our customers over time.

Strong credit record and financial position

We maintain a strong and conservatively levered balance sheet with strong debt service capabilities and are committed to maintaining and implementing prudent financial management practices. Our sound financial management has allowed us to continue to meet our debt service obligations and to meet and exceed the debt service coverage ratio required under our loan agreements. Our resulting Net Debt to EBITDA ratio, based on the last twelve months EBITDA over the period from October 2020 to September 2021, was 0.6 times. This conservative leverage level gives us, together with our increasing and strong cash flow generation, ample headroom to execute our capital expenditure plans, and capitalize on the massive opportunity for high-speed fixed broadband infrastructure in the Philippines. Furthermore, as of September 30, 2021, our Debt to Equity ratio stands at 0.5x, which is well below our existing covenant to maintain a Debt to Equity ratio of no more than 2.33x and our Debt Service Coverage ratio is at 4.4x, which is above our existing covenant to maintain a Debt Service Coverage ratio of no less than 1.2x.

The Bonds have been rated PRS Aaa with a Stable Outlook by Philippine Rating Services Corporation (“PhilRatings”) on December 20, 2021. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. A Stable Outlook is assigned when a rating is likely to be maintained or to remain unchanged in the next 12 months. In coming up with the rating, PhilRatings considered the following factors: (1) notable expansion in subscriber base and Converge’s position as a strong player in the fixed broadband market; (2) good cash flow generation and adequate financial flexibility to support network expansion; (3) highly conservative debt management; (4) government’s push for the improvement of the information and communications technology landscape in the country; and (5) increased demand for high-speed broadband services due to the COVID-19 pandemic.

Strategies

Build a nationwide high-speed fixed broadband network to maintain our market leadership position in the Philippines

We believe that there is significant potential in the Philippine high-speed fixed broadband market and we will continue to aggressively pursue this attractive “blue-ocean” market opportunity by securing a first mover’s advantage in unserved and underserved areas on a nationwide basis.

- The Company also completed its domestic submarine cable project that connects the country’s major islands from Luzon to the Visayas and Mindanao to its national fiber backbone. The 1,800-kilometer subsea cable made its final landing in Coron, Palawan. We are building our backbone with a highly scalable architecture.
- We are building our backbone network with ample capacity, with seven-way micro ducts each equipped with up to 144 fiber pairs, of which only two-way micro ducts are anticipated to be utilized by 2025. In addition, we believe that our backbone is designed to be resilient and is built with redundancy, with a ring architecture and route diversity, allowing highly reliable connections.

From the backbone, we will continue to expand our distribution and last-mile networks to existing and new coverage areas. We have adopted a two-pronged strategy— “Go Deep” and “Go National”—for our distribution and last-mile expansion.

- Under our “Go Deep” strategy, we are deepening our penetration in existing coverage areas where we believe there remains significant potential to increase our customer base. As of September 30, 2021, we have only covered 57.3% of Luzon households. We will continue to employ a disciplined and data and demand-driven approach in deploying capital, with our network rollout and sales teams performing coordinated analyses to assess the level of underserved demand within our coverage areas, and to identify key sub-localities where coverage gaps still exist.

- Under our “Go National” strategy, we are expanding into new coverage areas across the Philippine archipelago, first expanding into Cebu City in Visayas and strategically entering into other new markets and submarkets in Visayas and Mindanao. We evaluate opportunities to enter into new cities by performing data-driven capital efficiency analyses with the objective of meeting our internal ROIC hurdles for any network expansion into new cities.

We also plan to continue expanding our international connectivity and secure additional proprietary access to international subsea-cable infrastructure linking the Philippines with key regional hub markets. In August 2020, we entered into an agreement with Telstra International Limited to purchase 5 Tbps of international bandwidth capacity, providing a 15-year IRU on two major intra-Asia networks for an attractive cost. This 5 Tbps of bandwidth capacity is equivalent to approximately seven times our current leased bandwidth capacity, and has been priced at an aggregate unit cost that is meaningfully lower compared to our average contracted lease costs at present. This IRU is subject to certain conditions.

In May 2021, we secured its participation in the Bifrost Cable System, which will be completed by 2024, with the signing of definitive agreements with Keppel Telecommunications & Transportation’s wholly-owned subsidiary, Keppel Midgard Holdings Pte. Ltd. (“KMH”). The agreement aims to grant Converge an IRU for one fiber pair on the main trunk of Bifrost Cable System, which directly connects Singapore to the west coast of North America. KMH and Converge will also jointly develop a branch on the Bifrost Cable System that will land in Davao, Philippines, with Converge also being granted an IRU on the entire Davao branch. The additional branch will significantly increase internet speeds and network diversity for businesses and consumers in the Philippines. Converge will invest over U.S.\$100 million (around ₱5 billion) for the whole project.

Drive strong network take-up by leveraging a proven customer acquisition strategy

We plan to continue employing proven and effective customer acquisition strategies as we continue to expand our network on a nationwide basis in order to further grow our customer and revenue base, while maintaining strong profitability and ROIC.

- Across our existing network coverage areas, our sales team will continue to focus on executing our Go Deep strategy. In particular, our sales efforts will continue to be primarily focused on and targeted at driving further subscriber take-up of our inventory of available ports that are already built and ready for service. These efforts are supplemented by our marketing team who are continuing to execute bespoke marketing initiatives, such as on-the-ground marketing campaigns, targeted at specific submarkets or localities where there is a high concentration of available ports. We believe that any effort to drive subscriber take-up of available ports would be highly accretive to our ROIC.
- As we expand our network coverage into new areas, our sales team will continue to focus on executing our Go National strategy. We are continuing efforts to expand our sales and services organization beyond Luzon to Visayas and Mindanao in order to continue to acquire customers on a nationwide basis. Our customer acquisition teams are typically set up months ahead of any new supply of port inventory becoming available in a new area. We plan to execute bespoke on-the-ground branding efforts (e.g., out-of-home advertising in new coverage areas), supplemented with targeted digital marketing campaigns (e.g., by leveraging local social media influencers)—with the dual-goal of building brand awareness and driving word-of-mouth advocacy across new coverage areas.

Across both existing and new coverage areas, we intend to continue to leverage, and further refine our differentiated and multi-pronged approach to customer acquisition, which have proved to be highly effective to date.

- In urban centers, we will continue to focus on utilizing our tele-digital sales channels (e.g., our website, online portal, app and social media pages etc.) to drive new subscriptions, given their lower customer acquisition cost compared to other sales channels. We have seen a surge in online sign-ups since March 2020, in tandem with a broader, market-wide shift towards e-commerce, which trend has been significantly accelerated since the onset of COVID-19. We

believe that leveraging our in-house sales team would also allow us to continue to take a more personalized, differentiated and targeted approach in customer acquisition, allowing us to continue to attract high-quality customers at lower customer acquisition costs.

- In more regional areas, we will continue to leverage on our third-party sales channels, as well as our business centers, to drive new subscriptions. We anticipate that we will be able to attract a steady supply of sales agents (who generally work with us on an exclusive basis) as we believe that our product offering and subscriber growth give them the opportunity and incentive to complete larger volumes of sales and earn a commensurate amount of service fees. Our third-party sales force will continue to be supplemented by the business centers that we operate and manage in-house. These business centers serve as “one-stop shops”, where in addition to subscribing to our broadband services, customers can pay their bills, request for additional services or obtain other technical assistance.

Drive market-leading customer retention rates and residential ARPUs through improved product offerings and customer service

We aim to maximize the revenue from our existing residential customer base and to improve overall ARPU through upselling and cross-selling efforts.

- **Migration to higher-ARPU packages:** We intend to continue to upsell higher speed broadband services to existing customers. We believe that there is a significant opportunity to move subscribers to higher speed packages, as more than 80% of our FTTH residential subscribers as of September 30, 2021 are currently subscribed to our entry-level FTTH plan, FiberX 1500.
- **New product launches:** We will continue to seek to improve our product and service offering in anticipation of increasing customer expectations for faster, more reliable connections. We have been among the first to bring several key new products to the market – such as Time of Day and flexiBIZ, and we intend to continue to innovate.
- **Differentiated pricing strategies:** We will continue to target different subscriber segments with differentiated pricing strategies. For example, we have introduced the “Time of Day” product that allows subscribers to modify their bandwidth (and corresponding price) to better match their actual usage patterns. As such, subscribers who require more bandwidth on certain times (e.g., during business hours under WFH arrangements) can double their speeds for those particular time periods. We believe that in addition to enhancing ARPU, this initiative will increase customer satisfaction and loyalty.

We intend to continue to implement initiatives aimed at maintaining and improving customer service. In particular, we intend to intensify our digital transformation efforts, including efforts on:

- **Customer Onboarding:** We intend to further digitize our customer onboarding process and to further promote the use of our online self-service portals, enabling more customers to complete the end-to-end customer onboarding process tele-digitally.
- **Bill Payment:** We intend to further expand our payment options to include new digital payment channels to offer a frictionless experience to digitally-savvy customers.
- **After-sales Services:** We recently launched an after-sales mobile application, *Converge Xperience*, to provide customers with a convenient way to manage their accounts, ask for help, order new circuits or add-ons, pay their bills and access our knowledge base.
- **Customer Engagement:** We have commenced efforts to improve our digital and social media presence and engagement. We plan to actively engage with our subscribers on various social media channels and online forums.

Further penetrate the enterprise market

We believe that the enterprise market represents a significant growth opportunity for us and we plan to further penetrate the enterprise market by continuing to (i) leverage on our nationwide fiber network to

provide expanded coverage for our enterprise clients; (ii) drive new enterprise subscriptions through our proven and differentiated sales and solutioning strategies; (iii) build customer satisfaction and loyalty by nurturing a long-term, symbiotic relationship with each enterprise client; and (iv) increase our share of wallet with our enterprise customers over time as their businesses grow and prosper, and their connectivity needs increase.

With an expanded network coverage, we plan to grow our enterprise customer base by continuing to execute on our proven strategies in marketing, sales and solutioning, not only in urban metropolitan centers but also in other emerging business centers across the Philippines. We plan to continue to employ differentiated sales strategies tailored to different classes of Enterprise Business customers. For our Large Enterprise segment, we plan to continue to strengthen existing and develop new industry verticals, prioritized based on market potential, within our sales organization. For our Corporate and SME segment, we will continue to expand our geographically- focused sales organization, to be able to quickly attend to customers' requirements and employ bespoke customer outreach programs as well as local sales blitzes at a district or even building level.

Leveraging on the strength of our customer relationships, we will seek to deepen our wallet share with them as their businesses and their corresponding connectivity needs grow. We plan to continue to follow our customers as they expand their footprint and their workforce, and provide more connectivity solutions to them. We plan to continue to innovate and introduce tailored, fit-for-purpose solutions that would address our customers' evolving needs. For example, since the onset of COVID-19, we assisted several enterprise customers with the installation of broadband internet connections at their employees' homes. Furthermore, we plan to continue to build ecosystem-based partnerships with some of our largest and most strategic accounts, which will help us gain access to our customers' extensive branch or office networks and their ecosystem of customers, employees, suppliers and distributors, in order to serve the connectivity needs of their entire value chain. For example, in the case of a financial institution such as a bank, our relationship could begin with providing basic internet connectivity solutions for its office headquarters, administrative office and other core banking operations. Following this, we can introduce our private data network solutions to connect its bank branches, ATM networks as well as its security network and the WFH requirements of its employees. Eventually, we will plan to provide cloud solutions and other services that will feature the Converge brand, which the bank's customers could then consider for their own personal or business needs. Thus, we are able to expand our presence beyond the bank by becoming a visible and integral part of the bank's daily operations.

We believe that by executing a holistic suite of enterprise growth strategies, we will be able to capture a larger share of the enterprise market that is proportional to our expanding network presence and growing residential market share.

RISKS OF INVESTING

Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Offer. Certain of these risks are discussed in the section entitled "*Risk Factors*" and include risks relating to our businesses, risks relating to the Philippines, risks relating to the Offer and risks relating to certain information in this Prospectus, a summary of these risks are as follows:

- Competition Risk
- Service Disruption Risk
- Customer Retention Risk
- Innovation and Technological Advancement Risk
- Supply Chain Risk
- Financing Risk
- Cyber Security Risk
- Execution Risk on network expansion
- Process Improvement Risk
- Environmental Risk
- Regulatory Risk
- Transfer Pricing Risk
- Customer Preference Risk

- Reputation Risk
- Intellectual Property Risk
- Foreign Exchange Risk
- Pricing Risk
- Human Resource Risk
- Compliance Risk
- Labor Management Risk
- Insurance Risk
- Political instability in the Philippines
- Concentration of business activities and assets in the Philippines
- Public health crises or outbreaks of diseases
- Acts of terrorism
- Territorial disputes
- An active or liquid trading market for the Securities may not develop
- Holders of the Securities may be unable to reinvest the proceeds of their Securities following redemption by the Issuer.
- Holders of the Securities may face possible gain or loss if the Securities are sold at the secondary market.
- The Securities may not be able to retain its credit rating
- The Securities have no Preference under Article 2244(14) of the Civil Code
- The Issuer may be unable to redeem the Bonds.
- There can be no guarantee that the Bonds will be listed on the PDEX.
- Risks Related to Statements Made in this Prospectus.

INVESTOR RELATIONS OFFICE

The investor relations office will implement the investor relations program in order to reach out to all shareholders and keep them informed of corporate activities. The office will also handle communication of relevant information to our stakeholders as well as to the broader investor community. The investor relations office will also be responsible for receiving and responding to investor and stakeholder queries relating to our Company.

Mr. Owen Kieffer D. Ocampo has been appointed by the Board as the head of the investor relations office and to serve as our Investor Relations Officer (“IRO”). The IRO will ensure that we comply with and file on a timely basis all required disclosures and continuing requirements of the Philippine SEC and the PSE. In addition, the IRO will oversee most aspects of the shareholder meetings, press conferences, investor briefings, and management of the investor relations portion of our website,

The investor relations office will be located in our principal place of business with contact details as follows:

Landline: +63 2 8248 7227

E-mail: Investors.Relations@convergeict.com

Website: corporate.convergeict.com

COMPANY INFORMATION

We are a Philippine corporation organized under the laws of the Philippines. Our registered principal office address is at New Street Building, McArthur Highway, Balibago, Angeles City, Pampanga, Philippines. We also have an office at Reliance IT Building, 99 E. Rodriguez Jr. Avenue, Brgy. Ugong, Pasig City 1604, Philippines, with telephone number: +63 2 8248 7227. Our corporate website is www.convergeict.com. Information in our website is not incorporated by reference into, and does not form part of, this Prospectus.

SUMMARY OF FINANCIAL INFORMATION

The following tables present the summary of financial information and should be read in conjunction with the independent auditors’ reports and our financial statements, including the notes thereto, included elsewhere in this Prospectus, and the section entitled “Management’s Discussion and Analysis of

Financial Condition and Results of Operations.” The summary financial information as of and for the years ended December 31, 2017, 2018, 2019 and 2020 were derived from our audited consolidated financial statements whereas the financial information presented for the nine months ended September 30, 2021 and 2020 are unaudited figures, but were reviewed by our auditors. The audited financial statements were prepared in accordance with PFRS and were audited by PwC in accordance with the PSA. The reviewed condensed consolidated interim financial statements were prepared in accordance with PAS 34 and reviewed by PwC in accordance with PSRE 2410.

During the year ended December 31, 2020, certain information in our financial statements as of and for the years ended December 31, 2019 and 2018 have been reclassified, as discussed further in the relevant notes to the financial statements as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 included elsewhere in this Prospectus.

The summary financial information below is not necessarily indicative of the results of future operations.

Summary Statements of Comprehensive Income

<i>in Php Millions</i>	For the years ended December 31				For the nine-month periods ended September 30	
	2017	2018	2019	2020	2020	2021
Revenues	2,940	5,055	9,139	15,652	10,677	18,831
Cost of Services	(1,050)	(2,328)	(4,441)	(7,065)	(4,944)	(7,461)
Gross Profit	1,890	2,726	4,699	8,588	5,733	11,370
General and administrative expenses	(442)	(913)	(1,415)	(2,772)	(1,771)	(3,272)
Provision for impairment of trade and other receivables	(78)	(125)	(530)	(720)	(491)	(778)
Unrealized fair value loss on financial asset at FVTPL	-	-	-	(26)	(41)	-
Equity in net profit of joint ventures	-	-	-	-	-	26
Other income (loss), net	(72)	51	18	360	166	(158)
Profit from operations	1,299	1,740	2,772	5,429	3,597	7,188
Finance costs	(11)	(71)	(275)	(550)	(454)	(448)
Profit before income tax	1,287	1,669	2,497	4,879	3,142	6,740
Income tax expense	(57)	(427)	(593)	(1,491)	(952)	(1,542)
Profit for the year	1,230	1,242	1,905	3,388	2,190	5,198
Other comprehensive income (loss)	2	8	45	(47)	(19)	-
Total comprehensive income	1,232	1,250	1,950	3,341	2,171	5,198

Summary Statements of Financial Position

<i>in Php Millions</i>	As of December 31				As of September 30
	2017	2018	2019	2020	2021
Current assets					
Cash and cash equivalents	421	477	6,233	12,957	9,647
Trade and other receivables, net	472	918	2,106	2,173	3,080
Due from related parties, current portion	30	474	587	1,408	999
Network materials and supplies, net	641	1,159	963	2,031	3,392
Deferred contract costs, current portion	65	177	489	1,110	1,684
Other current assets	33	142	475	1,591	2,639
Total current assets	1,662	3,346	10,854	21,271	21,441
Non-current assets					
Property, plant and equipment, net	3,212	8,048	15,940	28,127	43,594
Advances to fixed assets suppliers	-	336	1,214	2,508	3,873
Right-of-use assets, net	-	192	1,638	1,859	1,912

Intangible assets, net	83	537	670	1,155	1,287
Deferred contract costs, net of current portion	33	80	229	543	652
Deferred input value-added tax, net of current portion	7	105	75	139	921
Deferred income tax assets, net	38	57	539	788	1,041
Due from related parties, net of current portion	-	-	-	163	163
Financial asset at fair value through profit or loss ("FVTPL")	-	19	-	72	72
Investment in joint ventures	-	-	-	-	389
Other non-current assets	-	-	-	87	87
Total non-current assets	3,372	9,374	20,306	35,441	53,992
Total assets	5,034	12,720	31,159	56,712	75,434
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other current liabilities	961	4,342	7,176	13,253	19,838
Loans payable, current portion	278	1,521	1,098	731	3,061
Lease liabilities, current portion	-	84	355	326	230
Due to related parties	11	423	167	218	129
Deferred revenue, current portion	35	105	199	464	884
Income tax payable	32	155	358	394	814
Dividends payable	-	-	808	-	-
Provision for contingencies	40	-	-	-	-
Total current liabilities	1,358	6,631	10,160	15,385	24,956
Non-current liabilities					
Deferred revenue, net of current portion	11	47	82	205	285
Loans payable, net of current portion	348	1,203	6,852	10,583	15,037
Lease liabilities, net of current portion	-	71	1,375	1,508	1,537
Retirement benefit obligation	55	65	31	123	142
Subscribers' deposits, net of current portion	36	95	492	1,133	390
Total non-current liabilities	450	1,481	8,831	13,552	17,390
Total liabilities	1,808	8,112	18,992	28,937	42,347
Equity					
Attributable to owners of the Parent Company					
Share capital					
Common shares	1,250	1,250	1,250	1,882	1,882
Convertible preferred shares	-	-	307	-	-
Additional paid-in capital	-	-	6,541	18,746	18,746
Retained earnings	-	-	-	-	-
Appropriated	-	2,200	2,200	-	-
Unappropriated	1,971	1,028	1,814	7,139	12,337
Reserve for remeasurements of retirement benefit obligation, net of tax	2	10	55	8	8
Reserve for share-based compensation	-	-	-	-	114
Other Reserves	-	83	-	-	-
	3,223	4,571	12,167	27,775	33,087
Non-controlling interest	4	37	-	-	-
Total equity	3,226	4,609	12,168	27,775	33,087

Total liabilities and equity	5,034	12,720	31,159	56,712	75,434
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Summary Statements of Cash Flows Information

<i>in Php Millions</i>	For the years ended December 31				For the nine-month periods ended September 30	
	2017	2018	2019	2020	2020	2021
Net cash from operating activities	1,430	2,032	1,685	7,299	5,012	6,942
Net cash used in investing activities	(1,692)	(4,089)	(7,381)	(14,507)	(8,880)	(16,268)
Net cash from financing activities	366	2,114	11,474	13,872	4,434	6,028
Net increase (decrease) in cash and cash equivalents	104	56	5,778	6,663	566	(3,298)
Cash and cash equivalents at beginning of year/period	316	421	477	6,233	6,233	12,957
Effects of exchange rate changes in cash and cash equivalents	(0)	(0)	(21)	61	(64)	(12)
Cash and cash equivalents at end of year / period	421	477	6,233	12,957	6,735	9,647

Summary of Selected Operating and Financial Information

	For the years ended December 31				For the nine-month periods ended September 30	
	2017	2018	2019	2020	2020	2021
Residential						
Revenues (in millions)	₱1,520	₱3,151	₱6,354	₱12,628	₱8,413	₱16,374
FTTH	₱307	₱1,147	₱3,875	₱9,794	₱6,285	₱14,428
HFC	₱1,213	₱2,004	₱2,479	₱2,834	₱2,127	₱1,945
Customers	127,492	264,865	529,629	1,038,321	900,531	1,576,759
FTTH	24,823	118,662	330,621	822,791	673,005	1,363,681
HFC	102,669	146,203	199,008	215,530	227,526	213,078
Homes Passed	718,629	1,432,074	3,221,743	6,177,845	5,112,591	9,610,861
FTTH ¹	211,090	762,294	2,423,944	5,342,008	4,281,768	8,768,296
HFC ²	507,539	669,780	797,799	835,837	830,823	842,565
Ports	613,084	1,050,927	2,009,771	3,506,841	2,971,707	5,226,713
FTTH ³	105,545	381,147	1,211,972	2,671,004	2,140,884	4,384,148
HFC ⁴	507,539	669,780	797,799	835,837	830,823	842,565
Household Coverage (%) ⁵	3	6	13	25	21	38
ARPU ⁶	₱1,191	₱1,178	₱1,293	₱1,298	₱1,261	₱1,340
FTTH	₱1,561	₱1,293	₱1,399	₱1,374	₱1,353	₱1,414
HFC	₱1,124	₱1,112	₱1,155	₱1,085	₱1,045	₱964
Customer Churn (%) ⁷	1.44	1.27	0.62	1.15	1.07	1.18
FTTH	0.23	0.22	0.27	0.74	0.83	1.13
HFC	1.62	1.77	0.97	2.28	1.63	1.47

Port Utilization (%) ⁸				29.6	30.3	30.2
FTTH				30.8	31.4	31.1
HFC				25.8	27.4	25.3
Enterprise						
Revenues (in millions)	₱1,421	₱1,904	₱2,786	₱3,024	₱2,264	₱2,457
Customers	6,043	6,539	10,083	11,090	10,953	21,425
ARPU ⁹	₱22,319	₱24,857	₱27,462	₱23,809	₱23,918	₱16,783

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. There are eight or sixteen ports available in each NAP installed.
4. The number of HFC ports installed represents 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 25.6 million as of September 2021, extrapolated from MPA data.
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.

OVERVIEW OF THE DEBT SECURITIES PROGRAM

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of the Debt Securities Program, the applicable terms and conditions contained in the relevant offer supplement. In case of conflict between the terms below and those contained in the offer supplement corresponding to a particular Tranche, the latter shall prevail.

Converge is offering the Debt Securities Program comprised of debt and other securities as provided by applicable SEC rules and regulations effective at the time of issuance (the “**Debt Securities**”) in the aggregate principal amount of up to Twenty Billion Pesos (₱20,000,000,000.00) to be issued in one or more tranches. The following sections outline the description of the Debt Securities Program followed by specific indicative terms and conditions applicable to a particular Tranche.

The Debt Securities Program

Issuer:	Converge Information and Communications Technology Solutions, Inc.
Facility:	Twenty Billion Pesos (₱20,000,000,000.00) Debt Securities Program
Purpose:	The intended use of proceeds for each Tranche of the Debt Securities Program being offered shall be set in the relevant prospectus and/or offer supplement under the “Use of Proceeds” section.
Availability:	The Debt Securities Program will be continuously available until the expiration of the Shelf Registration and the permit to offer securities for sale to be issued by the SEC.
Maturity:	Fixed-rate bonds: to be determined per issuance Other Securities: as provided by applicable SEC rules and regulations at the time of issuance
Method of Issue:	Each of the Debt Securities will be issued on a continuous basis in tranches on different issue dates. The specific terms of each Tranche (which, save in respect of the issue date, issue price, interest commencement date, and principal amount of the Tranche, will be similar to the terms of other Tranches of the same Debt Securities) will be set forth in the final prospectus or corresponding offer supplement.
Form of Securities:	Each Tranche of the Securities will be represented by a Master Certificate of Indebtedness to be issued and registered in the name of the Trustee for the Security Holders and by applicable document pursuant to the rules or other relevant regulations as promulgated by the SEC. Legal title to the Debt Securities shall be shown on and recorded in the Register of Security Holders maintained by the Registrar.
Denomination of the tranche Securities to be issued:	Fixed-rate Bonds: minimum of ₱20,000.00 face value and in increments of ₱10,000.00.
Redemption for Taxation Reasons:	If payments under the Debt Securities become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the relevant Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Debt Securities in whole, but not in part, (having given not more than sixty (60) nor less than fifteen (15) days’ prior written notice to the Trustee) at par or 100% face value plus accrued interest.

Final Redemption:	Except when a call option on the fixed-rate bonds is exercised, the Debt Securities will be redeemed at par or 100% face value on the relevant maturity date.
Status of the Securities:	The Debt Securities constitute direct, unconditional, unsubordinated and unsecured Peso-denominated obligations of the Issuer and will rank <i>pari passu</i> and ratably without any preference or priority among themselves and at least <i>pari passu</i> with all other present and future unsubordinated and unsecured obligations of the Issuer, other than obligations mandatorily preferred by law.
Negative Pledge:	The Debt Securities shall have the benefit of a negative pledge on all existing and future assets of the Issuer, subject to certain permitted liens.
Taxation:	Except: (1) tax on a Security Holder's interest income on the Debt Securities which is required to be withheld by the Issuer, and (2) capital gains tax/income tax, documentary stamp tax and other taxes on the transfer of Debt Securities (whether by assignment or donation), if any and as applicable, which are for the account of the Security Holder, all payments of principal and interest will be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines or any political subdivision, agency or instrumentality thereof, including, but not limited to, issue, registration, or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided, however, that the Issuer shall not be liable for, and will not gross-up the payments of interest on the principal amount of the Debt Securities so as to cover any final withholding tax applicable on interest earned on the Debt Securities prescribed under the National Internal Revenue Code of 1997, as amended, and its implementing rules and regulations.

Documentary stamp tax on the original issue of the Debt Securities shall be for the Issuer's account.

A Security Holder who is exempt from or is not subject to final withholding tax on interest income may claim such exemption by submitting to the relevant Underwriter, together with its Application to Purchase:

- (i) a current and valid BIR-certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR addressed to the Applicant confirming the exemption or preferential rate, as certified by the Corporate Secretary of the Applicant that: (i.a) the original is in the possession of the Corporate Secretary as the duly authorized custodian of the same; and (i.b) the Corporate Secretary has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting said certification's validity;
- (ii) with respect to tax treaty relief, (a) prior to the payment of the initial interest due, (i) three (3) originals of the submitted BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the Bureau of Internal Revenue, as required under Revenue Memorandum Order No. 14-2021, (ii) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the

Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, (iii) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer, and (iv) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of the authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or the Bondholder's owners or beneficiaries is/are not doing business in the Philippines to support the applicability of a tax treaty relief; and (b) prior to the payment of subsequent interests due, (i) three (3) originals of the submitted new or updated BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes, as the Issuer deems applicable, and (ii) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued tax residency certificate has already lapsed; (c) other additional documents as may be required by the Issuer or pursuant to applicable tax regulations, which shall be submitted by the Bondholder/Registrar to the Issuer no later than the 1st day of the month when such initial or subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto;

- (iii) a duly notarized undertaking, in prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases the bonds or other deposit substitutes for its account, or (ii.b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the bonds or other deposit substitutes pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer, the Registrar and Paying Agent, and the Joint Lead Underwriters and Bookrunners free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding or reduced withholding of the required tax; and
- (iv) If applicable, such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized or apostilled (as the case may be) proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines; provided that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced

rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for Taxes, duties, assessments or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar.

The tax treatment of a Security Holder may vary depending upon such person's particular situation and certain Security Holders may be subject to special rules not discussed above. This summary does not purport to address all the aspects that may be important and/or relevant to a Security Holder. Security Holders are advised to consult their own tax advisers on the ownership and disposition of the Debt Securities, including the applicability and effect of any state, local or foreign tax laws.

Governing Law: Philippine Law

Specific terms related to any tranche of the fixed-rate bonds

Issue Price:	The fixed-rate bonds will be issued at 100% of face value.
Fixed-rate Bonds Interest:	Interest on fixed-rate bonds shall be calculated on a European 30/360-day count basis and shall be paid quarterly in arrear.
Optional Redemption:	The applicable final terms will indicate either that the relevant fixed-rate bonds cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such fixed-rate bonds will be redeemable at the option of the Issuer and/or the fixed-rate bondholders upon giving notice to the bondholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the Joint Lead Underwriters and Bookrunners.
Purchase and Cancellation:	The Issuer may at any time purchase any of the fixed-rate bonds in the open market or by tender or by contract at market price without any obligation to purchase (and the bondholders shall not be obliged to sell) fixed-rate bonds pro-rata from all bondholders. Any fixed-rate bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon listing of the fixed-rate bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.
Registrar and Paying Agent:	Philippine Depository & Trust Corp.
Listing:	Philippine Dealing & Exchange Corp.

SUMMARY OF THE OFFER

This Prospectus and Offer relate to the Bonds with an aggregate principal amount of up to ₱5 Billion with an Oversubscription Option of up to ₱5 Billion. The following summary of the offer does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus. The Bonds will be issued from Converge's Debt Securities Program.

Fixed-rate Retail Bonds

Issuer:	Converge Information and Communications Technology Solutions, Inc.
Issue:	Fixed-rate bonds (the "Bonds") constituting the direct, unconditional, unsubordinated, unsecured and general obligations of the Issuer
Issue Amount:	₱5 Billion in aggregate principal amount (the "Base Offer") with an Oversubscription Option of up to ₱5 Billion (the "Oversubscription Option"). In case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the Bonds under the Oversubscription Option that will not be taken up or exercised during the Offer Period will remain under the Debt Securities Program and may be issued in tranches within the three-year shelf period of the Debt Securities Program. The Oversubscription Option is exercisable by the Joint Lead Underwriters and Bookrunners with the consent of the Issuer.
Use of Proceeds:	Net proceeds will be used for capital expenditures and general corporate purposes. (see "Use of Proceeds").
Issue Manager:	BDO Capital & Investment Corporation
Joint Lead Underwriters and Bookrunners:	BDO Capital & Investment Corporation BPI Capital Corporation
Selling Agents:	Land Bank of the Philippines RCBC Capital Corporation
Trustee	BDO Unibank Inc. - Trust and Investments Group
Offer Period:	The Offer shall commence at 9:00 a.m. on March 28, 2022 and end at 5:00 p.m. on April 1, 2022, or on such other dates as the Issuer and the Joint Lead Underwriters and Bookrunners may agree upon.
Issue Date:	April 8, 2022 or such other date as may be agreed upon by the Issuer and the Joint Lead Underwriters and Bookrunners with advice to the SEC, PDTC and PDEX.
Maturity Date:	April 8, 2027 or five (5) years from the Issue Date provided that, in the event that such Maturity Date falls on a day that is not a Business Day, the Maturity Date shall be the immediately succeeding Business Day, without adjustment to the amount of interest and principal to be paid.
Interest Rate:	Fixed interest rate of 5.5942% per annum.
Issue Price:	Par or 100% of face value

Interest Payment Date: Interest on the Bonds shall be calculated on a 30/360-day count basis and shall be paid quarterly in arrear commencing on July 8, 2022 for the first Interest Payment Date and October 8, January 8, April 8, and July 8 of each year for each subsequent Interest Payment Date while the Bonds are outstanding. In the event that any Interest Payment Date is not a Business Day, such Interest Payment Date shall be paid on the immediately succeeding Business Day without any adjustment to the amount due. The last Interest Payment Date shall fall on the Maturity Date, or the immediately succeeding Business Day if such date is not a Business Day, without any adjustment to the amount due.

Call Option The Issuer has the right, but not the obligation, to redeem (in whole but not in part) the outstanding Bonds before the Maturity Date on any one of the Interest Payment Dates indicated below (the "Call Option Dates"), or the immediately succeeding Business Day if such date is not a Business Day, in accordance with the following schedule:

Call Option Dates	Call Option Price
12 th Interest Payment Date	101.00%
13 th Interest Payment Date	
14 th Interest Payment Date	
15 th Interest Payment Date	
16 th Interest Payment Date	100.50%
17 th Interest Payment Date	
18 th Interest Payment Date	
19 th Interest Payment Date	

The amount payable to the Bondholders in respect of any such redemption shall be calculated as the sum of (i) the Call Option Price applied to the principal amount of the then outstanding Bonds being redeemed and (ii) all accrued interest on the Bonds as of the Call Option Date.

Should the Issuer elect to exercise a Call Option, it shall do so by delivery of an original and three (3) copies of a notice of such exercise to the Trustee, submitted during business hours on a date no earlier than sixty (60) days and no later than thirty (30) days prior to the Call Option Date. Once executed, completed and delivered to the Trustee, a Call Option notice is irrevocable.

Upon receipt of a Call Option notice fully complying with the Terms and Conditions, the Trustee shall transmit the same notice to the Bondholders.

Notwithstanding anything to the contrary, in the event the Issuer has notified the Trustee that it will exercise the Call Option, any interest payment due on the Interest Payment Date immediately preceding the Call Option Date shall be paid on such Call Option Date.

Issue Rating: The Bonds are rated PRS Aaa with a Stable Outlook by PhilRatings.

RISK FACTORS AND OTHER CONSIDERATIONS

GENERAL RISK WARNING

- The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities.
- Past performance is not a guide to future performance. There may be a big difference between the buying price and the selling price of these securities.
- An investor deals in a range of investments each of which may carry a different level of risk.

This section entitled “Risks Factors and Other Considerations” does not purport to disclose all of the risks and other significant aspects of investing in these securities.

PRUDENCE REQUIRED

The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. An investor should undertake its, his, her, or their own research and study on the trading of securities before commencing any trading activity. Investors may request information on the securities and the Issuer thereof from the SEC which are available to the public.

PROFESSIONAL ADVICE

An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially those classified as high risk securities.

RISK FACTORS

An investment in the Securities described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Securities should carefully consider the following factors, in addition to the other information contained in this Prospectus, in deciding whether to invest in the Securities. This Prospectus contains forward-looking statements that involve risks and uncertainties. Converge adopts what it considers conservative financial and operational controls and policies to manage its business risks. The means by which the Company intend to address the risk factors discussed herein are principally presented under “Description of Business” beginning on page 82, “Management’s Discussion and Analysis of Results of Operations and Financial Condition” beginning on page 113, and “Directors and Management” on page 139 of this Prospectus. Converge’s actual results may differ significantly from the results discussed in the forward-looking statements. See the section on “*Forward-Looking Statements*” in this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of Converge, in particular, and those that pertain to the overall political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below in no particular order. The risks enumerated hereunder are considered to be each of equal importance.

Investors should carefully consider all the information contained in this Prospectus including the risk factors described below, before deciding to invest in the Bonds. The Company’s business, financial condition and results of operations could be materially adversely affected by any of these risk factors.

RISKS RELATING TO OUR BUSINESS

Competition Risk

We face competition from two major telecommunications companies in the Philippines and other operators and may face competition from potential new entrants in the future. The two major telecommunications companies in the Philippines have certain competitive advantages, including financial and human resources, large customer bases, attractive product offerings and brand recognition, that could help expand their broadband businesses. They may offer price reductions and adopt other promotion and marketing initiatives to grow their market positions, which could increase our

competitive pressures. Although the two major operators' networks rely mainly on legacy copper infrastructure today, both operators have expressed their intention to intensify their investment in their respective fiber networks.

From the backbone, we will continue to expand our distribution and last-mile networks to existing and new coverage areas. We have adopted a two-pronged strategy— "Go Deep" and "Go National"—for our distribution and last-mile expansion. Under our "Go Deep" strategy, we plan to deepen our penetration in existing coverage areas where we believe there remains significant potential to increase our customer base. Under our "Go National" strategy, we plan to expand into new coverage areas across the Philippine archipelago, first expanding into Cebu City in Visayas and strategically entering other new markets and submarkets in Visayas and Mindanao as we complete our nationwide backbone.

Service Disruption Risk

The continuity of our services is highly dependent on the proper functioning of our network infrastructure and our ability to conduct maintenance, upgrades and repairs on our network. Due to the physical nature of the broadband infrastructure, the network is at risk of fiber cuts or other reasons that could result to service disruptions, either on a small or large scale. In addition, our network operations may be disrupted as a result of natural disasters or environmental elements such as heavy rainfall or typhoons, or by third parties such as local government authorities undertaking construction works alongside our underground network cables.

Beyond expanding our network to reach an increasing number of households in the Philippines, we are actively investing in network equipment upgrades and backbone network redundancies to ensure reliable services to our customers.

Customer Retention Risk

We enter into fixed-term subscription contracts with our existing customers. To retain existing customers and acquire new customers, we must:

- offer services that are useful and attractively priced to customers;
- develop new services in anticipation of evolving customer needs;
- provide customer service that meets customer expectations;
- maintain the quality of our services (e.g., meeting SLAs, if any);
- successfully bid for enterprise contracts;
- manage and ensure compliance of third-party sales agents and managed service providers with our policies;
- continue to appropriately incentivize our third-party sales agents and managed service providers to expand and optimize our customer penetration in their respective areas;
- monitor and develop relationships with enterprise clients through our key account managers; and
- react quickly to our competitors across products, pricings, promotions, and technology.

Our ability to retain customers also depends on the ability of our enterprise customers to maintain their operations, which may be affected by, among others, the continuing attractiveness of the Philippines as a destination for BPOs and other sectors with high value broadband requirements.

Our contracts with enterprise customers typically contain guaranteed SLAs and service delivery date targets, and our execution in meeting our service level guarantees, including due to events beyond our control such as fiber cuts, equipment failure, and third-parties being unable to meet their underlying commitment with us, could materially and adversely affect our revenues.

We are fully committed to providing quality service to all residential subscribers and enterprise customers. To help address this risk, we have been continuously hardening our systems to lessen the impact of fiber cuts and localized equipment failure.

Innovation and Technological Advancement Risk

We operate in an industry driven by technological change, and we may be required to further upgrade our network technology. In addition, advances in technology and electronics and their impact on our operations and the competitive landscape of our industry are difficult to predict.

To remain competitive in the market, we have to anticipate and react to changes in customer preferences and broader economic, political and social conditions in the Philippines. If we fail to react in a timely manner to such changes, our market share and ability to attract customers may be reduced or deteriorate, which could materially adversely affect our business, results of operations, financial condition, and prospects. We may also be required to upgrade our network or our systems in response to changes in technology, which could increase our capital expenditure and our operating costs, which would materially and adversely affect our results of operations and financial condition. We may incur more capital expenditure than we currently contemplate.

To safeguard our competitive advantage in the market, we ensure that we are up-to-date with the latest technological trends in the industry. Our technology is currently the newest and most technologically advanced fixed broadband network technology in the country.

Supply Chain Risk

1. Network Equipment and Other Products

We rely on third parties for the supply of network materials (e.g., fiber optics), equipment (e.g., network terminals, equipment routers and equipment for customer premises) and services (e.g., construction work, outsourcing of operations and international connectivity). An adequate and dependable supply of network materials, equipment and services is critical to our ability to deliver high quality broadband services to our customers.

We also maintain important relationships and rely on key suppliers and service providers. In such cases where we have made substantial investments with a particular supplier, it may be difficult and costly for us to quickly replace such supply or service relationships in the event that such supplier refuses to offer us favorable prices or ceases to produce equipment or provide the services or support that we require.

Moreover, our supply chains may be disrupted by the general economic effects of epidemics, such as COVID-19. During the COVID-19 pandemic, there were limited product shipments into and out of China and other countries. During the imposition of enhanced quarantine measures in the Philippines, certain of our suppliers also requested to shorten the payment days for their invoices because of liquidity concerns, including in relation to making payments to their employees, own suppliers or subcontractors.

Our ability to service our customers is also dependent on our supplier(s) being able to provide us with our product given extenuating territorial circumstances or supply disruptions. In the event that our potential suppliers cannot provide us with the service or product required, we will find alternative suppliers. In 2020 and 2021, a global chip shortage was experienced caused by multiple events, escalated further by the effects of the COVID-19 pandemic. The port deployment and installation activities of the Company may be affected if its warehouses could not maintain a steady supply. The Company has ensured that around 6-month supply is available for the different materials and equipment needed for the continuous operations and expansion of Converge.

We are enhancing our third-party due diligence process covering vendors, service providers, contractors, and subcontractors. We are also planning to develop an internal Vendor Management and Development Team, who will play an integral role in spearheading further improvements in our supply chain and procurement guidelines.

2. Bandwidth and Leased Line Costs

We incur bandwidth and leased line costs when we transmit data through network lines that we lease from domestic and international third parties, such as electricity providers and other connectivity operators. In addition, as we continue to expand to new areas in the future, we

may rely on third-party bandwidth and leased lines domestically to offer our broadband services in areas that we are yet to fully reach using our proprietary network. An increased in bandwidth costs and leased line costs or the inability to lease lines to access certain areas, could reduce our revenues and could materially and adversely affect our business and results of operations.

Although unit bandwidth costs have been consistently declining in the Philippines and globally, and we intend to acquire proprietary access on bandwidth to key international routes, there is no assurance that our unit bandwidth costs will keep declining consistently in tandem with the market, especially around the time we renew our existing bandwidth contracts, which in turn could have a material adverse impact to our business and results of operations. Our bandwidth agreements are generally renewed annually, and our costs depend on the market unit bandwidth rates at the time of each renewal.

Financing Risk

Our ability to secure debt and equity financing is critical to make capital expenditures, refinance our indebtedness, and fund working capital and other payments. While we have secured ample long-term credit commitments from leading Philippine banks as of the date of this Prospectus, similar or better terms may not be available to us in the future. Our continued access to debt and equity financing is subject to external factors outside our control, such as political, economic, and social changes globally, as well as global disruptions in equity and credit markets.

Our ability to make payments on and refinance our indebtedness, fund working capital and make capital expenditures in the long term, will depend on our future operating performance and ability to generate sufficient cash over the longer term and obtain financing on acceptable terms.

Cyber Security Risk

Despite security measures, our network and systems are potentially exposed to physical or electronic break-ins, computer viruses, piracy, hacking, phishing attacks, and other similar disruptive problems. Furthermore, our operating activities could be subject to risks caused by misappropriation, misuse, leakage, falsification or accidental release or loss of information maintained in our information technology systems and network and those of our third-party vendors, including customer, personnel, and vendor data. Breaches of our network, including breaches through piracy or hacking, may result in unauthorized access to content carried on our network or a breach of privacy of voice and information transmissions over our network. On March 10, 2022, the Company's GoFiber app was the subject of an isolated incident of an attempt by unauthorized third parties to view certain account details of other subscribers. Based on the Company's investigation, it appears only a small portion of our customer base was affected. Apart from the potential unauthorized viewing of the personal information, the Company has no evidence to date that any personally identifiable information has been misused. The Company has complied with its obligation to report the incident to the National Privacy Commission.

Currently, our processes and policies are aligned with relevant regulations and standards such as the Data Privacy Act of 2012 and ISO/IEC 27001:2013. We do our utmost to ensure that our customers' information is only used in the provision of safe and quality services on our part and that no external entities unrelated to this will be able to access their data.

Execution Risk on network expansion

The rollout (including construction and expansion) and maintenance of our network, which we manage through our subsidiary Metroworks, are subject to certain risks that may delay the introduction of our services and increase or accelerate our capital expenditures and other expenses. These risks include:

- changes in, or our inability to accurately estimate, demand for our services, which could result in our developing excess or insufficient capacity;
- disputes with contractors, accidents or fraud, theft and other malfeasance, which could delay our rollout, increase our costs, result in litigation, or damage our reputation;
- failure of our contractors to deliver their services in a timely or satisfactory manner, including as a result of difficulties in obtaining the appropriate manpower complement or equipment and materials;

- the geography of the Philippine archipelago, which could delay our rollout or increase our costs in remote or inaccessible regions;
- obtaining licenses, permits and approvals, complying with environmental regulations (including the need to perform feasibility studies) and navigating changes in the legal, political or regulatory landscape,
- including at the local government level, which may delay the rollout of the project, require longer lead times for construction and increase our costs;
- increase in our capital expenditures, including due to inaccurate planning and foreign exchange rate movements; and
- adverse weather conditions, natural disasters, and COVID-19 (or any other future epidemics) travel and movement restrictions, which could delay our rollout or increase our costs.

To maintain our competitive position in the industry, we are focusing on the completion of the network rollout during the first half of the year. Even with the continued travel restrictions in certain areas of the country, we are committed to completing the rollout within the planned schedule.

Process Improvement Risk

Reliable billing, credit control, collection and customer management systems are critical to our ability to maintain and increase turnover, avoid turnover loss, monitor potential credit problems, and bill customers accurately and in a timely manner, the failure of which could affect our business, results of operations and financial condition. We will need to continue to calibrate and adapt our billing and credit control systems as our business continues to grow.

Environmental Risk

The continuity of our services and growth of our business is highly dependent on the proper functioning of our network and infrastructure, our ability to conduct maintenance, upgrades and repairs on our network and infrastructure, and our ability to continue our network rollout and expansion. In particular, damage or disruptions to our network operations, other network infrastructure and expansion plans, as a result of natural disasters and calamities such as typhoons, floods and earthquakes, public health crises and other events beyond our control, could materially and adversely affect our financial performance and operations. In addition, our network operations may be disrupted as a result of accidental damage, including from natural disasters or environmental elements such as heavy rainfall or typhoons, or by third parties such as local government authorities undertaking construction works alongside our underground and aerial network cables. Our customers may also claim from us any loss or damage they may suffer as a result.

Regulatory Risk

Our business depends, in part, upon the success of the expansion and management of our backbone, network rollout and systems. The broadband, data communications and internet services which we provide are regulated and we are supervised and regulated by various regulatory authorities, including the NTC.

We are required to obtain and maintain a franchise from the Philippine Congress to maintain telecommunications systems throughout the Philippines and numerous regulatory licenses and permits from various entities such as the NTC and local government units for the installation of our cables and other activities. In 2009, Congress passed Republic Act No. 9707 ("R.A. No. 9707") into law, granting Converge its franchise for a term of 25 years, or until 2034. R.A. No. 9707 mandates us to offer at least 30% of our outstanding capital stock in any securities exchange within five years of commencement of operations in compliance with the constitutional provision to encourage public participation in public utilities. The NTC has subsequently confirmed that this requirement must be complied with within 10 years from the commencement of our operations in 2012 (or by June 2022) and we intend to comply with this requirement on or before June 2022. Our franchise under R.A. 9707 is also subject to other conditions and reporting obligations, for which the record of compliance may no longer be available or which we believe would not be applicable pursuant to Section 17 of R.A. No. 9707. In a certification dated August 25, 2020, the NTC confirmed that our Company is in good standing with the NTC in connection with the requirements of our franchise. Failure to comply may subject our franchise to

revocation, and there can be no assurance that any extension to comply with this requirement by June 2022 will be provided.

Our franchise, licenses and permits are subject to review, interpretation, modification or termination by the relevant authorities. The relevant government authorities have ultimate discretion over whether licenses or permits will be granted or revoked. The relevant government authorities have ultimate discretion over whether licenses or permits will be granted or revoked. The issuance of our licenses and permits may also be delayed as a result of restrictions on movement imposed by the government, such as during the ECQ period. Any loss or failure to renew, obtain and maintain our franchise, licenses and permits or comply with the terms and conditions of such franchise, licenses and permits, may delay our development and expansions plans, expose us to sanctions or require us to cease providing our services, any of which could materially and adversely affect our business, results of operations, financial condition and prospects.

Before executing our network expansion and infrastructure projects or prior to having these projects become operational, certain permits and approvals are required, which could take several weeks or months to obtain. A delay in obtaining permits for our expansion and infrastructure projects may prevent us from completing our current or future network expansion projects on schedule, or on budget, or at all, which could significantly dampen our projected revenues and internal rates of return for such projects and materially and adversely affect our results of operations and financial condition.

Like other telecommunications companies in the Philippines, we are subject to changes in the regulatory regime from time to time. Any changes in laws, regulations or government policy (or in the interpretation of existing laws and regulations) may restrict our operations and subject us to further competitive pressure. For example, we could be harmed by changes in rules related to: data and consumer protection; data retention and technical standards; health, safety and environment standards; licensing, authorizations, declarations and other permits, certificates and notices; ISPs, local fixed networks, network access points and closed fixed networks; pricing; and limitations on our ability to manage traffic on our networks.

Complying with existing regulations may be burdensome, and future changes may increase our operational and administrative expenses and reduce revenues, which could materially adversely affect our business, results of operations, financial condition and prospects. There is no assurance that the Government or its relevant administrative agencies will not impose additional or more stringent laws, regulations or government policies in the future, which may subject our Company to more onerous obligations. See “*Description of Permits and Licenses.*”

Converge manages this risk by staying abreast with new regulatory mandates and ensuring compliance with such mandates in a timely manner.

Transfer Pricing Risk

We have entered into arrangements with Comclark and its affiliated companies. These arrangements primarily consist of lease agreements, cable TV agreements, facilities sharing agreements, and construction services agreements. Our related party transactions are described under “Related Party Transactions”.

We are subject to transfer pricing regulations imposed by the BIR. Our practice is to enter into contracts with these affiliated companies on commercial terms which are at least as favorable as the terms available from non-affiliated parties. We have commissioned a formal and independent transfer pricing study by an auditing firm which confirmed that our margins using a certain methodology are favorable against industry range. We regularly update the Audit and Related Party Transactions Committee on significant changes in commercial terms of these agreements.

Customer Preference Risk

The satisfaction of our customers depends in particular on the effectiveness of our customer service, in particular our ability to address requests and inquiries, install services, and deal with complaints and service issues, in a timely and satisfying manner. Although our Customer Experience Group maintains service desks, hotlines, email, the Converge Xperience App, social media accounts, and a customer

portal, gofiber.ph, to address customer needs and concerns, any unsatisfactory response or lack of responsiveness by our customer service team could adversely affect customer satisfaction and loyalty and our business reputation. Dissatisfaction with our customer service could have a material adverse effect on our reputation, business, financial condition, results of operations and prospects.

To be able to service the surge in demand for our products throughout 2020, the Company more than doubled the number of installation teams as compared to before the ECQ lockdown, enabling us to substantially reduce the backlog of installation. Converge also onboarded around 350 new outsourced contact center agents in 2020, to respond to customer queries, leading to reduced drop call rates for both our customer care and service desk teams.

Reputation Risk

We operate under the “Converge” brand name and our continued success and growth depends upon our ability to protect and promote our brand equity in existing and growth service areas. Prolonged service failure, security breaches, piracy and ineffective promotional activities may adversely impact the overall strength of our brand. Furthermore, the appeal and availability of our services, pricing strategy, points of sale locations, installation and after sales customer services all affect our customers’ perceptions of us.

Intellectual Property Risk

We have registered and are in the process of registering our intellectual property rights relating to certain of our products and trademarks. We believe that our trademarks and other proprietary rights, including our brands, have significant value and are important to identifying and differentiating certain of our products and services and our brand from those of our competitors.

Foreign Exchange Risk

Our sales and debt financing are denominated in Philippine Peso, while purchases on certain network materials and equipment are in currencies other than Philippine Peso, particularly the U.S. dollar. Movements in exchange rates between the Philippine Peso and U.S. dollar could have an adverse effect on our results of operations and financial condition to the extent we have a mismatch between our earnings in Philippine Pesos and our costs denominated in other currencies.

Pricing Risk

We aim to increase ARPU through improved product offerings, offering customers higher value broadband plans and customer service. In the long term, it may be necessary to reduce our prices or offer discounts or promotions to increase our subscriber base, which may result in a decrease in ARPU.

Human Resource Risk

We depend on the availability and continued service of several key account managers, employees, and other individuals, including our directors and senior management. These key individuals are heavily involved in the daily operation of our business and are, at the same time, required to make strategic decisions, ensure their implementation, and manage and supervise our development. Our future operating results depend, in a significant part, upon the continued contributions of our Founders and senior management, and our ability to expand our senior management team by adding highly skilled new members.

Compliance Risk

- Environmental

We are subject to various laws and regulations relating to environmental matters. These include laws relating to the protection of the environment, human health, and human safety such as laws and regulations governing the management and disposal of, and exposure to, hazardous materials, for which we could be liable for the costs of removal of certain hazardous substances and clean-up of certain hazardous locations. In addition, any project that could be expected to

have a significant impact to the quality of the environment is subject to the Philippine Environment Impact Study system, for which an Environmental Compliance Certificate (“ECC”) would need to be obtained from the Philippine Department of Environment and Natural Resources (“DENR”) before the project can proceed. Our planned nationwide submarine cable network that will connect the main islands of the Philippine archipelago, requires the relevant ECC to be obtained. The introduction of, or changes in, laws and regulations applicable to our business could materially adversely affect our business, results of operations, financial condition, and prospects.

- **Data Privacy**

Legislation such as Republic Act No. 10173 and its implementing rules and regulations (the “Data Privacy Act”) aim to protect individual privacy. The rules apply to the processing of personal data in the public and private sectors, as well as to acts done or practices engaged in and outside of the Philippines under certain conditions. From 2018, the National Privacy Commission (“NPC”), has gradually shifted its focus from campaigning for Data Privacy Act awareness to compliance checks on entities engaged in personal data processing. Personal data breaches and other controversies relating to the unauthorized processing of personal data both within the Philippines and abroad have also increased public scrutiny on the activities of entities engaged in personal data processing.

Any failure, or perceived failure, to make effective modifications to our policies, or to comply with any privacy, data-retention or data-protection-related laws, regulations, orders or industry self-regulatory principles, including the Data Privacy Act, could result in proceedings or actions against us by governmental entities or others, loss of user confidence and damage to our reputation, any of which could potentially have a material adverse effect on our business. We may also be required to incur further expenditure to put in place more advanced security systems to protect our network and systems.

- **Others**

From time to time, we may be involved in disputes with various parties and may be adversely affected by complaints, investigations and litigation from customers or regulatory authorities resulting from network and product quality, illness, injury or other safety concerns or other issues stemming from our network, products, and services. Regardless of the outcome, these disputes and investigations may lead to legal or other proceedings and may result in substantial costs and the diversion of resources and management’s attention. In addition, we may have disagreements with regulatory bodies during operations, which may subject us to administrative proceedings and unfavorable decisions that may result in penalties or other liabilities.

Also, we may be subject to routine or special tax and audit processes and investigations by regulatory bodies such as the BIR in relation to taxes in connection with our operations. Furthermore, such audits may require the production of certain documents which may no longer be available because of the length of time since such documents were executed or prepared. Any adverse finding resulting therefrom may lead to administrative proceedings and the assessment of additional tax liabilities or result in fines or penalties.

Labor Management Risk

We generally consider our labor relations to be good and harmonious. However, there is the risk of future disruptions to operations due to labor disputes or other issues with employees, which could materially adversely affect our business, results of operations, financial condition, and prospects.

Various labor laws govern our relationship with our employees and affect operating costs. These laws include minimum wage requirements, mandatory health benefits, overtime compensation, and other terms and conditions of employment. We are also exposed to litigation risk from employees of our various third-party contractors, who may involve Converge as party to their labor cases and labor disputes against these third-party contractors.

Insurance Risk

We maintain a number of different types of insurance policies to cover our operations and assets. If we suffer a significant uninsured loss or if an insurance claim in respect of the subject matter of insurance is not accepted or any insured loss suffered by us significantly exceeds our insurance coverage, additional costs may be incurred.

RISKS RELATING TO THE PHILIPPINES

We closely monitor and adopt the necessary financial, operational, and other controls and policies within the context of the prevailing business, economic, and political environment in the Philippines to address risks relating to the Philippines.

Political instability in the Philippines

The Philippines has from time to time experienced political and military instability. In recent history, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by previous and current administrations. There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy. An unstable political environment may negatively affect the general economic conditions and operating environment in the Philippines, which in turn could have a material adverse effect on our business, operations, and financial condition.

In addition, the Company may be affected by political and social developments in the Philippines and changes in the political leadership and/or government policies in the Philippines. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that could impact our business.

The upcoming elections in 2022 may result to developments that may impact our operations and the pace of roll out of our network given permitting and other administrative requirements impacted by political transitions.

Concentration of business activities and assets in the Philippines

We derive our operating income and operating profits from the Philippines and, as such, we are highly dependent on the state of the Philippine economy. Factors that may adversely affect the Philippine economy include: decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally; scarcity of credit or other financing, resulting in lower demand for products and services; the sovereign credit ratings of the country; foreign exchange rate fluctuations; foreign exchange controls; a prolonged period of inflation or increase in interest rates; levels of employment, consumer confidence and income; decrease in remittances from OFWs; changes in the Government's taxation policies; Government budget deficits; the emergence of infectious diseases and epidemics in the Philippines or in other countries in Southeast Asia and any related restrictions on travel and movement to control the spread of disease; natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events; political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and other regulatory, social, political or economic developments in or affecting the Philippines.

Any future deterioration in economic conditions in the Philippines due to these or other factors could materially and adversely affect our customers and contractual counterparties. This, in turn, could materially and adversely affect our financial position and results of operations. Therefore, changes in the conditions of the Philippine economy could materially and adversely affect our business, financial condition or results of operations.

Public health crises or outbreaks of diseases

An outbreak of disease or similar public health threat, such as COVID-19, or a pandemic, could trigger a public health crises which would have an adverse effect on economic activity in the Philippines, and could materially and adversely affect our business, financial condition and results of operations. In

addition, outbreaks of disease could result in increased government restrictions and regulation, including quarantines of our personnel and customers, or an inability to access our facilities or network infrastructure, which could adversely affect our operations.

The global economic downturn resulting from the COVID-19 pandemic may have an adverse impact in the Philippines' macroeconomic indicators, such as employment, consumer confidence, disposable income, private spending, and business transactions. Since the outbreak of COVID-19, several companies were closed temporarily for precautionary reasons, which have led to a decrease in economic activity in the Philippines.

Stringent social distancing measures were put in place over the entire of Luzon. The measures imposed included requiring strict home quarantine; prohibiting mass gatherings; closing of private establishments except for those providing basic necessities; suspending mass public transport facilities; and restricting land, domestic air, and domestic sea travel to and from Luzon, including Metro Manila. The extent of the impact of COVID-19 on the Philippine economy and the speed and certainty of any economic recovery cannot be predicted for certain, and any new surge in infections may result in stricter quarantine or lockdown measures across provinces, cities and municipalities and may lead to further contraction of the Philippine economy, closure of businesses, and rise in unemployment rates.

The extent of the impact of the COVID-19 on our operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related restrictions, and the overall impact of COVID-19 on the Philippine economy and demand for our products and services, all of which are highly uncertain and cannot be predicted.

The Philippines has also experienced other public health epidemics or outbreaks of diseases, such as avian influenza or bird flu, African Swine Fever, dengue and polio, among others, which have adversely affected the local economy. If any such localized outbreak or any public health epidemic becomes widespread in the Philippines or increases in severity, this could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect our business, financial condition, and results of operations.

We have incurred additional expenses relating to the purchase of protective equipment for our employees, the disinfection and reconfiguration of company premises, and donations to various non-profit institutions, among others. In addition, we recalibrated our network configuration to adjust for geographical and usage shifts during the pandemic.

Acts of terrorism

The Philippines has been subject to a number of terrorist attacks in the past several years. The Philippine army has been in conflict with various groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines as well as clashes with separatist groups. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country.

An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings, and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy. Any such destabilization could cause interruption to our business and materially and adversely affect our financial conditions, results of operations and prospects.

Territorial disputes

The Philippines, China, and several Southeast Asian nations have been engaged in a series of longstanding territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at the Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea (UNCLOS). In July 2016, the tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the "nine-dash line"

claim of China is invalid. The Philippine government, under the Duterte administration, has taken action to de-escalate tensions concerning the territorial dispute with China.

There is no guarantee that the territorial dispute between the Philippines and other countries, including China, would end or that any existing tension will not escalate further, as China has taken steps to exercise control over the disputed territory. In such event, the Philippine economy may be disrupted and its business and financial standing may be adversely affected.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and our operations could be adversely affected as a result.

RISKS RELATING TO THE SECURITIES

An active or liquid trading market for the Securities may not develop

The Philippine securities markets are substantially smaller, less liquid and more concentrated than major securities markets. The Company cannot guarantee that the market for the Securities will always be active or liquid. Even if the Securities are listed on the PDEX, trading in securities such as the Securities may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets, and the overall market for debt securities among other factors. There is no assurance that the Securities may be easily disposed at prices and volumes at instances best deemed appropriate by their holders.

Holders of the Securities may be unable to reinvest the proceeds of their Securities following redemption by the Issuer.

The Issuer may have the option, but not the obligation, to redeem in whole (and not in part), the outstanding Securities prior to the relevant maturity dates of certain tranches of the Securities. Prior to the Maturity Date, the Issuer has the option, but not the obligation, to redeem in whole (and not in part) the outstanding Bonds on the relevant Call Option Dates (see “Description of the Bonds – Call Option”). In the event that the Company exercises this call option, the relevant series of the Securities, such as the Bonds will be redeemed and the Company will pay the amounts to which holders would be entitled. The date on which the Issuer elects to redeem the Securities may not accord with the preference of individual holders of the Securities. This may be disadvantageous to them in light of market conditions or their individual circumstances. Following such redemption and payment, there can be no assurance that investors in the redeemed Bonds will be able to re-invest such amounts in securities that would offer a comparative or better yield or terms, at such time.

Holders of the Securities may face possible gain or loss if the Securities are sold at the secondary market.

As with all fixed income securities, the Securities’ market values move (either up or down) depending on the change in interest rates. The Securities when sold in the secondary market are worth more if interest rates decrease since the Securities have a higher interest rate relative to the market. Likewise, if the prevailing interest rate increases, the Securities are worth less when sold in the secondary market. Therefore, holders may either make a gain or incur a loss when they decide to sell the Securities.

The Securities may not be able to retain its credit rating

There is no assurance that the rating of the Securities will be retained throughout the life of the Securities. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

The Securities have no Preference under Article 2244(14) of the Civil Code

No other loan or other debt facility, other than those notarized loans or debt facilities entered into by the Issuer as reflected in its latest financial statements, shall have preference or priority over the Securities as accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines. The Issuer

is exerting all efforts to obtain from the relevant banks and lenders under such loans or facilities that are notarized to waive the right to the benefit of any such preference or priority; however, there is no assurance that such waivers will be obtained prior to the issuance of the Securities or at all. Other than the loans and debt facilities reflected in the financial statements, the Issuer has no other notarized loan or debt facility with any other banks and lenders. Further, should any bank or security holder hereinafter have a preference or priority over the Securities, the Issuer shall at the Issuer's option, either procure a waiver of the preference created by such notarization or equally and ratably extend such preference to the Securities as may be practicable.

The Issuer may be unable to redeem the Bonds.

Upon maturity, the Issuer will be required to redeem all of the Bonds. At such event, the Issuer may not have sufficient cash on hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. The failure by the Issuer to repay, repurchase or redeem tendered Bonds would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Issuer.

The Issuer has a very strong business franchise in the Philippines. It has a robust recurring cash flow and maintains a low debt-equity ratio and a high level of liquidity in its balance sheet. The Issuer believes that it has sufficient resources which will allow it to service the principal and interest of the Bonds.

There can be no guarantee that the Bonds will be listed on the PDEX.

Purchasers of the Bonds will be required to pay for such Bonds prior to the listing date of such shares. There can be no guarantee that listing will occur on the anticipated listing date for the relevant tranche or at all. Delays in the admission and the commencement of trading of the Bonds in the PDEX may occur. If the PDEX does not admit the Bonds, the market for the Bonds will be illiquid and bondholders may not be able to trade the Bonds. This may materially and adversely affect the value of the Bonds.

Risks Related to Statements Made in this Prospectus

Certain statistics in this Prospectus relating to the Philippines, the industries and markets in which the business of the Company operates, including statistics relating to market size and market share, are derived from various government and private publications, including those produced by industry associations and research groups. This information has not been independently verified and may not be accurate, complete, up-to-date or consistent with other information compiled within or outside the Philippines.

USE OF PROCEEDS

Following the offer and sale of the Bonds in the aggregate principal amount of ₱5 billion with an Oversubscription Option of up to ₱5 billion, Converge expects that the net proceeds of the Offer shall amount to approximately ₱4,927,238,713.75 billion for a ₱5,000,000,000.00 billion issue size or ₱9,868,334,181.50 billion for a ₱10,000,000,000.00 billion issue size, assuming full exercise of the Oversubscription Option, and after deducting fees, commissions and expenses.

Based on an issue size of ₱5,000,000,000.00:

	Total
Estimated proceeds from the sale of the Bonds	₱5,000,000,000.00
Less:	
SEC Registration and Legal Research Fee	₱1,404,561.25
Documentary Stamp Tax	37,500,000.00
Underwriting Fee ¹	20,000,000.00
Estimated Professional Expenses and Agency fees ²	12,756,725.00
Marketing/Printing/Photocopying Costs and out-of-pocket Expenses ³	1,000,000.00
Listing Fee	100,000.00
Total Estimated Upfront Expenses	72,761,286.25
Estimated net proceeds to Converge	₱4,927,238,713.75

¹ The Underwriting Fee is to be split equally between the two Joint Lead Underwriters and Bookrunners. The Underwriting Fee paid to each Joint Lead Underwriter and Bookrunner amounts to ₱10,000,000.00.

² This includes accounting (₱2,000,000.00), legal (₱4,000,000.00), rating (₱3,136,000.00), registry and paying agency (₱3,280,625.00), trusteeship (₱330,000.00), and Insurance Commission fees (₱10,100.00) upfront fees.

³ This includes publication and out-of-pocket-expense fees of ₱500,000.00 each.

Based on an issue size of ₱10,000,000,000.00:

	Total
Estimated proceeds from the sale of the Bonds	₱10,000,000,000.00
Less:	
SEC Registration and Legal Research Fee	₱2,809,093.50
Documentary Stamp Tax	75,000,000.00
Underwriting Fee ¹	40,000,000.00
Estimated Professional Expenses and Agency fees ²	12,756,725.00
Marketing/Printing/Photocopying Costs and out-of-pocket Expenses ³	1,000,000.00
Listing Fee	100,000.00
Total Estimated Upfront Expenses	131,665,818.50
Estimated net proceeds to Converge	₱9,868,334,181.50

¹ The Underwriting Fee is to be split equally between the two Joint Lead Underwriters and Bookrunners. The Underwriting Fee paid to each Joint Lead Underwriter and Bookrunner amounts to ₱20,000,000.00.

² This includes accounting (₱2,000,000.00), legal (₱4,000,000.00), rating (₱3,136,000.00), registry and paying agency (₱3,280,625.00), trusteeship (₱330,000.00), and Insurance Commission fees (₱10,100.00) upfront fees.

³ This includes publication and out-of-pocket-expense fees of ₱500,000.00 each.

Aside from the fees enumerated above, the Company will be paying the following estimated annual fees related to the Bonds:

1. Annual maintenance fee of 1/200 of 1% of the face value or a maximum of ₱150,000.00 in advance upon the approval of the listing of the Bonds by PDEX
2. Registry maintenance fee based on face value of the Bonds and the number of bondholders; After the issue date, a paying agency fee amounting to 5 basis points of the amount to be paid with a minimum of ₱10,000.00 and a maximum of ₱100,000.00 is payable every interest payment date
3. Annual Rating Monitoring and Agency fees of ₱700,000.00 plus VAT; and
4. Annual Trustee fee of ₱330,000.00.

Expenses incurred in connection with the offering of the Bonds, including documentary stamp tax, fees of the Trustee, and the Registrar and Paying Agent will be for the account of the Issuer.

USE OF PROCEEDS

Capital Expenditures

The net proceeds will be mainly used to fund capital expenditures in connection with (i) outside plant equipment, (ii) inside plant equipment, and (iii) other property, plant and equipment and intangible assets, for the expansion of the Company's nationwide fiber network, including new markets in Visayas and Mindanao. With this expansion, the Company will be able to serve more subscribers with quality broadband services. In 2022, Converge is expected to deploy more than 2,000,000 fiber ports throughout the country.

Outside Plant Equipment

Approximately 50% to 70% of the net proceeds from the Offer will be used for the purchase of our outside plant equipment, or passive or not electrically powered network equipment, related to the expansion of our proprietary end-to-end fiber network. In particular, the estimated net proceeds will be used to fund the purchase of fiber-optic cables, the construction of our domestic backbone and distribution networks, including the construction of poles, the installation of network access points and ports, and investments in international bandwidth capacity on major international connectivity networks.

Inside Plant Equipment

Approximately 20% to 30% of the net proceeds from the Offer will be used investments into our inside plant equipment, or active or electrically powered network equipment. This includes dense wavelength division multiplexing ("DWDM") equipment and routers for activating the network buildout discussed in the planned outside plant equipment above.

Other Property, Plant and Equipment and Intangible Assets

Approximately 10% to 20% of the net proceeds from the Offer will be used for investments into other PPE and intangible assets. This includes customer premise equipment such as customer modems and routers, general IT investments such as laptop computers and related office equipment and such as IT systems and software, to support and complement our fiber network expansion.

General Corporate Purposes

The Company may likewise use a portion of the proceeds of the Offer to provide additional funds for the expenses of the Company related to its operations and activities, overhead expenses and taxes. Subject to determination by management of the appropriate amounts, taking into consideration the abovementioned factors, a portion of the proceeds may be allocated for general corporate purposes. Management expects to use such portion of the proceeds, if any, within three (3) months from the Issue Date. The proceeds from the Offer to be used for general corporate purposes will be used directly by the Company.

To the extent that the net proceeds exceed the total above and there are changes in capital expenditures, such excess will be used for the Issuer's general corporate purposes. Correspondingly, if net proceeds are less than the above total, the Issuer shall satisfy the balance of the above from internally generated funds and/or other credit facilities which may include bank borrowings, as the Issuer may consider commercially favorable at the relevant time.

In summary, the net proceeds of the Offer shall be used as follows:

Purpose	Base Offer	Base Offer and Oversubscription Option*	Estimated Timing of Disbursement
Capital Expenditures	₱4 billion to ₱5 billion	₱8 billion to ₱10 billion	2 nd Quarter of 2022 to 2 nd Quarter or 2023

Other Corporate Purposes	General up to ₱1 billion	up to ₱2 billion	2 nd Quarter of 2022 to 2 nd Quarter or 2023
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**Assuming full exercise of the Oversubscription Option.*

In the event that the net proceeds from the sale of Bonds is less than the expected amount, we intend to allocate the proceeds in order of priority as follows: (i) outside plant equipment; (ii) inside plant equipment; (iii) other property, plant and equipment and intangible assets, for the expansion of the Company's nationwide fiber network; and (iv) general corporate purposes.

Any shortfall from the net proceeds of the Offer allotted to any of the foregoing will be financed from the Company's internally generated funds.

UNDERTAKING ON THE USE OF PROCEEDS

Pending the above use of proceeds, the Company shall invest the net proceeds from the Offer in short-term liquid investments including but not limited to short-term government securities, bank deposits, and money market placements which are expected to earn at prevailing market rates. In the event such investments should incur losses, any shortfall will be financed from the Company's internally generated funds.

No amount of proceeds shall be used to reimburse any officer, director, employee, or stockholder for services rendered, assets previously transferred, money loaned or advanced, or otherwise. Except for the underwriting fees and expenses related to the Bonds, no amount of the proceeds will be utilized to pay any outstanding financial obligation to the Joint Lead Underwriters and Bookrunners.

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on the Company's current plans and anticipated expenditures. In the event there is any change in the Company's current plans, including force majeure, market conditions and other circumstances, the Company will carefully evaluate the situation and may reallocate the proceeds at the discretion of the Company's management. The Company's cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Company's management may find it necessary or advisable to alter its plans. In the event of any material deviation, reallocation or adjustment in the planned use of proceeds, the Company shall inform the SEC and issue all appropriate disclosures within thirty (30) days prior to its implementation. Any material or substantial adjustment to the use of proceeds, as indicated above, shall be approved by the Board and shall be publicly disclosed through the SEC, PSE, and PDEX.

CAPITALIZATION

The following tables set forth the reviewed consolidated short-term and long-term debt and capitalization of Converge as of September 30, 2021. These tables should be read in conjunction with the more detailed information and reviewed condensed consolidated interim financial statements, including notes thereto, found in this Prospectus.

(in ₱)	As of September 30, 2021	Adjustment	As adjusted for Issue Amount of ₱5 billion (Upon issuance of the Bonds)
Current Liabilities			
Trade and other current liabilities	19,838,264,466		19,838,264,466
Loans payable, current portion	3,061,031,385		3,061,031,385
Lease liabilities, current portion	230,406,171		230,406,171
Due to related parties	128,926,111		128,926,111
Deferred revenue, current portion	883,620,552		883,620,552
Income tax payable	814,084,717		814,084,717
Total current liabilities	24,956,333,402		24,956,333,402
Non-Current Liabilities			
Deferred revenues, net of current portion	285,426,679		285,426,679
Loans payable, net of current portion	15,036,868,100	5,000,000,000	20,036,868,100
Lease liabilities, net of current portion	1,536,594,645		1,536,594,645
Retirement benefit obligation	141,825,539		141,825,539
Subscribers' deposits, net of current portion	389,683,175		389,683,175
Total non-current liabilities	17,390,398,138		22,390,398,138
Total Liabilities	42,346,731,540		47,346,731,540
Equity			
Attributable to owners of the Parent Company:			
Share capital			
Common shares	1,881,573,615		1,881,573,615
Additional paid-in capital	18,746,088,245		18,746,088,245
Retained earnings			0
Unappropriated	12,337,333,581		12,337,333,581
Reserve for remeasurements of retirement benefit obligation, net of tax	8,130,319		8,130,319
Reserve for share-based compensation	113,617,486		113,617,486
Non-controlling interest	312,500		312,500
Total Equity	33,087,055,746		33,087,055,746
Total Liabilities and Equity	75,433,787,286		80,433,787,286

Notes:

1. Reflects Bond Issue Amount of ₱5 billion

2. *Total Capitalization is the sum of Total Liabilities and Total Equity*

The following table sets forth the reviewed consolidated short-term and long-term debt and capitalization of Converge as of September 30, 2021, assuming the full exercise of the Oversubscription Option.

(in ₱)	As of September 30, 2021	Adjustment	As adjusted for Issue Amount of ₱10 billion (Upon issuance of the Bonds)
Current Liabilities			
Trade and other current liabilities	19,838,264,466		19,838,264,466
Loans payable, current portion	3,061,031,385		3,061,031,385
Lease liabilities, current portion	230,406,171		230,406,171
Due to related parties	128,926,111		128,926,111
Deferred revenue, current portion	883,620,552		883,620,552
Income tax payable	814,084,717		814,084,717
Total current liabilities	24,956,333,402		24,956,333,402
Non-Current Liabilities			
Deferred revenues, net of current portion	285,426,679		285,426,679
Loans payable, net of current portion	15,036,868,100	10,000,000,000	25,036,868,100
Lease liabilities, net of current portion	1,536,594,645		1,536,594,645
Retirement benefit obligation	141,825,539		141,825,539
Subscribers' deposits, net of current portion	389,683,175		389,683,175
Total non-current liabilities	17,390,398,138		27,390,398,138
Total Liabilities	42,346,731,540		52,346,731,540
Equity			
Attributable to owners of the Parent Company:			
Share capital			
Common shares	1,881,573,615		1,881,573,615
Additional paid-in capital	18,746,088,245		18,746,088,245
Retained earnings			0
Unappropriated	12,337,333,581		12,337,333,581
Reserve for remeasurements of retirement benefit obligation, net of tax	8,130,319		8,130,319
Reserve for share-based compensation	113,617,486		113,617,486
Non-controlling interest	312,500		312,500
Total Equity	33,087,055,746		33,087,055,746
Total Liabilities and Equity	75,433,787,286		85,433,787,286

Notes:

3. *Reflects Bond Issue Amount of ₱10 billion*
4. *Total Capitalization is the sum of Total Liabilities and Total Equity*

DETERMINATION OF OFFERING PRICE

The Bonds shall be issued on a fully-paid basis and at an issue price that is at par.

The Interest Rate of the Bonds was based on the 3-day simple average of the 5-year PHP BVAL Reference Rate, as published on the relevant page of Bloomberg at approximately 5:00 p.m. (Philippine Standard Time) for the three (3) consecutive Banking Days immediately preceding and ending on the interest rate setting date, and a spread of 50 basis points, as determined via a book building process.

The use of PHP BVAL Reference Rates as the basis for the computation of the interest rate is market convention and is the prevalent practice in pricing corporate bonds. The Bankers Association of the Philippines recognizes PHP BVAL Reference Rates as the metric to be used as the Philippine Peso Government Securities ("GS") benchmark in the GS market and is currently the benchmark administrator and owner of the PHP BVAL Reference Rates. The PHP BVAL Reference Rates are solely calculated by Bloomberg Finance Singapore L.P. and/or its affiliates ("Bloomberg"), under an agreement with BAP, and are derived from sources deemed reliable by Bloomberg.

PLAN OF DISTRIBUTION OF THE BONDS

The detailed plan of distribution and underwriting arrangement for each succeeding Tranche shall be set out in the relevant offer supplement.

THE OFFER AND SECURITIES PROGRAM SHELF REGISTRATION

On January 5, 2022, Converge filed a Registration Statement with the SEC in connection with the offer and sale to the public and such other manner of offering of fixed-rate bonds as may be applicable under the rules and regulations therefor as promulgated by the SEC of up to an aggregate principal amount of ₱20,000,000,000 to be issued in one or more tranches ("**Debt Securities Program**").

The Bonds will be issued with an aggregate principal amount of ₱5 Billion with an Oversubscription Option of up to ₱5 billion. The Bonds will be issued from and will constitute the first Tranche under the Debt Securities Program. The Oversubscription Option is exercisable by the Joint Lead Underwriters and Bookrunners with the consent of the Issuer. In the event the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, such portion of the Bonds under the Oversubscription Option which have not been taken up or exercised in the Offer shall remain under the Debt Securities Program and shall form part of the remaining bonds in the shelf available for issuance within the Shelf Period of the Debt Securities Program or until 2025.

SHELF REGISTRATION OF SECURITIES NOT COVERED BY THE OFFER

After the close of the Offer and within three (3) years following the effectivity date of the Registration Statement filed for the Debt Securities Program, Converge may, at its sole discretion, offer any or all of the remaining balance of the aggregate principal amount of Securities covered by such registration statement, in one or more subsequent Tranches under Rule 8.1.2 of the 2015 Implementing Rules and Regulations of the Securities Regulation Code. Such a shelf registration provides Converge with the ability to conduct such an offering within a comparatively short period of time. Converge believes that this provides it with the increased ability to take advantage of opportunities in a volatile debt capital market, as these occur. Any subsequent offering under such rule requires the submission by Converge of the relevant updates and amendments to the registration statement and the issuance of the corresponding SEC Permit by the SEC. As a listed company, Converge regularly disseminates such updates and information in its disclosures to the SEC and PSE.

At any time, which may include periods shortly following the completion of the Offer, Converge may initiate subsequent offers of other Securities in various Tranches from the balance of the aggregate principal amount of Securities that will remain unissued from the Debt Securities Program. Such subsequent offers may be conducted on different terms and tenors involving different issue managers, underwriters and bookrunners or other transaction parties. Converge regularly considers prevailing market conditions and opportunities in relation to such offers that are permitted within the three (3) year effectivity of the Debt Securities Program.

However, there can be no assurance in respect of: (i) whether Converge will issue any such Securities at all; (ii) the size or timing of any individual issuance or the total issuance of such Securities; or (iii) the tenor, interest rate or other specific terms and conditions of any such issuance. Any decision by Converge to offer such Securities will depend on a number of factors at the relevant time, many of which are not within Converge's control, including but not limited to: prevailing interest rates, the financing requirements of Converge's business and prospects, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

THE JOINT LEAD UNDERWRITERS AND BOOKRUNNERS FOR THE OFFER

BDO Capital and BPI Capital, pursuant to an Underwriting Agreement with Converge dated March 23, 2022, (the "Underwriting Agreement"), have agreed to act as the Joint Lead Underwriters and Bookrunners for the Offer and as such, distribute and sell the Bonds at the Issue Price, and have also committed to jointly but not solidarily underwrite in total ₱5,000,000,000 of the Offer on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses.

For the Offer, the Joint Lead Underwriters and Bookrunners will receive a fee of up to 0.40% on the underwritten principal amount of the Bonds issued. Such fee shall be inclusive of underwriting fees and participation commissions to be paid to participating underwriters and selling agents, if any. The amount of the firm commitments of the Joint Lead Underwriters and Bookrunners are as follows:

Joint Lead Underwriters and Bookrunners	Commitment
BDO Capital	₱ 2,500,000,000.00
BPI Capital	₱ 2,500,000,000.00
Total	₱ 5,000,000,000.00

The Oversubscription Option, once exercised during the Offer Period, shall be deemed firmly underwritten by the Joint Lead Underwriters and Bookrunners, in addition to the amounts above. Any Bonds issued under the Oversubscription Option will be allocated among the Joint Lead Underwriters and Bookrunners according to the orders received by the Joint Lead Underwriters and Bookrunners.

There is no arrangement for the Joint Lead Underwriters and Bookrunners to return any unsold Bonds to Converge. The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to Converge of the net proceeds of the Bonds.

The Joint Lead Underwriters and Bookrunners are duly licensed by the SEC to engage in underwriting or distribution of the Bonds. The Joint Lead Underwriters and Bookrunners may, from time to time, engage in transactions with and perform services in the ordinary course of its business for Converge or other members of the group of which Converge forms a part.

The Joint Lead Underwriters and Bookrunners do not have any right to designate or nominate a member of the Board. The Joint Lead Underwriters and Bookrunners have no direct relationship with the Company in terms of share ownership and, other than as Joint Lead Underwriter or Bookrunner for the Offer, does not have any material relationship with the Company.

BDO Capital is the wholly owned investment banking subsidiary of BDO Unibank, Inc., which, in turn, is an associate of the SM Group. BDO Capital is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity, project finance, and direct equity investment. Incorporated in December 1998, BDO Capital commenced operations in March 1999. It obtained its license to operate as an investment house in 1998 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. As of December 31, 2020, it had ₱4.40 billion and ₱4.10 billion in assets and capital, respectively. It has an authorized capital stock of ₱1.10 billion, of which approximately ₱1.00 billion represents its paid-up capital.

BPI Capital is a corporation organized in the Philippines as a wholly owned subsidiary of the Bank of the Philippine Islands ("BPI"). It obtained its license to operate as an investment house in 1994 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. As of June 30, 2021, its total assets amounted to ₱4.24 billion and its capital base amounted to ₱4.07 billion.

The Joint Lead Underwriters and Bookrunners has no direct or indirect relations with Converge in terms of material ownership by their respective major stockholder/s.

SALE AND DISTRIBUTION

The distribution and sale of the Bonds shall be undertaken by the Joint Lead Underwriters and Bookrunners who shall sell and distribute the Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Joint Lead Underwriters and Bookrunners from purchasing the Bonds for their own respective accounts should there be any unsold Bonds after the Offer Period. The distribution and sale of the Bonds by the Selling Agent will be strictly limited to their respective proprietary accounts only, which shall include their own retail customer base, trust department (if any), subsidiaries, and affiliates.

Land Bank and RCBC Capital are the Selling Agents for the Bonds.

Land Bank is a government financial institution duly organized and existing under and by virtue of the

provisions of Republic Act No. 3844, as amended, with principal offices at the Land Bank Plaza, 1598 M.H. del Pilar cor. Dr. J. Quintos Streets, Malate, Manila. LBP is a duly authorized and licensed universal bank with full power and authority to undertake its commitment and is authorized to perform the duties and functions required of it.

RCBC Capital is a licensed investment house providing a complete range of capital raising and financial advisory services. Established in 1974, RCBC Capital has 48 years of experience in the underwriting of equity, quasi-equity and debt securities, as well as in managing and arranging the syndication of loans, and in financial advisory. RCBC Capital is a wholly-owned subsidiary of the Rizal Commercial Banking Corporation and a part of YGC, one of the country's largest fully integrated financial services conglomerates.

OFFER PERIOD

The Offer Period shall commence at 9:00 a.m. on March 28, 2022 and end at 5:00 p.m. on April 1, 2022, or on such other dates as the Issuer and the Joint Lead Underwriters and Bookrunners may agree upon.

APPLICATION TO PURCHASE

Applicants may purchase the Bonds during the Offer Period by submitting to the Joint Lead Underwriters and Bookrunners properly completed Applications to Purchase, whether originally signed or electronically submitted (through the e-Securities Issue Portal ("E-SIP") upon and subject to the E-SIP's approval by the SEC), together with all applicable supporting documentation in the prescribed form and submitted in the prescribed manner, with full payment of the purchase price of the Bonds in the manner provided therein. Corporate and institutional applicants may also be required to submit, in addition to the foregoing:

- an original notarized certificate of the corporate secretary or an equivalent officer of the Applicant setting forth resolutions of the board of directors, partners or equivalent body (i) authorizing the purchase of the Bonds indicated in the Application to Purchase and (ii) designating the signatories, with their specimen signatures, for the said purpose;
- copies of its Articles of Incorporation and By-Laws (or the Articles of Partnership, in case of a partnership) and latest amendments thereof, together with the Certificate of Incorporation issued by the SEC or other organizational documents issued by an equivalent government institution, stamped and signed as certified true copies by the SEC or the equivalent government institution, or by the corporate secretary, or by an equivalent officer(s) of the Applicant who is/are authorized signatory(ies);
- two (2) duly accomplished signature cards containing the specimen signatures of the authorized signatories of the Applicant, validated by its corporate secretary or by an equivalent officer(s) who is/are authorized signatory(ies);
- validly issued tax identification number issued by the BIR;
- identification document(s) of the authorized signatories of the Applicant; and
- such other documents as may be reasonably required by any of the Joint Lead Underwriters and Bookrunners or the Registrar in the implementation of its internal policies regarding "know your customer" and anti-money laundering.

Individual applicants may also be required to submit, in addition to the accomplished Applications to Purchase and its required attachments:

- identification document ("ID") of the Applicant which shall consist of any one of the following valid identification documents bearing a recent photo, and which is not expired: Passport, Driver's License, Professional Regulation Commission ID, National Bureau of Investigation Clearance, Police Clearance, Postal ID, Voter's ID, Barangay Certification, Government Service Insurance System e-Card, Social Security System Card, Senior Citizen Card, Overseas Workers Welfare Administration ID, OFW ID, Seaman's Book, Alien Certification of Registration/Immigrant Certificate of Registration, Government Office and government-owned and controlled corporation ID, e.g., Armed Forces of the Philippines, Home Development Mutual Fund, Certification from the National Council for the Welfare of Disabled Persons, Department of Social Welfare and Development Certification, Integrated Bar of the Philippines ID, company IDs issued by private entities or institutions registered with or supervised or

regulated either by the BSP, the SEC or the Insurance Commission, or school ID duly signed by the principal or head of the school (for students who are beneficiaries of remittances/fund transfers who are not yet of voting age);

- two (2) duly accomplished signature cards containing the specimen signature of the Applicant;
- validly issued tax identification number issued by the BIR; and
- such other documents as may be reasonably required by any of the Joint Lead Underwriters and Bookrunners or the Registrar in implementation of its internal policies regarding “know your customer” and anti-money laundering.

An Applicant claiming exemption from any applicable tax, or is subject to a preferential withholding tax rate shall, in addition to the requirements set forth above, be required to submit the following requirements, subject to acceptance by the Issuer, as being sufficient in form and substance:

- a current and valid original or BIR-certified true copy of the tax exemption certificate, ruling or opinion addressed to the relevant applicant or Bondholder, confirming its exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto, and certified by the Corporate Secretary of the Bondholder that: (a) the original is in the possession of the Corporate Secretary as the duly authorized custodian of the same; and (b) the Corporate Secretary has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting the said certification's validity;
- with respect to tax treaty relief, (a) prior to the payment of the initial interest due, (i) three (3) originals of the submitted BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the Bureau of Internal Revenue, as required under Revenue Memorandum Order No. 14-2021, (ii) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, (iii) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer, and (iv) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of the authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or the Bondholder's owners or beneficiaries is/are not doing business in the Philippines to support the applicability of a tax treaty relief; and (b) prior to the payment of subsequent interests due, (i) three (3) originals of the submitted new or updated BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes, as the Issuer deems applicable, and (ii) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued tax residency certificate has already lapsed; (c) other additional documents as may be required by the Issuer or pursuant to applicable tax regulations, which shall be submitted by the Bondholder/Registrar to the Issuer no later than the 1st day of the month when such initial or subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto;
- a duly notarized undertaking executed by (1) the corporate secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the applicant purchases, or the Bondholder holds, the Bonds for its account, or (2) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer, the Registrar and the Paying Agent of any suspension or revocation of the tax exemption certificates, or preferential rate entitlement, and agreeing to indemnify and hold the Issuer, the Registrar and the Paying Agent, and the Joint Lead

- Underwriters and Bookrunners free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or incorrect withholding of the required tax; and
- if applicable, such other documentary requirements as may be required by the Issuer and the Registrar and Paying Agent, or as required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized or apostilled (as the case may be) proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines; provided that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar.

Completed Applications to Purchase and corresponding payments must reach the Joint Lead Underwriters and Bookrunners prior to the end of the Offer Period, or such earlier date as may be specified by the Joint Lead Underwriters and Bookrunners. Acceptance by the Joint Lead Underwriters and Bookrunners of the completed Application to Purchase shall be subject to the availability of the Bonds and the acceptance by Converge. In the event that any check payment is returned by the drawee bank for any reason whatsoever, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase is deemed revoked.

MINIMUM PURCHASE

A minimum purchase of ₱20,000.00 shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of ₱10,000.00.

ALLOTMENT OF THE BONDS

If the Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted at the discretion of the Joint Lead Underwriters and Bookrunners, in consultation with the Issuer and subject to Converge's right of rejection.

REFUNDS

If any application is rejected or accepted in part only, the corresponding payment or the appropriate portion thereof shall be returned without interest to such applicant through the relevant Joint Lead Underwriter and Bookrunner from whom such application to purchase the Bonds was made.

Refunds shall be made, at the option of each Joint Lead Underwriter and Bookrunner or the selling agent (if any), either (i) through the issuance of check(s) payable to the order of the relevant Applicant and crossed "Payees' Account Only" and mailed or delivered, at the risk of the Applicant, to the address specified in the Application to Purchase, or (ii) through the issuance of instructions for automatic credit payments to the accounts of the relevant Applicants, as indicated in their respective Applications to Purchase.

UNCLAIMED PAYMENTS

Any payment of interest on, or the principal of the Bonds which remain unclaimed after the same shall have become due and payable, shall be held in trust by the Paying Agent for the Bondholders at the latter's risk and shall be dealt with in accordance with the relevant provisions of the Registry and Paying Agency Agreement.

PURCHASE AND CANCELLATION

The Issuer may at any time purchase any of the Bonds in the open market or by tender or by contract in accordance with PDEX Rules, as may be amended from time to time, without any obligation to purchase (and the Bondholders shall not be obliged to sell) the Bonds pro-rata from all Bondholders.

Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon listing of the Bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

SECONDARY MARKET

Converge intends to list the Bonds in the PDEX. For a more detailed discussion, please refer to the section “Description of the Bonds – Secondary Trading of the Bonds”.

REGISTER OF BONDHOLDERS

The Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing the Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Bonds shall be shown in the Register of Bondholders to be maintained by the designated registrar for the Bonds. The names and addresses of the Bondholders and the particulars of the Bonds held by them and all transfers of the Bonds shall be entered in the Register of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Register of Bondholders.

DESCRIPTION OF THE BONDS

The following is a description of certain terms and conditions of the Bonds. This description of the terms and conditions of the Bonds set forth herein does not purport to be complete and is qualified in its entirety by reference to the agreements relating to the Bonds, copies of which are available for inspection at the offices of the Trustee. The terms and conditions set out in this section will, subject to amendment, be set out in the Trust Indenture between the Issuer and the Trustee.

Pursuant to the order of registration for the Shelf Registration and the certificate of permit to offer securities for sale to be issued by the SEC, the Company will issue fixed-rate bonds with a principal amount of Five Billion Pesos (₱5,000,000,000.00) due 2027 (the “**Base Offer**”) with an oversubscription option, exercisable by the Joint Lead Underwriters and Bookrunners with consent of the Issuer, of up to Five Billion Pesos (₱5,000,000,000.00) (the “**Oversubscription Option**”, and together with the Base Offer, the “**Offer**” or the “**Bonds**”) for public offer and sale in the Philippines under the prospectus dated March 23, 2022 (the “**Prospectus**”). The Bonds will constitute the first tranche under the Debt Securities Program.

Debt Securities Program

On January 5, 2022, Converge applied with the SEC to register up to Twenty Billion Pesos (₱20,000,000,000.00) aggregate principal amount of debt securities and other securities as provided under applicable SEC rules and regulations (the “**Debt Securities**”), to be issued in one or more tranches, under a new Securities Program (the “Debt Securities Program”). The Bonds will constitute the first Tranche of the Debt Securities Program.

The Bonds are constituted by a Trust Indenture executed on March 23, 2022 (the “**Trust Indenture**”) between the Issuer and BDO Unibank, Inc. – Trust and Investments Group (the “**Trustee**”), which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Indenture). The description of the terms and conditions of the Bonds set out below (“**Terms and Conditions**”) includes summaries of, and is subject to, the detailed provisions of the Trust Indenture and the Registry and Paying Agency Agreement executed on March 23, 2022 (the “**Registry and Paying Agency Agreement**”) between the Issuer, and the Registrar and Paying Agent.

Philippine Depository & Trust Corp. (“**PDTC**”) has no interest in or relation to Converge which may conflict with its roles as Registrar and Paying Agent for the Offer. BDO Unibank, Inc. – Trust and Investments Group has no interest in or relation to Converge which may conflict with its role as Trustee for the Offer.

Copies of the Trust Indenture and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee and the Registrar. The holders of the Bonds (the “**Bondholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Indenture and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them.

1. Form, Denomination and Title

(a) Form and Denomination

The Bonds are in scripless form, and shall be issued, in denominations of Twenty Thousand Pesos (₱20,000) each, as a minimum, and in multiples of Ten Thousand Pesos (₱10,000) thereafter and traded in denominations of Ten Thousand Pesos (₱10,000) in the secondary market.

(b) Title

The beneficial interest to the Bonds shall be shown on and recorded in the Register of Bondholders maintained by the Registrar. A notice confirming the principal amount of the Bonds purchased by each applicant in the Offer shall be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Bonds shall pass by recording the

transfer from a transferor to the transferee in the Register of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

(c) Bond Rating

The Bonds have been rated PRS Aaa with a Stable Outlook by Philippine Rating Services Corporation ("**PhilRatings**") on December 20, 2021. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. A Stable Outlook is assigned when a rating is likely to be maintained or to remain unchanged in the next 12 months. In coming up with the rating, PhilRatings considered the following factors: (1) notable expansion in subscriber base and Converge's position as a strong player in the fixed broadband market; (2) good cash flow generation and adequate financial flexibility to support network expansion; (3) highly conservative debt management; (4) government's push for the improvement of the information and communications technology landscape in the country; and (5) increased demand for high-speed broadband services due to the COVID-19 pandemic.

PhilRatings shall continuously monitor developments relating to Converge and may change the ratings at any time, should circumstances warrant a change. The rating is subject to annual review, or more frequently as market developments may dictate, for as long as the relevant Bonds are outstanding. After Issue Date, the Trustee shall monitor the compliance of the Bonds with the regular annual reviews.

2. Transfer of the Bonds

(a) Register of Bondholders

The Issuer shall cause the Register of Bondholders to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. As required by Circular No. 428, Series of 2004 issued by the *Bangko Sentral ng Pilipinas*, the Registrar shall send each Bondholder a written statement of registry holdings at least quarterly (at the cost of the Issuer) and a written advice confirming every receipt or transfer of the Bonds that is effected in the Registrar's system (at the cost of the Issuer). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfers of the Bonds may be made during the period commencing on a Record Date as defined in the section on "*Interest Payment Date*."

(b) Transfers; Tax Status

Transfers across Tax Categories shall not be allowed except on Interest Payment Dates that fall on a Business Day, provided however that transfers from a tax-exempt category to a taxable tax category on a non-Interest Payment Date shall be allowed using the applicable tax on the Philippine Dealing & Exchange Corp. ("PDEX") Trading System, ensuring the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt entity shall be treated as being of the same Tax Category as its taxable counterpart for the interest period within which such transfer occurred. For purposes hereof, "Tax Categories" refer to the three (3) final withholding tax categories covering, particularly, tax-exempt entities, 20% tax-withheld entities and 25% tax-withheld entities. This restriction shall be in force until a non-restricted trading & settlement environment for corporate securities is implemented. Transfers taking place in the Register of Bondholders after the Bonds are listed in PDEX may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when allowed under and are in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC. Transfers to or from Bondholders claiming the benefit of any tax treaty which subjects the interest income to a final withholding tax rate other than the final withholding tax categories indicated above

shall only be allowed on Interest Payment Dates that fall on a Business Day.

A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under Registry and Paying Agency Agreement upon submission of Account Opening Documents to the Registrar.

(c) Registrar

For transfers and record updates, notices and communication with the Registrar may be made through the following:

Philippine Depository & Trust Corp.
29th Floor BDO Equitable Tower
Paseo de Roxas, Makati City, Metro Manila

Telephone no: (632) 8884-4425
E-mail: josephine.delacruz@pds.com.ph
Attention: Josephine Dela Cruz, Director – Securities Services

(d) Secondary Trading of the Bonds

The Issuer intends to list the Bonds in PDEX for secondary market trading. The Bonds will be traded in a minimum board lot size of Ten Thousand Pesos (₱10,000) as a minimum, and in multiples of Ten Thousand Pesos (₱10,000) in excess thereof for as long as any of the Bonds are listed on PDEX. Secondary market trading in PDEX shall follow the applicable PDEX rules, conventions, and guidelines governing trading and settlement between Bondholders of different tax status and shall be subject to the relevant fees of PDEX and PDTC, all of which shall be for the account of the relevant Bondholder.

3. Ranking

The Bonds constitute direct, unconditional, unsubordinated, and unsecured Peso-denominated obligations of the Issuer and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Issuer, other than obligations preferred by the law.

4. Interest

(a) Interest Payment Dates

The Bonds bear interest on its principal amount from and including the Issue Date at the fixed rate of 5.5942% per annum (the “**Interest Rate**”).

Interest on the Bonds is payable quarterly in arrear commencing on July 8, 2022 and thereafter on October 8, January 8, April 8, and July 8 of each year while the Bonds are outstanding (each of which, for purposes of this section is an “**Interest Payment Date**”) commencing on July 8, 2022. In the event that any of such Interest Payment Dates are not Business Days, such Interest Payment Dates shall be deemed to be the immediately succeeding Business Day without any adjustment to the amount due. The last Interest Payment Date shall fall on the Maturity Date, or the immediately succeeding Business Day if such date is not a Business Day, without any adjustment to the amount due.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be the day two (2) Business Days prior to the relevant Interest Payment Date (the “**Record Date**”), which shall be the reckoning day in determining the Bondholders entitled to receive interest, principal or any other amount due under the Bonds. No transfers of the Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Date.

(b) Interest Accrual

Each Bond shall cease to bear interest, net of applicable withholding taxes, from and including the Maturity Date, as defined in the discussion on “*Final Redemption*”, unless, upon due presentation, payment of the principal in respect of the Bonds then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see “*Penalty Interest*”) shall apply.

(c) Determination of Interest Amount

The interest shall be calculated on the basis of a 360-day year consisting of twelve (12) months of thirty (30) days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of thirty (30) days.

5. Call Option

(a) Call Option

The Issuer has the right, but not the obligation, to redeem (in whole but not in part) the outstanding Bonds before the Maturity Date on any one of the Interest Payment Dates indicated below (the “Call Option Dates”), or the immediately succeeding Business Day if such date is not a Business Day, in accordance with the following schedule:

Call Option Dates	Call Option Price
12th Interest Payment Date	101.00%
13th Interest Payment Date	
14th Interest Payment Date	
15th Interest Payment Date	
16th Interest Payment Date	100.50%
17th Interest Payment Date	
18th Interest Payment Date	
19th Interest Payment Date	

The amount payable to the Bondholders in respect of any such redemption shall be calculated as the sum of (i) the Call Option Price applied to the principal amount of the then outstanding Bonds being redeemed and (ii) all accrued interest on the Bonds as of the Call Option Date.

(b) Exercise of a Call Option

Should the Issuer elect to exercise a Call Option, it shall do so by delivery of an original and three (3) copies of a notice of such exercise to the Trustee, submitted during business hours on a date no earlier than sixty (60) days and no later than thirty (30) days prior to the Call Option Date. Once executed, completed and delivered to the Trustee, a Call Option notice is irrevocable.

Upon receipt of a Call Option notice fully complying with these Terms and Conditions, the Trustee shall transmit the same notice to the Bondholders.

Notwithstanding anything to the contrary, in the event the Issuer has notified the Trustee that it will exercise the Call Option, any interest payment due on the Interest Payment Date immediately preceding the Call Option Date shall be paid on such Call Option Date.

6. Redemption and Purchase

(a) Final Redemption

Unless previously purchased and cancelled, the Bonds shall be redeemed at par or One Hundred percent (100%) of face value on the Maturity Date. However, payment of all amounts due on such date may be made by the Issuer through the Paying Agent, without adjustment to the amount of interest and principal to be paid, on the immediately succeeding Business Day if

the Maturity Date is not a Business Day.

(b) Redemption for Taxation Reasons

If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, (having given not more than sixty (60) nor less than fifteen (15) days' prior written notice to the Trustee) at par plus accrued interest, net of applicable withholding taxes.

Upon receipt by the Trustee of a redemption notice from the Issuer hereunder, the Trustee shall transmit the same notice to the Bondholders.

(c) Purchase and Cancellation

The Issuer may at any time purchase any of the Bonds in the open market or by tender or by contract at market price, in accordance with PDEX Rules without any obligation to purchase (and the Bondholders shall not be obliged to sell) Bonds pro-rata from all Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon listing of the Bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

(d) Change in Law or Circumstance

The following events shall be considered as changes in law or circumstances ("Change in Law or Circumstance") as it refers to the obligations of the Issuer and to the rights and interests of the Bondholders under the Trust Indenture and the Bonds:

- (i) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Indenture or the Bonds shall be modified in a manner which, in the reasonable opinion of the Majority Bondholders as represented by the Trustee, shall materially and adversely affect the ability of the Issuer to comply with such obligations, or shall be withdrawn or withheld.
- (ii) Any provision of the Trust Indenture or any of the related documents is or shall become, for any reason, invalid, illegal or unenforceable to the extent that shall become for any reason unlawful for the Issuer to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Indenture or any of the related documents in whole or in part, or any law shall be introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Indenture or any other related documents.
- (iii) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, canceled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.
- (iv) The Republic of the Philippines or any competent authority thereof takes any action to suspend the whole or a substantial portion of the operations of the Issuer and to condemn, seize, nationalize or appropriate (either with or without compensation) the Issuer or any material portion of its properties or assets, unless such act, deed or proceedings are contested in good faith by the Issuer.

- (v) Any Change of Control in the Issuer as defined in the Trust Indenture Agreement.

If any one or more of the events enumerated as a Change of Law or Circumstance shall occur and be continuing for a period of thirty (30) days, the Majority Bondholders, by notice in writing delivered to the Issuer through the Trustee, after the lapse of the said thirty (30) day period, may declare the principal of the Bonds, including all accrued interest, net of applicable withholding taxes, and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable, without any prepayment penalty, anything contained in the Trust Indenture or in the Bonds to the contrary notwithstanding, subject to the notice requirements under the discussion on “*Notice of Default.*”

7. Payments

The principal or interest and all other amounts payable on the Bonds shall be paid to the Bondholders by crediting of the cash settlement accounts designated by each of the Bondholders. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos.

The Issuer shall ensure that so long as any of the Bonds remains outstanding, there shall at all times be a Paying Agent for the purposes of the Bonds and the Issuer or the Paying Agent may only terminate the appointment of the Paying Agent as provided in the Registry and Paying Agency Agreement. In the event the appointed office of any institution shall be unable or unwilling to continue to act as the Paying Agent, the Issuer shall appoint the office of such other leading institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

8. Payment of Additional Amounts; Taxation

Interest income on the Bonds is subject to a final withholding tax at rates of between ten percent (10%) and twenty-five percent (25%) depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such final withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

- (a) The applicable final withholding tax applicable on interest earned on the Bonds prescribed under the National Internal Revenue Code of 1997, as amended and its implementing rules and regulations promulgated by the BIR as may be in effect from time to time (the “Tax Code”).

An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:

- (i) a current and valid original or BIR certified true copy of the tax exemption certificate, ruling or opinion addressed to the relevant applicant or Bondholder, confirming its exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto, and certified by the Corporate Secretary of the Bondholder that: (a) the original is in the possession of the Corporate Secretary as the duly authorized custodian of the same; and (b) the Corporate Secretary has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting said certification’s validity;

- (ii) with respect to tax treaty relief, (a) prior to the payment of the initial interest due, (i) three (3) originals of the submitted BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the Bureau of Internal Revenue, as required under Revenue Memorandum Order No. 14-2021, (ii) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, (iii) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer, and (iv) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of the authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or the Bondholder's owners or beneficiaries is/are not doing business in the Philippines to support the applicability of a tax treaty relief; and (b) prior to the payment of subsequent interests due, (i) three (3) originals of the submitted new or updated BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes, as the Issuer deems applicable, and (ii) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued tax residency certificate has already lapsed; (c) other additional documents as may be required by the Issuer or pursuant to applicable tax regulations, which shall be submitted by the Bondholder/Registrar to the Issuer no later than 1st day of the month when such initial or subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto;
- (iii) a duly notarized undertaking (substantially in the prescribed form by Converge) executed by (1) the corporate secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the applicant purchases, or the Bondholder holds, the Bonds for its account, or (2) the trust officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax exempt status or preferential rate entitlement,, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation or modification of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax; and
- (iv) if applicable, such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, including a copy of the submitted Application Form for Treaty Purposes, the valid and existing tax residence certificate issued by the relevant foreign tax authority, and evidence of the applicability of a tax treaty and consularized or apostilled (as the case may be) proof of the Bondholder or the Bondholder's owners' or beneficiaries' legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder or the Bondholder's owners or beneficiaries is/are not doing business in the Philippines; provided further

that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties assessments or government charges subject to the submission by the Bondholder or the Bondholder's owners or beneficiaries claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;

- (b) Gross Receipts Tax under Section 121 of the Tax Code;
- (c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and
- (d) Value-added Tax ("VAT") under Sections 106 to 108 of the Tax Code, as amended by Republic Act No. 9337 and Republic Act No. 10963.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

9. Financial Ratios

The Issuer shall maintain, for as long as any of the Bonds remain outstanding, a Debt to Equity Ratio of not more than 2.33x and a Debt Service Coverage Ratio of not less than 1.2x.

10. Negative Pledge

During the term of the Trust Indenture Agreement and until payment in full of all the outstanding Bonds and performance of all other obligations of the Issuer therein, the Issuer hereby covenants that the Issuer shall not, without the prior consent of the Majority Bondholders, permit:

- (a) Encumbrances. The Issuer shall not permit any Indebtedness for borrowed money to be secured by or to benefit from a Lien, in favor of any creditor or class of creditors without providing the Bondholders with the same kind of class of Lien, the benefit of which is extended equally and ratably among them to secure the Bonds; Provided, however, that this restriction shall not prohibit the following:
 - i. Any Lien over any asset, including, but not limited to assets purchased, leased, or developed in the ordinary course of business, to secure: (i) payment of the purchase price or cost of leasehold rights of such asset; or (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefore) incurred for the purpose of financing the purchase, lease or development of such asset; or (iv) the normal rediscounting of receivable activities of the Issuer made in the ordinary course of business;
 - ii. Any Lien created for the purpose of paying current Taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof and adequate reserves having been provided for payment thereof;
 - iii. Any Lien to secure, in the normal course of the business of the Issuer or its Subsidiaries: (i) statutory or regulatory obligations; (ii) surety or appeal bonds; (iii) bonds for release of attachment, stay of execution or injunction; or (iv) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;
 - iv. Any Lien: (i) imposed by Law, such as carriers', warehousemen's, mechanics' liens and other similar security interest arising in the ordinary course of business and not material in amount; (ii) arising out of pledges or deposits under workmen's compensation Laws,

unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation; and (iii) arising out of the set-off provision in the normal course of its financial arrangements; provided that, the Bondholders hereunder shall also have to the extent permitted by applicable law, and upon notice to the Issuer, a similar right of set-off;

- v. Any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations or other juridical entities, which secure a preferential financing obtained by the Issuer under a governmental program under which creation of a security is a prerequisite in order to obtain such financing, and which cover assets of the Issuer which have an aggregate appraised value, determined in accordance with generally accepted appraisal principles and practices consistently applied not exceeding five percent (5%) of the Issuer's total assets based on the most recent interim financial statements;
- vi. Any Lien established in favor of insurance companies and other financial institutions in compliance with the applicable requirements of the Office of the Insurance Commission on admitted assets; and
- vii. Any Lien existing on the date of the Trust Indenture which is disclosed by the Issuer in this Prospectus to the Trustee prior to the execution of the Trust Indenture.

11. Events of Default

The Issuer shall be considered in default under the Bonds and the Trust Indenture in case any of the following events (each an **"Event of Default"**) shall occur and is continuing:

- a) **Payment Default.** The Issuer fails to pay when due and payable any amount which the Issuer is obligated to pay the Bondholders under the Trust Indenture and the Bonds in the manner, at the place, and in the currency in which it is expressed to be payable; or
- b) **Representation / Warranty Default.** Any representation or warranty made by the Issuer in the Trust Indenture or in any certification or opinion submitted pursuant hereto proves to have been untrue, incorrect or misleading, as and when made and the circumstances which cause such representation or warranty to be incorrect or misleading continue for not less than seven (7) days (or such longer period as the Majority Bondholders shall approve) after receipt of written notice from the Bondholders to that effect; or
- c) **Other Default.** The Issuer fails to perform or violates any other provision (including any of its covenants under Section 5 of the Trust Indenture), term of the Trust Indenture and the Bonds, and such failure or violation is not remediable or if remediable, continues to be unremedied after the applicable grace period, or in the absence of such grace period, after thirty (30) calendar days from the date of occurrence of the said violation; provided that, the Events of Default constituting a payment default, expropriation, insolvency or closure default, or a violation of a negative covenant shall not be remediable; or
- d) **Cross-Default.** The Issuer and/or any of its Subsidiaries/Affiliates fails to pay or defaults in the payment of any installment of the principal or interest, or fails to comply or commits a breach or violation of any term, condition or stipulation, of any other agreement, contract or document with its lenders or any third party to which the Issuer is a party or privy or under which the Issuer acts as a guarantor or surety, including any agreement similar or analogous thereto, whether executed prior to or after the date of the issuance of the Bonds, if the effect of the failure to observe or perform such term, covenant or agreement is to cause such obligation to become due prior to its stated maturity; or
- e) **Insolvency Default.** The Issuer or any of its Subsidiaries becomes insolvent or unable to pay its debts when due or commits or permits any act of bankruptcy, which term shall include, but shall not be limited to: (i) filing of a petition in any bankruptcy, reorganization (other than a labor or management reorganization), winding-up, suspension of payment or liquidation proceeding, or any other proceeding analogous in purpose and effect; (ii) appointment of a trustee or receiver of all or a substantial portion of its properties; (iii)

making of an assignment for the benefit of its creditors; (iv) the admission in writing by the Issuer of its inability to pay its debts; (v) the entry of any order or judgment of any court, tribunal or administrative agency or body confirming the bankruptcy or insolvency of the Issuer or approving any reorganization (other than a labor or management reorganization), winding-up, liquidation or appointment of trustee or receiver of the Issuer or a substantial portion of its property or assets; (vi) proposing or making any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its Indebtedness, unless such deferral, rescheduling or other readjustment is not due to its inability to pay its Indebtedness and the Issuer gives prior notice of such deferral, rescheduling or other readjustment and the reasons therefor to the Bondholders through the Trustee; or (vii) there shall be commenced against the Issuer or any Subsidiary any proceeding under such laws, or any judgment or order is entered by a court of competent jurisdiction for the appointment of a receiver, trustee or the like to take charge of all or substantially all of the assets of the Issuer, and such proceedings shall not have been discharged or stayed within a period of sixty (60) days or such longer period as the Issuer satisfies the Majority Bondholders as appropriate under the circumstances; or

- f) Closure Default. The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days except in the case of strikes or lockouts or when necessary to prevent business losses or when due to fortuitous events or force majeure;
- g) Expropriation Default. The Republic of the Philippines or any competent authority thereof takes any action to suspend the whole or a portion of the operations of the Issuer and to condemn, seize, nationalize or appropriate (either with or without compensation) the Issuer or any material portion of its properties or assets, unless such act, deed or proceedings are contested in good faith by the Issuer;
- h) Attachment. An attachment or garnishment of or levy upon any of the properties of the Issuer is made which materially and adversely affects the ability of the Issuer to pay its obligations under the Bonds and is not discharged or stayed within thirty (30) calendar days (or such longer period as the Issuer satisfies the Majority Bondholders is appropriate under the circumstances) of having been so imposed;
- i) Cancellation of Licenses, Permits, etc. Any of the licenses, permits, rights, franchise, options, or privileges presently or hereafter enjoyed, utilized or required in the conduct of the business or operations of the Issuer shall be revoked, cancelled, or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in each case in such manner as to materially and adversely affect the ability of the Issuer to meet its obligations under the Trust Indenture and the Bonds, or any similar events that occur which materially and adversely affect the ability of the Issuer to meet its obligations under the Trust Indenture and the Bonds;
- j) Judgment Default. Any final judgment, decree or arbitral award for the sum of money, damages or for a fine or penalty in excess of Five Hundred Million Philippine Pesos (Php500,000,000.00) or its equivalent in any other currency is entered against the Issuer and the enforcement of which is not stayed, and is not paid, discharged or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree or award is due under the applicable law or agreement;
- k) Contest. The Issuer shall contest in writing the validity or enforceability of the Trust Indenture or the Bonds or shall deny generally in writing the liability of the Issuer under the Trust Indenture or the Bonds;
- l) Writ and Similar Process Default. Any judgment, writ, warrant of attachment, injunction, stay order, execution or similar process shall be issued or levied against any material part of the Issuer's assets, business or operations and such judgment, writ, warrant or similar process shall not be released, vacated or fully bonded within [thirty (30)] calendar days

after its issue or levy;

- m) Non-Payment of Taxes. Non-payment of any Taxes, or any assessments or governmental charges levied upon it or against its properties, revenues and assets by the date on which such Taxes, assessments or charges attached thereto, which are not contested in good faith by the Issuer, or after the lapse of any grace period that may have been granted to the Issuer by the BIR or any other Philippine tax body or authority;
- n) Illegality. Any of the Trust Indenture or the Bonds or any material portion thereof is declared to be illegal or unenforceable, unless such illegality or enforceability is remedied within thirty (30) calendar days of the occurrence or declaration of the illegality or unenforceability, as the case may be;
- o) Any event occurs which under the law has an analogous effect to any of the events referred to in the foregoing paragraphs of this section.

12. Notice of Default

The Trustee shall, within ten (10) calendar days after receipt of notice of or actual knowledge of the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it, unless the same shall have been cured before the giving of such notice; provided that, in the case of a Payment Default, the Trustee shall immediately notify the Bondholders upon the Trustee's receipt of notice or actual knowledge of the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in the Philippines for two (2) consecutive days, further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentation of sufficient and acceptable identification.

Upon notice in writing by the Trustee, the Registrar shall deliver an updated list of Bondholders and other relevant information to the Trustee or as the Trustee shall direct in such notice, pursuant to the Irrevocable Instruction of the Issuer under Section 5.1(l) of the Trust Agreement.

The Trustee shall be bound by the relevant Data Privacy Act of 2012 and its Implementing Rules and Regulations ("IRR") provisions as stated under the Application to Purchase submitted by the Bondholders.

13. Consequences of Default

- (a) If any one or more of the Events of Default shall have occurred and be continuing, the Trustee upon the written direction of the Majority Bondholders and by notice in writing delivered to the Issuer, or the Majority Bondholders, by notice in writing delivered to the Issuer and the Trustee, may declare all amounts due, including the principal of the Bonds, all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable, anything contained in this Trust Indenture or in the Bonds to the contrary notwithstanding.
- (b) This provision, however, is subject to the condition that, except in the case of a Payment Default, Representation/Warranty Default, Cross Default, Insolvency Default, Expropriation Default, Contest, and Writ and Similar Process Default, the Majority Bondholders may, by written notice to the Issuer and the Trustee, during the prescribed curing period, if any, rescind and annul such declaration made by the Trustee, and the consequences upon such terms, conditions and agreement, if any, as they may determine; provided that, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.
- (c) At any time after any Event of Default shall have occurred, the Trustee may:

- (i) by notice in writing to the Issuer, require the Registrar and Paying Agent to:
 - (aa) act thereafter as agents of the Bondholders represented by the Trustee on the terms provided in the Registry and Paying Agency Agreement (with consequential amendments as necessary and save that the Trustee's liability under any provisions thereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Paying Agent and the Registrar shall be limited to amounts for the time being held by the Trustee on the trusts of the Trust Indenture in relation to the Bonds and available to the Trustee for such purpose) and thereafter to hold all sums, documents and records held by them in respect of the Bonds on behalf of the Trustee; and/or
 - (bb) deliver all evidence of the Bonds and all sums, documents and records held by them in respect of the Bonds to the Trustee or as the Trustee shall direct in such notice; provided that, such notice shall be deemed not to apply to any document or record which the Registrar and Paying Agent is not obliged to release by any law or regulation; and
- (ii) by notice in writing to the Issuer, require the Issuer to make all subsequent payments in respect of the Bonds to the order of the Trustee and with effect from the issue of any such notice until such notice is withdrawn, provision (bb) above and the Issuer's positive covenant to pay principal and interest, net of applicable withholding taxes, on the Bonds, more particularly set forth in the Trust Indenture, shall cease to have effect.

In case any amount payable by the Issuer under the Bonds, whether for principal, interest or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest, net of applicable withholding taxes, and other amounts, pay Penalty Interest on the defaulted amount(s) from the time the amount falls due until it is fully paid.

14. Penalty Interest

In case any amount payable by the Issuer under the Bonds, whether for principal, interest, net of applicable withholding taxes, or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest, net of applicable withholding taxes, and other amounts, pay penalty interest on the defaulted amount(s) at the rate of twelve percent (12%) per annum (the "Penalty Interest") from the time the amount falls due until it is fully paid.

15. Payment in the Event of Default

The Issuer hereby covenants that in case any Event of Default shall occur and be duly declared in accordance with this Trust Indenture, then, in any such case, the Issuer will pay to the Bondholders, through the Registrar and Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal, net of applicable withholding taxes, and with Penalty Interest, and in addition thereto, the Issuer will pay to the Trustee the actual amounts to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without gross negligence or bad faith by the Trustee hereunder.

16. Application of Payments

Any money collected or delivered to the Registrar and Paying Agent, under the Terms and Conditions, and any other funds held by it, subject to any other provision of this Trust Indenture, the Registry and Paying Agency Agreement relating to the disposition of such money and funds, shall be applied by the Registrar and Paying Agent in the order of preference as follows: first, to the payment to the Trustee and the Registrar and Paying Agent, of the costs, expenses, fees

and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursements made by them, without gross negligence or bad faith; second, to the payment of the interest in default, net of applicable withholding taxes, in the order of the maturity of such interest with Penalty Interest; third, to the payment of the whole amount then due and unpaid upon the Bonds for principal and interest, with Penalty Interest; and fourth, the remainder, if any shall be paid to the Issuer, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct. The Registrar and Paying Agent shall render a monthly account of such funds under its control.

17. Prescription

Claims in respect of principal and interest or other sums payable hereunder shall prescribe unless made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

18. Remedies

All remedies conferred by the Trust Indenture and these Terms and Conditions to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Indenture, subject to the discussion below on *“Ability to File Suit.”*

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Indenture to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

19. Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Indenture to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest, net of applicable withholding taxes, and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds; (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in the latter's name; (iii) the Trustee, for sixty (60) calendar days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Indenture to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

20. Waiver or Revocation of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may on behalf of the Bondholders waive any past Default except the Events of Default defined as Payment Default, Representation/Warranty Default, Cross Default, Insolvency Default, Expropriation Default, Contest, and Writ and Similar Process Default and its consequences.

In case of any such waiver or revocation, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; but no such waiver or revocation shall extend to any subsequent or other Default or impair any right arising therefrom. Any such waiver or revocation by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

The Trustee shall, within five (5) Business Days after receipt of the written waiver from the Majority Bondholders of any Event of Default or revocation of any default previously declared, give to the Bondholders written notice of such waiver, or revocation known to it via publication in a newspaper of general circulation in the Philippines for two (2) consecutive days as soon as practicable, indicating in the published notice an Event of Default has occurred and has been waived or a declaration of a default has been revoked by the Majority Bondholders.

21. Trustee; Notices

(a) Notice to the Trustee

All documents required to be submitted to the Trustee pursuant to the Trust Indenture and the Prospectus, and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee:	BDO Unibank, Inc. – Trust and Investments Group
Attention:	Lorenzo P. Luague/ Ma. Lourdes C. Fuentes
Subject:	Converge Bonds due 2027
Address:	46/F BDO Corporate Center Ortigas, 12 ADB Avenue, Mandaluyong City
Telephone No.:	8840 7000 locals 32712 and 31350

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

Any requests for documentation or certification and other similar matters must be communicated by the Bondholder to the Trustee in writing and shall be subject to review, acceptance and approval by the Trustee. Upon such acceptance and approval, the Bondholder shall pay to the Trustee upfront a fee of One Thousand Five Hundred Pesos (₱1,500) (the “**Activity Fee**”) plus the costs of legal review, courier and the like. The Activity Fee may be adjusted from time to time, at the discretion of the Trustee.

In the absence of any applicable period stated elsewhere in these Terms and Conditions, written requests shall be reviewed and, if accepted and approved, addressed by the Trustee within ninety (90) days from receipt. This period may be extended should the Trustee be unable to review and address the requests for causes not attributable to the Trustee.

(b) Notice to the Bondholders

Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Register of Bondholders. In addition, the Issuer shall provide the relevant disclosure through the online disclosure system of the PDEX. The Trustee shall rely on the Register of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on date of publication or (iv) on date of delivery, for personal delivery.

The publication in a newspaper of general circulation in the Philippines of a press release or news item about a communication or disclosure made by Converge to the SEC on a matter relating to the Bonds shall be deemed a notice to Bondholders of said matter on the date of the first publication.

(c) Binding and Conclusive Nature

Except as provided in the Trust Indenture, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Indenture, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Bondholders and (in the absence as referred to above) no liability to the Issuer, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Indenture.

22. Duties and Responsibilities of the Trustee

- (a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Indenture. The Trustee shall, in accordance with the terms and conditions of the Trust Indenture, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Indenture. As to the Bondholders, the Trustee may presume that no Event of Default has occurred and the Issuer has complied with all its representations, warranties and covenants until it has received notice or has actual knowledge thereof, and the Trustee may conclusively rely upon a certification of compliance to be delivered by the Issuer. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Indenture. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.
- (b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Indenture and in the Terms and Conditions. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Indenture, and use such judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters exercise in the management of their own affairs.
- (c) None of the provisions contained in these Terms and Conditions or the Prospectus shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.
- (d) The Trustee may refrain from taking any (or any further) action or exercising any right vested in it under this Trust Agreement until it has been indemnified and/or secured to its satisfaction against any and all action, charges, claims, costs, damages, demands, expenses, liabilities, losses and proceedings (including legal, accountants' and other professional fees) which might be brought, made or preferred against or suffered, incurred or sustained by it as a result, provided that the Trustee, upon being indemnified, shall duly, completely and promptly account to the Bondholders for all amounts received hereunder.
- (e) The Trustee shall perform its functions under this Agreement with the degree of diligence that a prudent and reasonable person would exercise in the conduct of an enterprise of a like character and similar aims; *provided*, that the Trustee shall have no duty or liability beyond its duty to perform the obligations under this Agreement;

provided, further, that the Trustee shall have no obligation to enforce against the Issuer payment of the proceeds of the Bonds. The Trustee may perform any of its duties hereunder through its directors, officers, employees, agents, or attorneys-in-fact. The Trustee shall not be responsible for the inadequacy of the Issuer to meet and discharge any of its obligations under the Bonds nor be liable for any depreciation in value or other losses of the Bonds. Neither shall the Trustee be a surety or a guarantor of the solvency or capacity of the Issuer, the Registrar, the Paying Agent, or any of their authorized representatives.

- (f) Unless a fixed period is otherwise specified in the Trust Indenture and in the absence of a period specifically agreed to by the Trustee and Converge and in the case of notices required to be sent by the Trustee to Bondholders, the Trustee must act promptly in the sending of such notices but in any case shall have a period of not more than thirty (30) days to complete the sending of all such notices in the manner allowed by the Trust Indenture.
- (g) Notwithstanding the above, the Trustee, on its own discretion, may send notices or disclose to the Bondholders any fact, circumstance or event, which would have the effect of effectively reducing the principal amount of the Bonds outstanding, including changes in Laws.

23. Resignation and Change of Trustee

- (a) The Trustee may at any time resign by giving ninety (90) days' prior written notice to the Issuer and to the Bondholders of such resignation.
- (b) Upon receiving such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the resigning trustee and one copy to the successor trustee. However, notwithstanding the immediately preceding sentence, in cases where an Event of Default shall have occurred and be continuing, it is the Majority Bondholders, not the Issuer, that shall appoint the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Bondholder who has been a bona fide holder for at least six (6) months (the "Bona Fide Bondholder") may, for and in behalf of the Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee.
- (c) Subject to Section (f) below, a successor trustee must possess all the qualifications required under pertinent laws.
- (d) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Issuer may within thirty (30) days therefrom remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor trustee, any Bona Fide Bondholder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee.
- (e) The Majority Bondholders may at any time remove the Trustee for cause, and appoint

a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Issuer of the required evidence under the provisions on Evidence Supporting the Action of the Bondholders in the Terms and Conditions.

- (f) Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any provisions of the Trust Indenture shall become effective upon the earlier of: (i) acceptance of appointment by the successor trustee as provided in the Trust Indenture; or (ii) effectivity of the resignation notice sent by the Trustee under the Trust Indenture (the "Resignation Effective Date"); provided however that, until such successor trustee is qualified and appointed, the outgoing Trustee shall continue to discharge its duties and responsibilities solely as custodian of records for turnover to the successor trustee promptly upon the appointment thereof by the Issuer; provided finally that, such successor trustee possesses all the qualifications as required by pertinent laws. The resigning Trustee shall be entitled to the payment of the fee stipulated in Section 2.2 of the Trust Indenture during the holdover period.
- (g) In the event of a change in the Trustee, the Trustee shall be given ninety (90) days to prepare documents, records or any other instruments necessary to be transferred to the successor trustee, unless removed for cause, in which case, it shall transfer to such documents, records or other instruments within such period as may be reasonably determined by Converge.

24. Successor Trustee

- (a) Any successor trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as Trustee in the Trust Indenture. The foregoing notwithstanding, on the written request of the Issuer or of the successor trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties. Upon effectivity of the removal or resignation of the Trustee as provided above, the Trustee's liabilities and obligations shall immediately cease.
- (b) Upon acceptance of the appointment by a successor trustee, the Issuer shall notify the Bondholders in writing of the succession of such trustee to the trusteeship. If the Issuer fails to notify the Bondholders within ten (10) days after the acceptance of appointment by the successor trustee, the latter shall cause the Bondholders to be notified at the expense of the Issuer.

25. Reports to the Bondholders

- (a) Only upon the occurrence of either (i) or (ii) below, the Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date until full payment of the Bonds a brief report dated as of December 31 of the immediately preceding year with respect to:
 - (i) the property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report (as reported by the Paying Agent to the Trustee on or before March 1 of each year); and
 - (ii) any action taken by the Trustee in the performance of its duties under the Trust Indenture which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

- (b) Upon the written request of any Bona Fide Bondholder, the Trustee shall likewise transmit to the requesting Bondholder, a brief report with respect to the character, amount and the circumstances surrounding the making of any advance by the Trustee for the reimbursement of which the Trustee claims or may claim a Lien or charge which is prior to that of the Bondholders on the trust estate or property or funds held or collected by the Paying Agent and which it has not previously reported pursuant to this paragraph, if such advance remaining unpaid at any time aggregates more than ten percent (10%) of the aggregate principal amount of Bonds outstanding at such time, such report to be transmitted within ninety (90) days from the making of such advance.
- (c) The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:
 - (i) Trust Indenture;
 - (ii) Registry and Paying Agency Agreement;
 - (iii) Articles of Incorporation and By-Laws of the Issuer;
 - (iv) Registration Statement relating to the Debt Securities Program; and
 - (v) Opinions of the legal counsel with respect to the Issuer and the Bonds.

26. Meetings of the Bondholders

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Indenture or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

(a) Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

(b) Failure of the Trustee to Call a Meeting

In case at any time, the Issuer, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Issuer or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

(c) Quorum

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

(d) Procedure for Meetings

- (i) The Trustee shall preside at all the meetings of the Bondholders, unless the

meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.

- (ii) Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

(e) Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one (1) vote for every Ten Thousand Pesos (₱10,000) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

(f) Voting Requirement

Except as provided in Condition 29 (Amendments), all matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Indenture. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Issuer as if the votes were unanimous.

(g) Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

27. Evidence Supporting the Action of the Bondholders

Wherever in the Trust Indenture it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing, or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

28. Non-Reliance

Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that it has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own

credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or wilful misconduct.

29. Amendments

The Issuer and the Trustee may amend or waive any provisions of the Bond Agreements if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency, without prior notice to or the consent of the Bondholders or other parties, provided in all cases that such amendment or waiver does not adversely affect the interests of the Bondholders and provided further that all Bondholders are notified of such amendment or waiver.

The Issuer and the Trustee may amend the Terms and Conditions with notice to every Bondholder following the written consent of the Majority Bondholders (including consents obtained in connection with a tender offer or exchange offer for the Bonds) or a vote of the Majority Bondholders at a meeting called for the purpose. However, without the consent of each Bondholder affected thereby, an amendment may not:

- (a) reduce the percentage of principal amount of Bonds outstanding that must consent to an amendment or waiver;
- (b) reduce the rate of or extend the time for payment of interest on the Bonds;
- (c) reduce the principal of or extend the Maturity Date of the Bonds;
- (d) impair the right of any Bondholder to receive payment of principal of and interest on such Bondholder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;
- (e) reduce the amount payable upon the redemption or repurchase of the Bonds under the Terms and Conditions or change the time at which the Bonds may be redeemed;
- (f) make the Bonds payable in money other than that stated in the Bonds;
- (g) subordinate the Bonds to any other obligation of Converge;
- (h) release any security interest that may have been granted in favor of the Bondholders;
- (i) amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or
- (j) make any change or waiver of this Condition 29.

It shall not be necessary for the consent of the Bondholders under this Condition 29 to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, the Issuer shall send a notice briefly describing such amendment to the Bondholders in the manner provided in the paragraph entitled "Notice to the Bondholders."

30. Governing Law

The Bond Agreements are governed by and are construed in accordance with Philippine law.

31. Venue

Any suit, action, or proceeding against the Issuer with respect to the Bonds or the Bond Agreements or on any judgment entered by any court in respect thereof may be brought in any competent court in the City of Makati, and the parties submit to the exclusive jurisdiction of such

courts for the purpose of any such suit, action, proceeding or judgment, the Issuer and Bondholders expressly waiving other venue.

32. **Waiver of Preference**

The obligation created under the Bond Agreements and the Bonds shall not enjoy any priority of preference or special privileges whatsoever over any indebtedness or obligations of the Issuer. Accordingly, whatever priorities or preferences that this instrument may have or any person deriving a right hereunder may have under Article 2244, paragraph 14 of the Civil Code of the Philippines are hereby absolutely and unconditionally waived and renounced. This waiver and renunciation of the priority or preference under Article 2244, paragraph 14 of the Civil Code of the Philippines shall be revoked if it be shown that an indebtedness of the Issuer for borrowed money has a priority or preference under the said provision.

33. **Certain Defined Terms**

The following sets forth the respective definitions of certain terms used in this Terms and Conditions. Except as otherwise provided and where context indicates otherwise, defined terms in this Terms and Conditions have the meanings ascribed to them in the Trust Indenture.

- (a) **Affiliate** with respect to any Person, any other Person directly or indirectly controlling, or under direct or indirect common control with, such Person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling”, and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.
- (b) **Bankruptcy** means, with respect to a Person, (a) that such Person has (i) made an assignment for the benefit of creditors; (ii) filed a voluntary petition in bankruptcy; (iii) been adjudged bankrupt, or insolvent; or had entered against such Person an order of relief in any bankruptcy or insolvency proceeding; (iv) filed a petition or an answer seeking for such Person any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation or filed an answer or other pleading admitting or failing to contest the material allegations of a petition filed against such Person in any proceeding of such nature; or (v) sought, consented to, or acquiesced in the appointment of a trustee, receiver or liquidator of such Person or of all or any substantial part of such Person’s properties; (b) sixty (60) days have elapsed after the commencement of any proceeding against such Person seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation and such proceeding has not been dismissed; or (c) sixty (60) days have elapsed since the appointment without such Person’s consent or acquiescence of a trustee, receiver or liquidator of such Person or of all or any substantial part of such Person’s properties and such appointment has not been vacated or stayed or the appointment is not vacated within sixty (60) days after the expiration of such stay.
- (c) **BIR** refers to the Bureau of Internal Revenue of the Republic of the Philippines.
- (d) **Debt Service Coverage Ratio** is the ratio of (a) the annual EBITDA in the immediately preceding financial year to (b) the annual debt service requirements due over the same corresponding period, including interests, principal and lease payments, both as of relevant date for calculation or the latest definition under the prevailing generally accepted accounting principles in the Philippines. The calculation of the Borrower’s Debt Service Coverage Ratio shall be based on its audited financial statements.
- (e) **Debt to Equity Ratio** is computed as Total Debt divided by Total Shareholders’ Equity
- (f) **EBITDA** shall refer to the profit for the year before depreciation and amortization (including amortization of subscriber acquisition costs as their corresponding revenue

impact has not been adjusted), finance costs, income tax expense

- (g) **Majority Bondholders** means Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Bonds.
- (h) **Subsidiary** means with respect to any Person, more than 50% of the voting power of the outstanding voting stock of which is owned or controlled, directly or indirectly, by such Person and one or more other Subsidiaries of such Person. To be controlled by another means that the controlling entity (whether, directly or indirectly, and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that controlled company or otherwise controls or has a power to control the affairs and policies of that controlled company and control shall be construed accordingly
- (i) **Total Debt** means is the sum of current and noncurrent loans payable on a consolidated basis and shown on the consolidated financial statements of the Issuer and its Subsidiaries.
- (j) **Total Shareholders' Equity** means the aggregate (as of the relevant date for calculation) of the par value of the outstanding common stock, preferred stock, capital surplus, retained earnings appraisal surplus arising from past appraisal and any further appraisal surplus arising from subsequent independent certified appraisal of the property, plant and equipment of the Issuer effected in compliance with the Philippine Financial Reporting Standards, and any reserve for expansion projects, less treasury stocks.

PHILIPPINE TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Debt Securities. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Debt Securities and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Debt Securities under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Securities in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus.

The tax treatment of a holder of Debt Securities may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a Security Holder.

PROSPECTIVE PURCHASERS OF THE DEBT SECURITIES ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A SECURITY, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS.

*The following is a general description of certain Philippine tax aspects of the Bonds. It is based on the present provisions of the National Internal Revenue Code of 1997, as amended by Republic Act No. 10963 and Republic Act No. 11534 (the "**Philippine Tax Code**"), the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of this Prospectus, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis.*

As used in this section, the term "resident foreign individual" refers to an individual whose residence is within the Philippines and who is not a citizen thereof. A "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines."

The term "non-resident holder" means a holder of the Bonds:

- who is an individual who is neither a citizen nor a resident of the Philippines, or an entity which is a non-resident foreign corporation; and*
- should an income tax treaty be applicable, whose ownership of the Bonds is not effectively connected with a fixed base or a permanent establishment in the Philippines.*

TAXATION OF INTEREST

Interest-bearing obligations of Philippine residents are Philippine-sourced income subject to Philippine income tax. Interest income derived by Philippine citizens, resident foreign individuals, domestic corporations, and resident foreign corporations from the Bonds is subject to final withholding tax rate of 20%. Generally, interest on bonds or other deposit substitutes received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident foreign individuals not engaged in trade or business is taxed at the rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the bonds or other deposit substitutes is subject to a final withholding tax rate of 20%. Interest income derived by non-resident foreign corporations from the bonds or other deposit substitutes is subject to final withholding tax rate of 25%.

The foregoing rates may be subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident Bondholder. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who

is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

Interest income of resident individuals and non-resident aliens engaged in trade or business in the Philippines on long-term bonds, with maturities of five (5) or more years, are generally exempt from final withholding tax. If such long-term bond is pre-terminated before the fifth (5th) year, it shall be subject to a final withholding tax at the rates prescribed to be deducted and withheld from the proceeds based on the length of time that the instrument was held by the taxpayer in accordance with the following schedule:

Holding Period	Rate
Four (4) years to less than five (5) years	5%
Three (3) years to less than four (4) years	12%
Less than three (3) years	20%

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE

The BIR has issued Revenue Memorandum Order No. 14-2021 ("RMO No. 14-2021") to streamline the procedures and documents for the availment of treaty benefits covering all items of income, derived by non-resident taxpayers from Philippine sources that are entitled to relief from double taxation under the relevant tax treaty. Under this regulation, when the treaty rates have been applied by the withholding agent on the income earned by the non-resident, the former shall file with the International Tax Affairs Division ("ITAD") of the BIR a request for confirmation on the propriety of the withholding tax rates applied on that item of income. On the other hand, if the regular rates have been imposed on the said income, the non-resident shall file a tax treaty relief application ("TTRA") with ITAD. The request for confirmation shall be filed by the withholding agent at any time after the payment of withholding tax but shall in no case be later than the last day of the fourth month following the close of each taxable year. The request for confirmation or TTRA shall be supported by the documentary requirements under RMO No. 14-2021.

If the BIR determines that the withholding tax rate applied is lower than the rate that should have been applied on an item of income pursuant to the treaty, or that the non-resident taxpayer is not entitled to treaty benefits, it will issue a BIR ruling denying the request for confirmation or TTRA. Consequently, the withholding agent shall pay the deficiency tax plus penalties. On the contrary, if the withholding tax rate applied is proper or higher than the rate that should have been applied, the BIR will issue a certificate confirming the non-resident income recipient's entitlement to treaty benefits. In the latter case, the taxpayer may apply for a refund of excess withholding tax.

If a company withholds the regular tax rate instead of the reduced rate applicable under an income tax treaty, a non-resident holder of the company's shares may file a claim for a refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

The claim for refund may be filed independently of, or simultaneously with, the TTRA. If the claim was not filed simultaneously with the TTRA, the office where it was filed shall coordinate with, and defer to, ITAD the resolution of the non-resident's entitlement to treaty benefit. If, on the other hand, the claim was filed simultaneously with the TTRA, it shall be the responsibility of the ITAD to endorse the claim for refund to the proper office that handles the processing of tax refunds after the resolution of the

TTRA. At any rate, all issues relating to the application and implementation of treaty provisions shall fall within the exclusive jurisdiction of the ITAD.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debentures and certificates of indebtedness issued by Philippine companies, such as bonds, notes and other deposit substitutes, at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided, that for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be proportionate to the ratio of the debt instrument's term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines, or where the object of the contract is located or used in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

No documentary stamp tax is imposed on the subsequent sale or disposition of bonds or other deposit substitutes; trading of bonds or other deposit substitutes in a secondary market or through an exchange as long as such subsequent sale, disposition or trading is not made in the Philippines or there is no change in the maturity date or the material terms and conditions of the relevant bonds or other deposit substitutes.

TAXATION ON SALE OR OTHER DISPOSITION OF BONDS OR OTHER DEPOSIT SUBSTITUTES

Income Tax

Any gain realized from the sale, exchange or retirement of debt instruments as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to ordinary income tax rates (at graduated rates from 0%-35% for individuals, beginning 1 July 2020, 25% for domestic and resident foreign corporations, provided that domestic corporations with net taxable income not exceeding ₱5,000,000.00 and with total assets not exceeding ₱100,000,000.00 (excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed) ("MSMEs"), shall be taxed at 20%. Taxable net income refers to items of income specified under Section 32(A) of the Tax Code less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.) On the other hand, gains realized by non-residents from the sale or transfer of debt instruments are subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 25%, if the holder is a non-resident foreign corporation. If the debt instrument are sold by a seller, who is an individual and who is not a dealer in securities, who has held the debt instrument for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

Moreover, any gain realized by a non-resident alien arising from such sale, regardless of the original instruments, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the Bureau of Internal Revenue for the availment of tax treaty benefits.

Estate and Donor's Tax

Beginning 1 January 2018, the transfer of bonds or other deposit substitutes upon the death of an individual holder to his heirs by way of succession, whether such holder was a citizen of the Philippines or an alien and regardless of residence, is subject to Philippine taxes at a fixed rate of 6% based on the value of the decedent's net estate.

Beginning 1 January 2018, individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer bonds by way of gift or donation are liable to pay Philippine donors' tax at the fixed rate of 6% based on the total gifts in excess of ₱250,000 exempt gifts made during the calendar year.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of bonds or other deposit substitutes, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes. However, a sale, exchange, or other transfer made in the ordinary course of business (a transaction which is bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or through an exchange, provided that such sale or disposition does not constitute a renewal or extension of maturity of the Bonds or carried with it a renewal or issuance of new instruments in the name of the transferee to replace the old ones. However, if the transfer constitutes a renewal or extension of the maturity of the Bonds, documentary stamp tax is payable anew.

Value- Added Tax

Gross receipts derived by dealers in securities from the sale of bonds or other deposit substitutes in the Philippines, equivalent to the gross selling price less the acquisition cost of bonds or other deposit substitutes sold, shall be subject to value-added tax of 12%.

"Dealer in securities" means a merchant of stock or securities, whether an individual partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers, that is, one who as a merchant buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom.

Gross Receipts Tax

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in

accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and non-bank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

Taxation Outside the Philippines

The tax treatment of non-resident holders in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax considerations on such non-resident holders under laws other than those of the Philippines.

INDEPENDENT AUDITORS AND COUNSEL

LEGAL MATTERS

Certain legal opinion/matters in relation to the Offer will be passed upon by Picazo Buyco Tan Fider & Santos Law Offices, our legal counsel, and Angara Abello Concepcion Regala & Cruz Law Offices, legal counsel to the Joint Lead Underwriters and Bookrunners. Certain matters relating to the legality of the Offer and tax matters were passed upon by Adarlo Caoile & Associates Law Offices for the limited purpose of issuing an opinion required by the SEC. Angara Abello Concepcion Regala & Cruz Law Offices, Picazo Buyco Tan Fider & Santos and Adarlo Caoile & Associates Law Offices have no direct or indirect interest in the Company.

One of our directors, Mr. Francisco Ed. Lim, is also a senior partner at Angara Abello Concepcion Regala & Cruz Law Offices, legal counsel to the Joint Lead Underwriters and Bookrunners.

INDEPENDENT AUDITORS

The condensed consolidated interim financial statements of our Company as of and for the nine months ended September 30, 2021 were reviewed by PwC, independent auditors, and the consolidated financial statements of our Company as of December 31, 2017, 2018, 2019 and 2020 for the years then ended, were audited by PwC. The audited consolidated financial statements were prepared in accordance with PFRS and were audited by PwC in accordance with the PSA. The reviewed condensed consolidated interim financial statements were prepared in accordance with PAS 34 and reviewed by PwC in accordance with PSRE 2410.

PwC has acted as our external auditor since 2016. Jan Michael L. Reyes is our current audit partner and has served as such since 2018. We have not had any material disagreements on accounting and financial disclosures with its current external auditor for the same periods or any subsequent interim period.

PwC, has neither shareholdings in our Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for our securities. PwC will not receive any direct or indirect interest in our Company or its securities (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

The following table sets out the aggregate fees paid to PwC for professional services rendered by PwC, excluding fees directly related to the Offer:

	2020	2019	2018	2017
Audit and Audit Related Fees (in ₱) ⁽¹⁾	5,000,000	4,500,000	4,050,000	850,000
All other fees (in ₱) ⁽²⁾	3,000,000	1,335,000	1,085,480	-
Out-of-Pocket Expenses (in ₱) ⁽³⁾	286,174	193,501	239,324	136,024

Notes:

- Audit and audit related fees include fees for the audit of annual financial statements and services that are normally provided by the independent auditor in connection with statutory and regulatory filings.*
- All other fees include other services rendered by Isla Lipana & Co. are agreed upon procedures; 2020 fees are for IPO-related services rendered*
- Out-of-Pocket expenses are reasonable expenses incurred by PwC in relation to its services to the Company.*

There is no arrangement that experts will receive a direct or indirect interest in our Company or was a promoter, underwriter, voting trustee, director, officer, or employee of our Company.

Any future non-audit/ other services to be provided by the external auditors shall undergo review and is subject to the endorsement of our Company's Audit Committee before such engagement is approved by the Board of Directors.

DESCRIPTION OF BUSINESS

This section is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in this Prospectus. Because it is a summary, it does not contain all of the information that a prospective purchaser should consider before investing. Prospective investors should read the entire Prospectus carefully, including the section entitled "Risk Factors and Other Considerations," the reviewed condensed consolidated interim financial statements, and audited consolidated financial statements and the related notes to those statements included in this Prospectus.

OVERVIEW

Converge Information and Communications Technology Solutions, Inc. ("Converge" or the "Company") is the fastest-growing high-speed 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 fiberbased connectivity services.

This singular focus on highspeed fixed broadband services is deeply ingrained in our organization, which permeates all aspects of our operations, including our network rollout, product and service offerings, sales and customer service. During the first nine months of 2021 and based on publicly available information, Converge captured 45% market share of fixed broadband net adds amongst the three largest broadband operators in the Philippines, representing an increase in fixed broadband market share from 17% in December 2019 to 30% in September 2021. Since 2018, our strategy has been to focus on Fiber-to-the-Home ("FTTH") expansion, as FTTH technology allows us to offer higher quality connectivity and generate higher ARPU. Our residential subscriber base grew from approximately 530,000 as of the start of 2020 to more than 1,577,000 as of September 30, 2021.

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 almost 90,000 kilometers of fiber as of September 30, 2021, our network is among the most extensive in the country. Our network is comprised of a fiber backbone reaching from the Luzon Island to the Visayas and Mindanao regions. Our extensive fiber distribution and last-mile network passes through 440 cities and municipalities across the country (including Metro Manila), as of September 30, 2021. Our network reached more than 9.6 million homes as of September 30, 2021 covering approximately 57% of households in Luzon and 38% of households nationwide. In November 2021, the Company has completed its nationwide subsea cable backbone project, supported by 20 cable landing stations across the archipelago.

Converge was listed on the Philippine Stock Exchange ("PSE") on October 26, 2020 under the ticker symbol CNVRG, marking another historic milestone for the Company in 2020. With an offering size of ₱25 billion, our Initial Public Offering was the largest IPO on the PSE at that time since 2016. On August 5, 2021, the Philippine Stock Exchange ("PSE") announced that Converge will be included in the Philippine Stock Exchange Index ("PSEi") effective August 16, 2021 after qualifying for early inclusion. The PSE approved amendments to its index management policy, one of which was that companies with trading history of six months (from previous requirement of 12 months) will be eligible for early inclusion, provided that the company's market capitalization is ranked at least in the 25th position at the end of the review period, subject to meeting the free float and liquidity criteria. With the support of the investing public, the Company was able to meet all the necessary requirements for early inclusion, and was therefore added to the 30- company index, which serves as a barometer of the general state of the business climate in the country. Converge will further be included in the PSE Services Index, representing one of the main six sector-based indices of the local exchange. Further, in September 2021, Converge was included in the Small-cap Index of the FTSE Global Equity Index Series, further deepening the interest from passive investors.

As a publicly listed company, Converge has also started to disclose information on our environmental, social, and governance impacts for the year ending December 31, 2020 in Exhibit 2 of the Company's full year 2020 Annual Report. With our commitment to providing quality services to our subscribers, we are mindful of our impact to the environment and the communities we operate in and of our compliance to best governance practices.

In 2020, a new normal has emerged due to COVID-19, driving a permanent paradigm shift in connectivity requirements. As the Philippines continues to adapt to the challenges posed by the

pandemic, our mission of connecting the underserved and unserved areas of the country with high quality fiber broadband connectivity services has become even more critical. By providing reliable and affordable broadband services that can support work-from-home (“WFH”), online-learning or tele-medicine arrangements, we are committed to support the lives of people and the connectivity requirements of businesses in these challenging times.

Business Development and Historical Background

In 2007, Mr. Dennis Anthony H. Uy and Ms. Maria Grace Y. Uy (collectively referred to as “Founders”) incorporated Converge in Pampanga, a province in Luzon, with the primary purpose of providing broadband internet and other connectivity services to residential and enterprise customers nationwide. Converge remained dormant until 2012 as it awaited the requisite licenses and approvals to operate.

In 2009, Republic Act No. 9707 granted Converge its franchise from the Philippine Congress to construct, install, establish, operate, and maintain telecommunications systems throughout the Philippine for a term of 25 years.

On June 24, 2011, the National Telecommunications Commission (“NTC”) issued a Provisional Authority for us to install, operate and maintain a nationwide broadband internet network in the Philippines. In June 2012, we commenced our fixed broadband internet operations.

The following year, we launched FTTH fixed broadband services and entered Metro Manila, the nation’s capital. Metroworks ICT Construction, Inc. was incorporated in 2013 to manage the network rollout.

In 2019, we commenced our efforts to “Go National” (beyond Luzon), kicking-off the construction of our nationwide domestic backbone that will connect Luzon with Visayas and Mindanao. In the same year, we executed an agreement with a leading global private equity firm Warburg Pincus for a U.S.\$225 million primary investment (through Coherent Cloud) into our Company to accelerate our nationwide network expansion plans. As part of the transaction, we completed a group reorganization to streamline our operations, which resulted in Metroworks becoming a wholly owned subsidiary of Converge in the same year.

In July 2020, we activated the Philippines’ first 400Gbps metro backbone utilizing industry-leading optical solutions from a United States-based networking systems, services, and software company. This deployment provides us with a programmable, dynamic setup of connections that increases adaptability and resiliency. The metro backbone can further be scaled to higher 800Gbps capacity to support future growth.

We were listed on the PSE on October 26, 2020 in one of the largest Initial Public Offerings of the Philippines in recent history, with a total offering size of c. ₱25 billion and raising net proceeds of c. P8 billion.

In November 2020, Converge reached the important milestone of one million residential subscribers and celebrated by providing free speed upgrades to its subscribers of up to an additional 300Mbps in December. Both existing and new subscribers will be able to enjoy permanent speed upgrades to their plans without additional fees.

In April 2021, Converge’s fiber backbone reached Visayas and Mindanao.

In May 2021, Converge secured participation in the Bifrost Cable System.

In August 2021, the PSE announced the inclusion of Converge in the PSEi effective August 16, 2021 after qualifying for early inclusion. Converge will further be included in the PSE Services Index, representing one of the main six sector-based indices of the local exchange.

In September 2021, Converge was also included in the small-cap index of the FTSE Global Equity Index Series. Furthermore, Converge’s network has passed through 440 cities and municipalities nationwide and in the third quarter of 2021 recorded the highest quarterly net subscriber adds in history with 222,000 new subscribers.

In October 2021, Converge was awarded its Certificate of Public Convenience and Necessity, allowing us to operate until the expiration of our franchise term.

In November 2021, the Company completed the nationwide backbone subsea cable project.

Recent Developments

Speed Upgrades to all Residential Fiber Plans to Celebrate Reaching the 1.5 Million Residential Subscriber Milestone

To celebrate the Company reaching 1.5 million residential subscribers as of end of September 2021, Converge gave free speed upgrades to all existing subscribers effective November 9, 2021, which are also extended to new subscribers. This is on top of the speed increase implemented last December 2020 for reaching its one million subscriber milestone. This strengthens Converge's commitment to provide better quality broadband service with the best value. With up to four times the speeds, the Company's subscribers will be much more equipped to adapt to the rapid transition to the digital lifestyle – including leisure, work, and education.

Three new FiberX plans were rolled out — starting with Plan 1500 for 50 Mbps with an exclusive add-on for 10Mbps for only ₱99, Plan 2500 for 300 Mbps, and Plan 3500 for 800 Mbps, making Converge now unmatched in the Philippine telecommunications industry as the most affordable internet plan. Closely listening to its consumer's pain points, Converge identified a gap to fill in order to offer better value for their money with no additional costs, yet fast speeds. Beyond speed increase, families are encouraged to spend within their means without sacrificing their bandwidth. Turbocharged speeds play a vital role in every Filipino's lifeline as homes became an office, school, marketplace, and the like.

Expansion of Backbone Network to 440 Cities and Municipalities Nationwide and Completion of the Nationwide Subsea Cable Network

More than 13,000 kilometers of fiber optic cable were added to our backbone during the third quarter of 2021 – the longest quarterly expansion of our backbone so far. As of September 30, 2021, our backbone has now expanded to almost 90,000 kilometers from almost 76,500 kilometers last quarter. Our network has now passed through around 440 cities and municipalities nationwide, extending our services to new areas including Iloilo, Cagayan, and Cagayan de Oro. Converge has fully launched its services in Mindoro during the fourth quarter of 2021 while Butuan City will be fully launching by the first week of March 2022. During the third quarter, Converge also reached the shores of Palawan, where the Company plans to soft launch its services in the coming months.

The Company also completed its domestic submarine cable project that connects the country's major islands from Luzon to the Visayas and Mindanao to its national fiber backbone. The 1,800 kilometer subsea cable made its final landing in Coron, Palawan.

The subsea cables that connect to the domestic backbone of Converge are laid out in a way that there is redundancy in the network, assuring service availability even in the case of fiber cuts. Converge interconnected Visayas and Mindanao during Phase 1 of its domestic subsea backbone rollout, first landing in Bogu, Cebu and Cagayan De Oro. Then in Phase 2, re-entered Visayas through Roxas City, Capiz in Panay Island and Mindanao through Buenavista, Agusan del Norte - closing the loops in its network. This is supported by 20 cable landing stations across the archipelago.

Continued Investment in Network Upgrades to Deliver Best Results

Beyond expanding our network to reach an increasing number of households in the Philippines, Converge is actively investing in network equipment upgrades and backbone network redundancies to ensure reliable services to its customers.

During the quarter, the Company has completed its North Luzon fiber optic loop that ensures improved reliability and availability of service in the region. This loop makes the network in the region completely redundant, which ensures continued service in case there's an interruption in one part of the network.

As part of strengthening its foothold in North Luzon, Converge said it is set to finish the total fiberization of Pangasinan and La Union this month as it reaches the major cities and municipalities in these provinces where broadband services are urgently needed. With these improvements in place, Converge was able to deliver superior network availability for its subscribers. During the third quarter of this year, [outage.report/ph](#) reported that Converge experienced less than 500 network outages per month. Though the average number of outages per month is less than half of the outages of our closest competitor, Converge is focused on further reducing outage incidents to enhance customer satisfaction.

Key Enterprise Business Wins in the Third Quarter of 2021

Converge secured multiple enterprise business contracts during the third quarter of 2021 resulting in a 18% YoY revenue growth of the Enterprise Business compared with the same period in 2020. One key growth driver came from our Enterprise Wholesale business, where Converge is re-selling bandwidth capacity on its local and international fiber cables to enterprise and telecom clients on a wholesale basis.

A recent win for our local wholesale business is one of the biggest cable TV and broadband service providers in the Visayas and Mindanao regions. Our contract to provide 10Gbps of bandwidth capacity is a result of our investment in our national domestic backbone – allowing us to cater to businesses outside Luzon. Also, Converge won a bid to provide 20Gbps international connectivity for a local government institute's research arm to access contents from the United States. This one-year contract will help boost enterprise revenues by more than ₱50 million. Lastly, Converge won its largest bandwidth wholesale contract so far where the Company will connect 100Gbps of capacity between Singapore and the Philippines for two years. This contract will support the growth of our wholesale business as we regionalize our presence and strategies.

Cloud Connectivity Services Now Offered to Enterprise Customers

Following the launch of Converge Business, which will be the Company's umbrella brand for all business connectivity, data transport, and other ICT solutions for SMEs, conglomerates, and large enterprises, Converge also introduced cloud connectivity services for its Converge Business customers.

The Cloud Upload Booth allows customers to upload large files into cloud service provider platforms, at a working space located at Reliance IT Center in Pasig City. This removes the need to go to cloud regions such as Singapore just to upload large files. Users would have access to a Windows PC with a LAN-based internet connection of 10Gbps.

The Cloud Direct Connect, meanwhile, is a service that would connect the enterprise customer's local IT infrastructure to a cloud service provider. This link is done in partnership with global firm Equinix, without crossing the internet.

Continued Commitment to Improving Customer Experience

The Company continues to commit to providing quality customer experience for both existing and potential new subscribers. Converge continues to be highly focused on enhancing the overall customer experience by strengthening our customer care functions and digitizing the journey of our customers.

In the third quarter of 2021, Converge installed more than 93% of new NCR subscribers within seven days and 60% within one day of application, respectively. First call resolution rate of our service desk teams has been consistently improving since the start of the year. During the third quarter of 2021, more than 60% of all concerns raised were resolved during the first call, which was an improvement from only around half during the second quarter.

With the ongoing regional expansion, the Company launched its One Nationwide Cellular Hotline aimed for subscribers outside Metro Manila to avoid incurring long distance charges. Through this cellular hotline, any subscriber from anywhere in the Philippines can reach the Company's contact agents without a need for a fixed telephone line.

Additionally, Converge launched self-service kiosks in its business centers in Luzon to reduce queue time of customers. This platform has multiple functionalities, including a click-to-call function that allows customers to interact directly with a Company representative without the need to line up inside the business center. Also, this kiosk can also assist customers in new line applications, viewing latest bills, raising tickets for technical complaints, and other aftersales requests.

Strengthened Commitment to Environmental, Social and Governance with Established Roadmap

Since the start of the year, Converge has been working on the Company's Sustainability Framework that goes beyond compliance reporting. The framework will underscore our commitment to ensuring that the Company adheres to global standards in environmental, social, and governance best-practices.

The Company has established its Sustainability Roadmap with an organization structure that defines the key roles of the management team. With the Sustainability Commitment, Pillars, and Principles as building blocks, the Company has developed relevant short, medium, and long-term targets for key metrics. A few key ESG targets for the Company include:

Environment

- Zero solid waste being added to landfills by 2030
- 75% reduction in GHG emissions from purchased electricity by 2030
- Net zero by 2050, which is in line with the United Nations goal. To reach this goal, Converge will develop initiatives that will allow the Company to lessen its carbon emissions.

Social

- Improve average annual training hours per employee to 40 hours by 2022
- Implement programs to ensure diversity among employees at 70-30 male-to-female ratio by 2025

To meet these select short, mid, and long-term targets, the Company has been implementing multiple initiatives.

Environment

- On September 26, 2021, Converge started transitioning to renewable energy to power its main office in Pasig City as it aims to pursue greener options in its operations. The Company committed to purchase a total of 2.5 megawatts ("MW") of geothermal energy up to 2023 from pioneering clean energy company First Gen Corporation.
- The Company contracted an energy solutions platform provider, for energy efficiency data analytics for its main office. The online dashboard provides vendor analysis in different regions for informed decision making on future partnerships under the RCOA program, on top of real-time measurement of energy consumption through meter reading. With this data analytics platform, the Company's can economically and gradually shift to renewable energy sources for its offices and business centers.
- Converge entered into a three-year partnership with the Abacan River and Angeles Watershed Advisory Council Inc. and a local Aeta community group for the rehabilitation and protection of the Angeles watershed which is the source of clean water for the city and the province of Pampanga.

Social

- Converge entered into several partnerships during the third quarter to extend our services in the digitalization of educational programs. Converge partnered with the San Juan City local government to help students, families, and educators in the city adapt to the learn-from-home environment amid mobility restrictions during the pandemic. A culmination of these efforts is the activation of free fiber optic connectivity to the digital learning platforms for over 12,000 public school students in 6,000 households.
- The Company also started providing connectivity and digital support to students of the Philippine Science High School ("PSHS") at four provincial learning hubs to help enable blended learning in the country's top science high school amid the pandemic.

- Due to the ongoing pandemic, the Company has encouraged its employees to get vaccinated for safety of both the employees and the customers. As of September 30, 2021, almost 85% of employees have been inoculated with at least one dose of Covid-19 vaccine either through the government-sponsored program or company-sponsored vaccination drives.
- The Company launched Converge University, which aims to standardize processes, establish best practices, and share and hone skills of employees that require these. The training sessions ensure that services are provided to our subscribers at a top notch level throughout the country, regardless of where the subscriber resides. Agents and other contractual workers are also provided training under Converge University.

Governance

- To strengthen the Company's data privacy framework, Converge segregated the Data Protection Officer ("DPO") function with the Information Technology role and added experienced and competent data privacy professionals to boost the team's manpower. Additionally, a series of campaigns were launched to refresh employees of the policies in protecting personal information. This ensures that employees are up-to-date on and strictly complies with all relevant company policies regarding data privacy.
- The Company's Board Risk Oversight Committee has approved the Enterprise Risk Management ("ERM") Policy. The policy outlined the ERM framework, which was based on ISO 31000:2018, and details the process, tools, and techniques in managing different types of risks. Due to uncertainties in both internal and external environments, the Company needs to quickly identify and actively manage risks to either increase shareholder value and enhance its competitive advantage or minimize losses and damages

More information on the Company's Sustainability Framework can be found in Converge's Sustainability Report.

Mission, Vision, Core Values

The Company's mission is to delight our customers by taking care of our own. The Founders established Converge with the vision of building a business focused on providing highspeed fixed broadband to millions of unserved and underserved households and businesses across the Philippines. Our Founders assembled a worldclass team of like-minded professionals, and together, built Converge into an organization focused on becoming the market-leader in the high-speed fixed broadband market. The Company also incorporates its core values of Integrity, Customer Focus, Teamwork, Empowerment, Excellence and Velocity in its daily operations. The mission, vision, and core values are deeply ingrained in our organization, and is the foundation of our key competitive advantages, including the differentiated products and services that we offer and the extensive proprietary network that we build and operate.

Business Segments

We operate two businesses: (i) our residential business ("Residential Business"), which primarily offers highspeed 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. Our Residential and Enterprise Business revenues also include installation revenue that we generate from each new subscriber or customer.

Historically, the majority of our revenue has been derived from our Residential Business. Revenues from our Residential Business increased from ₱861.5 million in 2016 to ₱12,628.3 million in 2020, representing a CAGR of 96% between 2016 and 2020. Revenues from our Enterprise Business increased at a CAGR of 31% between 2016 and 2020 to reach ₱3,024.0 million in 2020. The combined revenue increased at a CAGR of 70% from ₱1,894.0 million in 2016 to ₱15,652.3 million for 2020. Revenues from our Residential Business increased from ₱8,413 million in the third quarter of 2020 to ₱16,374 million in the third quarter of 2021, representing a year-on-year growth of 95% from the same period in 2020. Revenues from our Enterprise Business increased at a growth rate of 9% between the two periods to reach ₱2,457 million in the third quarter of 2021. The combined revenue increased at a growth rate of 76% from ₱10,667 million to ₱18,831 million during the third quarter of 2020 and 2021, respectively.

The table below summarizes the revenue contribution of each business to our total revenues for the periods indicated.

	For the years ended December 31,					CAGR	For the nine months ended September 30,		Y-o-y
	2016	2017	2018	2019	2020	(2016-2020)	2020	2021	
Revenues	(in Php millions)								
Residential Business	862	1,520	3,151	6,354	12,628	96%	8,413	16,374	95%
Enterprise Business	1,033	1,421	1,904	2,786	3,024	31%	2,264	2,457	9%
Total Revenues	1,894	2,940	5,055	9,139	15,652	70%	10,677	18,831	76%

OUR RESIDENTIAL BUSINESS

Overview

Our Residential Business offers high-speed fixed broadband internet services, and other bundled or add-on connectivity services to residential customers, through fiber access networks utilizing FTTH and HFC technologies. While a substantial majority of our residential customers are home users, some of these customers are microbusinesses, which are small-scale businesses with up to nine employees, such as standalone restaurants, doctors' clinics, boutique law firms, and mom and pop stores.

As of September 30, 2021, the Company has deployed more than 5.2 million ports, majority of which are in Luzon given that we have only landed our network in Visayas and Mindanao in April 2021. Less than 5% of our ports have been deployed in Visayas and Mindanao as of the said date.

Our Residential Business has delivered market-leading subscriber and revenue growth since 2016. In 2020, Converge captured a 54% market share of fixed broadband net subscriptions. Our residential subscriptions have increased by more than 14 times since 2016, from 73,633 subscribers as of December 31, 2016 to 1,038,321 subscribers as of December 31, 2020. The average revenue per user ("ARPU") of our Residential Business has remained steady since 2017 and revenues from our Residential Business increased from ₱861.5 million in 2016 to ₱12,628.3 million in 2020. Our residential business showed a 95% increase from ₱8,413 million for the first nine months of 2020 to ₱16,374 million in the first nine months of 2021. Converge's monthly residential ARPU remained steady from ₱1,352 in the third quarter of 2020 to ₱1,346 during the same period in 2021.

The table below sets out the key operating and financial metrics of the Residential Business for the periods indicated:

	For the years ended December 31,					CAGR	For the nine months ended September 30,		Y-o-y
	2016	2017	2018	2019	2020	(2016-2020)	2020	2021	
Revenues (in millions)	₱862	₱1,520	₱3,151	₱6,354	₱12,628	96%	₱8,413	₱16,374	95%
Residential Subscriptions	73,633	127,492	264,865	529,629	1,038,321	94%	900,531	1,576,759	75%
ARPU	N/A	₱1,191	₱1,178	₱1,293	₱1,298	N/A	₱1,261	₱1,340	N/A

Residential Target Customer Groups

Our Residential Business customers typically belong to the middle-income or upper-income classes in the Philippines, and we specifically target customers belonging to the middle-income classes. We believe that many of these targeted households are young or millennial working families who tend to be tech savvy and heavy internet users. As such, we believe that these households have both the means and the willingness to spend on internet and would seek to prioritize internet speed and reliability and a strong “value for money” proposition. As the middle-income households, our core market, become more affluent over time, we actively cross-sell and upsell add-on services, upgrades, and complementing devices such as high speed routers.

Products and Services

The table below summarizes the primary product and service offerings of our Residential Business. Our subscriber mix has evolved significantly since we made a strategic pivot to prioritize FTTH over HFC in early 2018. In 2017, only 19% of our subscriber base was on FTTH, with the remaining 81% on HFC. As of December 30, 2020, 79% of our subscriber base was on FTTH.

The table below summarizes the latest primary product and service offerings of our Residential Business as of the date of this Prospectus:

PLAN	UPGRADED SPEED	MONTHLY SERVICE FEE (VAT-inc.)
FTTH Technology*		
FiberX 1500	up to 50Mbps**	₱1,500
FiberX 2500	up to 300Mbps	₱2,500
FiberX 3500	up to 800Mbps	₱3,500
HFC Technology		
Air Internet 1000	up to 5Mbps	₱1,000
Air Internet 1250	up to 10Mbps	₱1,250
Air Internet 1350	up to 15Mbps	₱1,350

* Subscribers of the phased-out FiberX 4500 (formerly 400Mbps) and 7000 (formerly 800Mbps) will be moved to the FiberX 3500 (currently 800Mbps) package.

**Existing Plan 1500 subscribers may pay an additional ₱99 per month to enjoy 10 Mbps on top of their Plan

We offer our residential customers a menu of eight fiber broadband plans under three brands, a wide selection from which to choose a product that best suits their individual household or microbusiness needs. These brands are as follows:

- FiberX and FiberXtreme:** We provide residential broadband services via FTTH connection under our FiberX and FiberXtreme brands. Our flagship product, FiberX 1500, is our entry-level FTTH plan tailored specifically for the middle-income Philippine household that forms the core of our target customer base. FiberX 1500 is our most popular plan and has grown exponentially. Our other FiberX and FiberXtreme plans are premium home internet plans targeted at the mass-affluent segments. These plans range from ₱2,500 per month for download speeds of up to 300Mbps to ₱3,500 per month for download speeds of up to 800Mbps, with no data caps. We believe that the continued migration of our FiberX 1500 customers to more premium FiberX or FiberXtreme plans would provide support to and increase our ARPU over time.
- Air Internet:** Our Air Internet brand provides home broadband services via HFC connection, with fixed monthly fee service plans ranging from ₱1,000 to ₱1,350 for maximum download speeds ranging from 5Mbps to 15Mbps, with no data caps. We expect to migrate a significant number of our Air Internet subscribers to FTTH plans as we continue our FTTH rollout and market FTTH upgrades to these subscribers.

In line with our plans to focus exclusively on our FTTH rollout, we are discontinuing our HFC rollout although we will continue to maintain our existing HFC network. We believe that the migration from HFC to FTTH will also help us increase our ARPU. From time to time, we actively pursue upselling campaigns to migrate our HFC subscribers to FTTH contracts.

To complement our products and services, we also offer a broad suite of add-on products and services. An additional fee is charged on the subscriber's monthly plan for these add-ons, enhancing our ARPU. Examples of our add-ons include the following:

- **Speed Boosts:** We provide speed boosts or bandwidth upgrades as add-on services. For example, in the fourth quarter of 2018, we launched the "10-for-99" product, also referred to as the "1500 Plus" plan, which allows our existing FiberX 1500 customers to enjoy additional 10Mbps for an additional service fee of ₱99 per month. The bandwidth upgrade was originally launched for a limited period and was relaunched in 2019 because of its popularity and to address customer demand for faster speeds. As of December 31, 2020, the take-up rate of our "10-for-99" product was approximately 16% nationwide.

We plan to continue introducing variations of such bandwidth upgrade campaigns to enhance our ARPU. We have launched our "Time of Day" product during the first quarter of 2021 to provide subscribers the option to customize and adjust the speed available to them in accordance with their usage at a given time. For example, subscribers who require more bandwidth during business hours under WFH arrangements or during weekday school hours under Learn From Home online arrangements can upgrade their service for those particular times for an additional fee. We believe that in addition to enhancing ARPU, this initiative will increase customer satisfaction and loyalty.

- **Cable TV:** Through our marketing service arrangement with our affiliates, we offer cable TV as a bundled service to internet subscribers who are on our Air Internet plans in select locations, for an additional fixed monthly fee ranging from ₱299 to ₱699 for 81 to 170 TV channels respectively.
- **Others:** We provide various connectivity-enabled or enabling devices such as modems (FiberX Share), wifi mesh systems (Seamless Whole Home WiFi), routers (the Game Changer) and security cameras (FiberScope).

In partnership with Linksys, we were the first to offer WiFi 6 to subscribers. WiFi 6 is a long-awaited innovation in wireless technology. With expanded capabilities in the said frequency, consumers can enjoy an improved online experience within their homes. The Velop MX5300 WiFi 6 Mesh system comes with the nextgeneration orthogonal frequency-division multiple access ("OFDMA") technology which decreases latency in high-density environments to deliver high speed WiFi to multiple devices simultaneously.

All of our residential customers initially sign-up to fixed-term contracts for a 24-month period. At the time of sign-up, our customers are typically required to pay a one-time installation fee and we may also require payment of a one-month security deposit. With the 24-month contract and the security deposit, we are able to draw customers with high credit quality, maintain a stable subscriber base and minimize churn. At the end of the initial 24-month contract, our residential customers may opt to discontinue the service, sign a new contract or continue on their existing contract on a rolling basis (following which time, they may terminate their subscriptions with effect from the end of their current billing cycle).

We design our offerings to meet the evolving demands of our customers. The fast-paced shift to a digital lifestyle ushered by the pandemic has placed utmost importance on the reliability of internet connection. Major activities that drive heavier internet traffic such as work from home, distance learning, and at home entertainment such as online gaming and video streaming and the increased use of features like 4K video which call for higher speeds have fueled the demand for better connectivity— a key commitment of Converge to its ever-growing community.

OUR ENTERPRISE BUSINESS

Overview

Our Enterprise Business offers high-speed broadband internet services and other connectivity solutions, including private data network services and cloud and colocation services, to enterprise customers. Our enterprise solutions are delivered over end-to-end fiber networks via fiber-to-the-premise ("FTTP") technology. We serve enterprises of varying sizes, ranging from SMEs to some of the

largest businesses in the Philippines, including multinational corporations with a presence in the country. While the majority of our enterprise clients are for-profit corporations, we also serve non-profit organizations, such as governmental departments, public universities, and NGOs. Our key strategic accounts include large business process outsourcing (“BPO”) companies, major financial institutions, national government agencies and other large accounts with industry-specific bandwidth-intensive requirements. Consistent with our overall vision, our Enterprise Business is focused on serving the needs of our enterprise customers for high-speed and reliability. For most of our enterprise customers, particularly for those in the services sector, connectivity is a critical element of their businesses.

Our Enterprise Business has differentiated its offering and capitalized on the country’s thriving internet-enabled services industries, including BPOs. Our enterprise revenues increased from ₱1,032.5 million in 2016 to ₱3,024.0 million in 2020 representing a CAGR of 31% between 2016 and 2020. In 2020 our enterprise revenues grew by around 9% YoY, from ₱2,785.6 million in 2019 as businesses in the Philippines are starting to adapt to the new normal.

The growth of our Enterprise Business has been driven by (i) further expansion of our enterprise customer base, growing at a CAGR of 27% between 2016 and 2020, and (ii) continued increase in overall monthly enterprise ARPU from ₱22,319 in 2017 to ₱23,809 in 2020, reflecting the growing business needs for connectivity.

For the period ended September 30, 2021, Converge’s enterprise business is ₱2,457 million, which is a 9% increase from the revenues for the same business for the first nine months of 2020, amounting to ₱2,264 million. The successful launch of the Company’s SME product flexiBIZ earlier this year allowed us to more than double our SME customer base in the third quarter of 2021 from the same period last year. Our overall enterprise customer base increased from 10,953 unique customers as of September 30, 2020 to 21,425 as of September 30, 2021.

The table below sets out the key operating and financial metrics of the Enterprise Business for the periods indicated.

	For the years ended December 31,					CAGR	For the nine months ended September 30,		Y-o-y
	2016	2017	2018	2019	2020	(2016-2020)	2020	2021	
Revenues (in millions)	₱1,033	₱1,421	₱1,904	₱2,786	₱3,024	31%	₱2,264	₱2,457	9%
Enterprise Customers	4,292	6,043	6,539	10,083	11,090	27%	10,953	21,425	96%
ARPU	N/A	₱22,319	₱24,857	₱27,462	₱23,809		₱23,918	₱16,783	

Enterprise Target Customer Groups

Our Enterprise Business is organized around our four target customer groups: (i) Large Enterprises, (ii) Corporates, (iii) SMEs and (iv) Wholesale customers.

Our Large Enterprise customers comprise the largest companies in the Philippines, which generally have been among the top 5,000 corporations in the Philippines by revenue. These customers include BPO companies with more than 100 seats, top-tier banks and financial institutions, national government agencies and large non-profit institutions such as major public universities. Our Corporate customers, on the other hand, comprise of large corporations that are generally ranked between the top 5,000 and top 10,000 corporations in the country, by revenue. Our SME clients generally comprise companies with 10 to 199 employees. We serve home or microbusinesses with fewer than 10 employees through our Residential Business. Our Wholesale group provides bandwidth leases on a wholesale basis primarily to telecommunication and media companies, as well as content providers, including local and global telecommunication carriers, TV and media operators, and over-the-top content providers.

Products and Services

We believe that we differentiate ourselves from other operators in our ability to offer tailored solutions that allow customers to customize their subscription packages to suit their specific needs, and to choose from a wide range of internet connectivity, private data network solutions, and cloud and colocation services.

The table below sets out the key connectivity services offered by our Enterprise Business as of the date of this Prospectus.

Service	Available Speeds	Price Ranges	Target Customer Groups	Service Highlights
Internet Connectivity Services				
flexiBiz Plans	50 Mbps - 300 Mbps (during hours of higher speed)	₱2,000 to ₱18,700	• SME	• High-speed, high-reliability broadband internet plans tailored to the requirements of SME customers • flexiBIZ DAY Plan provides higher speeds on Daytime suitable for typical businesses • flexiBIZ PEAK plans provides fixed high speed internet 24x7, with option of static IP
Direct Internet Access	2 Mbps up to 10 Gbps	₱14,000 to ₱4.7 million	• Large Enterprise • Corporate	• Ultra-high performance internet connectivity solutions tailored to the requirements of Large Enterprise and Corporate customers • Our “Bandwidth-on-Demand” add-on product enables dynamic demand-based bandwidth top-up, allowing customers to increase bandwidth as and when needed for an incremental additional charge • The “Time-of-Day” add-on offers variable bandwidth based on the pre-set time of day. Enterprise customers can get the same quality of the premium internet service with double the subscribed bandwidth on their preferred time - either night or day, providing flexibility and best value for money • Our “Upload” variant that offers asymmetric download and upload bandwidth allocation. Business can get the same quality of the premium internet service with two times upload speed, best for their outbound traffic intensive business operation • The “Converge Connect” premium service enables businesses to have

				customizable combination of products and resources that are best suited to their needs – fast delivery and no truck-roll needed “China Connect” is a dedicated internet service that provides premium access to China destinations
Private Data Network Services				
Local Data Network Services	2 Mbps up to 100 Gbps	₱2,500 to ₱4 million	- Large Enterprise - Corporate - Wholesale	- Private and secure network services for point to point connectivity between two or more local sites - Products include FAST, Metro Ethernet, MPLS, Metro Lambda (EoDWDM), and FASTER
International Data Network Services	10 Mbps up to 100 Gbps	₱14,000 to ₱10 million	- Large Enterprise - Corporate - Wholesale	- Private and secure network services for point to point connectivity between local and international sites - Products include Ethernet-International Private Line and Private Line
Cloud and Colocation Services				
Ethernet-Cloud Direct Connect service	10 Mbps up to 1 Gbps	₱31,000 to ₱300,000	- Large Enterprise - Corporate	- Connectivity between private enterprise networks and public cloud service providers - Products include Carrier Ethernet
Colocation Services	Half rack to Full Rack (power usage based, separate power charges)	₱18,000 to ₱92,000	- Large Enterprise - Corporate	- Colocation services for storage of data and applications - Remote hands services are available as an option
	Half rack to Full rack (fixed MRC, inclusive of power charges)			

Internet Connectivity Services

flexiBIZ Plans

Our flexiBIZ Plans are FTTP broadband internet plans tailored for and marketed primarily to our SME customers. FlexiBIZ is a unique and first-in-the-market service for SMEs that offers true symmetric high-speed internet, and it comes in two options: Daytime and Peak. The broadband speed will reach double of the original plan during the chosen time option. The plans provide subscribers with a dedicated IP

address, 24-hour service desk and support teams, and certain guaranteed service level agreements (“SLAs”), and are priced ranging from ₱2,000 per month for original speed for Daytime and ₱3,000 per month for Peak of 25Mbps (doubles to 50Mbps during chosen schedule) to ₱15,000 per month for Daytime and ₱18,000 per month for Peak for original speed of 150Mbps (doubles to 300Mbps during chosen schedule).

Direct Internet Access (“DIA”)

Our DIA services are dedicated, ultra-high performance internet connectivity solutions tailored for and marketed primarily to our Large Enterprise and Corporate customers. We offer multiple variations of the DIA service, all of which are provided with enterprise-grade SLAs, 24-hour all in-source support teams and 24-hour service desk and restoration team service. Our “Bandwidth-on-Demand” add-on product enables dynamic demand-based bandwidth top-up, allowing customers to increase bandwidth as and when needed for an incremental additional charge.

In 2021, we launched the “Time of Day,” “Upload,” and “Converge Connect” products for our enterprise customers. The “Time-of-Day” add-on offers variable bandwidth based on the pre-set time of day. Our “Upload” variant that offers asymmetric download and upload bandwidth allocation. The “Converge Connect” premium service enables businesses to have customizable combination of products and resources that are best suited to their needs.

Private Data Network Services

Local Private Data Network Solutions

Our local private data network solutions, which are marketed primarily to our Large Enterprise, Corporate and Wholesale customers, provide point to point connectivity between two or more sites within the Philippines. These solutions, as described below, come with enterprise-grade SLAs, as well as dedicated 24-hour service desk (hotline) and support teams.

- “FAST” and “FASTER” are direct “point-to-point” solutions provided on shared fiber network to deliver private and secure connectivity between two or more business locations. This service provides scalability and flexibility at affordable rates compared to traditional private leased lines and is often used to connect branches with kiosks, automated teller machines and point-of-sale machines and as back-up connections;
- Metro Ethernet runs through a globally certified carrier ethernet network, providing high capacity and secured wide area network (“WAN”) connectivity between geographically separated sites;
- Multi-Protocol Label Switching (“MPLS”) combines video, data applications and voice without the complexities of securing “one-to-many-point” network connections, and is often used to interconnect a head office with its various branch or regional offices; and
- Metro Lambda is a dedicated point-to-point connectivity service delivered using our Dense Wavelength Division Multiplexing (“DWDM”) network, and is often used for data center-to-data center connectivity, database disaster recovery, and high capacity, ultra-low latency site-to-site connectivity.

International Private Data Network Solutions

Our international private data network solutions, which are marketed primarily to our Large Enterprise, Corporate and Wholesale customers, provide point to point connectivity between two or more local and international sites. These solutions come with enterprise-grade SLAs, as well as dedicated 24-hour service desk (hotline) and support teams.

- Ethernet-International Private Line provides cost effective and secure point-to-point high bandwidth connectivity from the Philippines to international markets; and

- International IP provides destination-specific, dedicated internet access designed for enterprises with international IP requirements, such as those in the U.S., Hong Kong, Singapore, Taiwan and China, in partnership with global service providers.

Cloud and Colocation Services

Our Ethernet-Cloud Direct Connect Service, which is marketed primarily to our Large Enterprise and Corporate customers, provides a private, dedicated and high-throughput network connection between an enterprise private network and public cloud service providers, allowing businesses to interact with these clouds privately, as if these were part of their WAN.

The Cloud Upload Booth allows customers to upload large files into cloud service provider platforms, at a working space located at Reliance IT Center in Pasig City. This removes the need to go to cloud regions such as Singapore just to upload large files. Users would have access to a Windows PC with a LAN-based internet connection of 10Gbps.

The Cloud Direct Connect, meanwhile, is a service that would connect the enterprise customer's local IT infrastructure to a cloud service provider. This link is done in partnership with global firm Equinix, without crossing the internet.

Our colocation service, which is marketed primarily to our Large Enterprise and Corporate customers, offers a reliable data center environment for storing data and applications. Customers can benefit from reduced IT infrastructure and management costs, reliability, access to various telecommunication requirements, security, required bandwidth at reasonable rates, and 24/7 dedicated support.

MARKETING PROGRAMS/ LOYALTY AWARDS

Our marketing objectives are centered on increasing brand awareness, acquiring new customers, upselling and cross-selling new products to increase our ARPU, improving customer loyalty and retention, as well as promoting the use of our online portal, GoFiber.ph. We study demand prospects and identify the target areas for promotion before each marketing campaign. We execute our branding and marketing efforts primarily through three channels: (i) word-of-mouth advocacy; (ii) on-the-ground marketing campaigns; and (iii) targeted advertising campaigns. We have achieved strong growth in new subscriptions and adoption of new services such as our “10-for-99” package through our thoughtful, targeted, and selective marketing programs.

Word-of-Mouth Advocacy

Our word-of-mouth advocacy encourages existing customers, including influencers, to provide testimonials on their Converge experience and share these on various media platforms. We believe that this has been a very cost efficient customer acquisition strategy and has helped draw in a significant number of new customers. We further pushed our “Member Get Member” customer referral program in May 2017, which has further accelerated our word-of-mouth advocacy.

On-the-Ground and Online Marketing Activities

Our localized on-the-ground marketing campaigns which included door-to-door marketing across multiple localities and setting up booths and local events in new rollout locations to introduce our services to residents and to activate new subscriptions continued in areas allowed by the local government. We provided marketing support to our Marketing Service Agents (“MSAs”) and Marketing Service Providers (“MSPs”) who run their own on-the-ground campaigns. We are regularly conducting webinars and online events sponsorships especially for the Business segments, working with major industry associations. These activities help us connect with our customers, both existing and potential, to introduce them to new innovative products and upgrades.

Targeted Advertising Campaigns

From time to time, we execute targeted below-the-line (“BTL”) advertising such as roving billboards penetrating inside villages and barangays, social media, and direct e-mailing and SMS campaigns. We leverage online media platforms such as Facebook, Instagram and opened a new channel via the Viber

Community, reaching the younger segment of the population, such as online gamers and local influencers, who collectively have millions of followers. Targeted online campaigns are key focus area given that the Philippine population is among the youngest and most internet savvy in Asia, according to MPA. As and when required, we also conduct above-the-line (“ATL”) advertising, such as promoting our products and services on billboards, main road banners, transportation ads on major thoroughfares. However, such ATL and BTL advertising is executed selectively and conducted at targeted locations and in tandem with localized rollouts, to optimize the return on our marketing spend. We plan to continue to leverage word-of-mouth advocacy and our customer referral program, as well as to maximize the use of our tele-digital sales platform to drive awareness and sales

Enterprise

We have an enterprise sales platform of key account managers to serve Large Enterprise and Corporate and sales agents to serve SMEs, who are strategically structured into teams to address the specific connectivity solution needs of each customer group. In addition, members of our Senior Management, including our CEO, are directly and actively involved in initiating and building relationships with some of our largest and most strategic accounts.

CUSTOMER CARE

The Company continues to commit to providing a quality customer experience for both existing and potential new subscribers. Converge continues to be highly focused on enhancing the overall customer experience by strengthening its customer care functions and digitizing the journey of our customers.

To be able to service the surge in demand for our products, the Company more than doubled the number of installation teams as compared to before the ECQ lockdown, enabling us to eliminate the backlog of installations. In the third quarter of 2021, Converge installed more than 93% of new NCR subscribers within seven days and 60% within one day of application, respectively. These augmentations, combined with improvements in the customer onboarding and installation process, will allow us to further increase rapid conversion from application to installation.

Converge also onboarded more than 600 new outsourced contact center agents in 2020 and 2021, to respond to customer queries, leading to reduced drop call rates for both our customer care and service desk teams.

SELF-HELP

As part of our initiative to implement a digital transformation focused on customer experience, in June 2020, we launched our new beta-mobile application, Converge Xperience App, a self-service mobile application geared towards simplifying and enhancing our billing, status monitoring, and aftersales customer experience. As of September 30, 2021, the Converge Xperience App has around 631,000 registered users indicating adoption by about 40% of our total residential subscriber base. The key features of the Converge Xperience App are described below.

- **Billing:** The “View My Bill” function allows subscribers to see their bill and near-real-time posting of their payments.
- **Status Monitoring:** The “MyService” function, allows subscribers to monitor their account status in realtime, including the number of devices connected, conduct an in-app speed-test and check the status of their modems.
- **After-sales:** After-sales support functions include service relocation and reactivation requests, upgrade requests, request fulfillment tracker, and other value-added services.

We intend to refine and upgrade our mobile application based on customer feedback.

SALES AND DISTRIBUTION CHANNELS

The majority of our subscribers are engaged through our third-party sales channels through two types of thirdparty sales arrangements in place: (i) the MSA model, where third-party agents conduct door-

to-door sales within agreed coverage areas and receives a one-time service fee for each new subscriber and (ii) the MSP model, where third-party managed service providers perform certain aspects of our sales and operations within the agreed coverage area under outsourcing arrangements that are generally renewable annually. Both our MSAs and MSPs perform services for us generally on an exclusive basis.

We also engage an increasing number of subscribers through our internal sales channels: (i) business centers, (ii) tele-digital sales platform, and (iii) customer referral programs. We believe that retaining an in-house sales team allows us to take a more personalized, differentiated, and targeted approach in customer acquisition, allowing us to attract high-quality customers at lower customer acquisition costs. We believe that our tele-digital sales channel is one of our most cost-effective means to market and sell our products. While our internal sales personnel receive performance-based incentives for their services, the average customer acquisition cost via our tele-digital platform is significantly lower than the customer acquisition cost via our third-party sales channels, allowing us to acquire new customers in a cost-efficient manner.

We also have low cost-acquisition channels that we use to promote a positive feedback loop to drive customer engagement and loyalty, which we believe can in turn drive new acquisitions. We are also uniquely able to attract new customers through word-of-mouth advocacy, which is our most cost-effective means to market and sell our products. Looking ahead, we may selectively increase our general or targeted marketing activities in tandem with our nationwide fiber network rollout. We also intend to focus on acquiring subscribers under our “Member-GetMember” customer referral program.

INDUSTRY AND COMPETITION

The Philippine fixed broadband market is a blue ocean market with connectivity needs that are significantly underserved and underpenetrated compared to other regional markets. According to MPA, the Philippines has a sizable, young, internet-savvy population with 75% of the population below the age of 40 (the highest in Asia) and spends an average of 10 hours online each day (vs. Asia average of 6.7 hours). Filipinos spend an average of over 30 hours per week watching videos and the proportion of online consumption has increased from ~20% in 2014 to ~50% in 2019 (one of the highest globally).

The Philippines has a thriving technology-enabled services industry that contributed 61% of GDP in 2019, including the second-largest BPO sector in the world (behind only India), according to MPA. The Philippine overseas Filipino worker (“OFW”) population is the largest in South East Asia (“SEA”) as of December 31, 2019, which drives significant spending on high-speed and reliable connectivity in order to communicate and stay connected with family and friends, often utilizing data-heavy live video platforms, according to MPA.

MPA reported that the Philippines ended 2020 with a fixed broadband penetration of almost 17% (compared to fixed broadband penetration of 9% in 2015), lower than most other ASEAN markets such as Vietnam (66%), Thailand (35%) and Malaysia (30%) and with a fibre broadband penetration rate of 12% which is lower than the average rate of Malaysia, Thailand and Vietnam at 44%. As of December 2020, MPA reported that 32% of fixed broadband subscribers are still on legacy copper network. MPA further reported that as of December 2020, the Philippines has an average internet speed of 24 Mbps, lower than the SEA average of 73 Mbps and has the highest latency level at 35 milliseconds, which is the highest among its SEA peers, including Malaysia, Thailand and Vietnam.

As a broadband market, Philippines is one of the most underdeveloped in Asia with the slowest average service speeds in the region. This has been due to a number of factors that include: the country’s archipelagic topography, which makes inter-island connectivity difficult and costly; and the underinvestment in fixed broadband infrastructure by telecommunication operators whose primary focus has been and continues to be mobile and wireless, rather than fixed broadband.

Even though the majority of households in the Philippines can afford high speed broadband, availability is extremely limited, making Philippines one of the most underpenetrated markets in Asia. FTTx penetration remains significantly lower than its ASEAN peers, which are at an average of 44% as of December 2020.

COVID-19 has further accelerated the demand for fixed broadband and is driving a permanent paradigm shift in connectivity requirements. We expect that the COVID-19 crisis will accelerate the adoption of fixed broadband and propensity to spend as internet consumption behavior undergoes a permanent shift. Internet consumption has grown significantly since the onset of COVID-19. Companies have instituted and are continuing to institute work-from-home policies, while many private schools and universities have transitioned classes online and are continuing to do so. MPA estimates that a middle income (and upwards) family of 4 (with both parents working from home, and 2 children studying from home) could consume between 250GB to 480GB per household per month.

In addition, the minimum speed requirement for such a typical household with 3 – 4 internet related activities ongoing at the same time would require a minimum speed of more than 25 Mbps.

MPA believes this reflects an increased level of data consumption than the levels typically consumed by such households prior to the COVID-19 outbreak. All of these developments are further driving new fixed broadband subscriptions as households realize the need to upgrade their connectivity.

This is further validated through the Residential Survey, where approximately 90% of respondents indicated that internet usage increased by 10% or more, and more than 65% respondents reported a greater than 30% increase in internet usage, while approximately 70% of respondents indicated they have or are likely to increase internet spending by 10% or more.

The combination of attractive macro fundamentals and multiple sector tailwinds is resulting in outsized connectivity needs which are meaningfully underserved, creating significant pent-up demand for high-speed internet. This is being further accelerated with the mandated and voluntary stay-at-home behavior resulting from the COVID-19 pandemic.

Given the significant unserved and pent-up demand and the meaningful whitespace available, the Philippine fixed broadband market will continue to benefit from strong secular growth tailwinds that have created a multi-year runway for multiple operators (not only Converge but also other operators) to thrive and grow rapidly for the medium to long term.

Other major fixed broadband operators in the Philippines include PLDT and Globe Telecom. These other operators primarily focus on providing mobile connectivity. Based on publicly-available data, mobile services represented approximately 62% of their total revenues for the year ended December 31, 2020, compared to fixed broadband which accounts for approximately 30% of their total revenues. These operators will need to significantly upgrade their existing mobile networks to satisfy the growing bandwidth demands of their mobile customers, according to MPA. Even with the change in the macro environment, we believe that these operators will continue to be focused on sustaining their core mobile business and serving their core mobile subscriber base, though they have shown intent on expanding their broadband network to help cater to the unserved and underserved demand.

Given the low penetration of the fixed broadband market in the Philippines, there is minimal pressure to lower prices in the effort to gain market share. Recent initiatives focus on expanding network reach, improving service quality and overall performance of the broadband plans.

The Company has substantially increased its market share in the fixed wired broadband industry – from 17% in December 2019 to 30% as of September 2021. Our two major competitors in the industry, PLDT and Globe, had 17% and 53% as of September 2021, respectively.

We believe that we are well positioned to increase our market share in the fixed broadband market. Leveraging our proprietary, end-to-end fiber network, we believe that we have been able to differentiate ourselves by offering superior product and customer service.

SUPPLIERS

We purchase substantially all of our network equipment outside of the Philippines and we expect this to continue as we pursue our network expansion plans and other development programs. For core network equipment and the expansion of our optical transmission backbone, including for our planned subsea cables, Huawei Technologies, ZTE, Nokia and Ciena are our principal suppliers. Fiber procurement is undertaken through a bidding process and our principal suppliers are fiber

manufacturers such as YOFC International (Philippines) Corporation, Hengtong Optic-Electric International Co., Ltd. and ZTT International Ltd.

We engaged with a diversified base of more than 900 active suppliers as of November 2021, and believe that we are not dependent on a limited number of suppliers for our business operations. In 2020, the percentage of our total costs attributable to our largest supplier was approximately 20%, and the percentage of our total costs attributable to our five largest suppliers was approximately 41%. We will work to diversify our supplier base and if any one of our suppliers is unable or unwilling to supply us in the future, we believe that we will be able to obtain alternative sources of supply for the equipment and services we require.

We review the performance of each of our suppliers periodically, assessing the quality of work performed and materials supplied against the requirements set out in our contractual agreements. Depending on the supplier's internal classification, performance is reviewed annually or per transaction.

In addition, Metroworks contracts with third party contractors for the rollout of fiber and network installation nationwide. We require our contractors to maintain certain quality levels and employ trained personnel, and we monitor their efficiency and quality of service regularly.

CUSTOMERS

As of September 30, 2021, Converge has more than 1,576,000 residential subscribers and 21,000 enterprise customers. No single customer and contract accounted for more than 20% of the Company's total sales in 2020 and in the first nine months of 2021.

PATENTS, TRADEMARKS, COPYRIGHTS, LICENSES, FRANCHISES, CONCESSIONS, AND ROYALTY AGREEMENTS

We have a number of registered trademarks registered with the Philippine Intellectual Property Office as well as applications for the registration of various trademarks. These trademarks are important because name recognition and exclusivity of use are contributing factors to our success.

Under the Intellectual Property Code of the Philippines, the rights to a trademark are acquired through the registration with the Bureau of Trademarks of the Intellectual Property Office, which is the principal government agency involved in the registration of brand names, trademarks, patents and other registrable intellectual property materials.

Upon registration, the Intellectual Property Office issues a certificate of registration to the owner of the mark, which shall confer the right to prevent all third parties not having the consent of the owner from using in the course of trade identical or similar signs or containers for goods or services which are identical or similar to those in respect of which the mark is registered. The certificate of registration also serves as prima facie evidence of the validity of registration and the ownership of the mark of the registrant. A certificate of registration remains in force for an initial period of 10 years and may be renewed for periods of ten (10) years at its expiration.

Set out below is a list of our marks registered with the Philippine Intellectual Property Office:

Brand Name/Mark	Nice Classification No.	Registration Number	Application Serial Number	Filing Date	Registration Date	Expiration Date
CONVERGE	9, 38, 42	14394	42019014394	August 15, 2019	February 27, 2020	February 27, 2030
						

Brand Name/Mark	Nice Classification No.	Registration Number	Application Serial Number	Filing Date	Registration Date	Expiration Date
CONVERGE ICT SOLUTIONS INC. 	9, 38, 42	8259	42019008259	May 20, 2019	January 19, 2020	January 19, 2030
STREAM COME TRUE	9, 38	8272	42019008272	May 20, 2019	January 19, 2020	January 19, 2030
CONVERGE FAST 	9, 42	8269	42019008269	May 20, 2019	January 19, 2020	January 19, 2030
CONVERGE WHOLESALE 	9, 38	8263	42019008263	May 20, 2019	January 19, 2020	January 19, 2030
CONVERGE FIBER XTREME! 	9, 38	8264	42019008264	May 20, 2019	January 19, 2020	January 19, 2030
CONVERGE IBIZ 	9, 38	8261	42019008261	May 20, 2019	August 29, 2019	August 29, 2029
UNHAPPY WITH YOUR INTERNET?	9, 38	8276	42019008276	May 20, 2019	August 29, 2019	August 29, 2029
CONVERGE FREEDOM 	38	2814	42019002814	February 21, 2019	June 27, 2019	June 27, 2029
CONVERGE 	9, 38, 42	14394	42019014394	August 15, 2019	February 27, 2020	February 27, 2030
CONVERGE MICROBIZ 	9, 35	8267	42019008267	May 20, 2019	March 23, 2020	March 23, 2030

Brand Name/Mark	Nice Classification No.	Registration Number	Application Serial Number	Filing Date	Registration Date	Expiration Date
CONVERGE THE GAME CHANGER 	9, 38	8268	42019008268	May 20, 2019	March 23, 2020	March 23, 2030
CONVERGE FIBER X 	38, 41	8262	42019008262	May 20, 2019	September 20, 2020	September 20, 2030
CONVERGE ICT CONVERGE ICT	9, 38	14396	42019014396	August 15, 2019	September 11, 2020	September 11, 2030
CONVERGE ENTERPRISE 	38, 42	8260	42019008260	May 20, 2019	September 20, 2020	September 20, 2030
FIBER BOOST YOUR BUSINESS (Word Mark)	9, 38	14395	42019014395	August 15, 2019	September 20, 2020	September 20, 2030
GO FIBER!	9, 38	12770	42019012770	July 19, 2019	September 20, 2020	September 20, 2030
CONVERGE DEDICATED INTERNET ACCESS – UPLOAD 	9, 38	4/2020/00512396	42020512396	September 10, 2020	June 11, 2021	June 11, 2031
CONVERGE CONNECT 	9, 38	4/2020/00512397	42020512397	September 10, 2020	June 11, 2021	June 11, 2031
CONVERGE FASTER Layer 3 Transport Service 	9, 38	4/2020/00512393	42020512393	September 10, 2020	June 11, 2021	June 11, 2031

Brand Name/Mark	Nice Classification No.	Registration Number	Application Serial Number	Filing Date	Registration Date	Expiration Date
CONVERGE DEDICATED INTERNET ACCESS - TIME OF DAY 	9, 38	4/2020/00512 395	42020512395	September 10, 2020	June 11, 2021	June 11, 2031
CONVERGE DEDICATED INTERNET ACCESS PREMIUM 	9, 38	4/2020/00512 398	42020512398	September 10, 2020	June 11, 2021	June 11, 2031

GOVERNMENT APPROVALS/REGULATORY MATTERS

Our Company has all the material permits and licenses necessary for its business as currently conducted, which are valid and subsisting.

We were granted a legislative franchise under R.A. No. 9707 to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines. Our franchise is for a term of 25 years from the date of effectivity of R.A. No. 9707 and is expected to last until 2034. Prior to its expiration, we intend to apply for the renewal of our franchise. We have been operating on the basis of a valid Provisional Authority issued by the NTC. On September 28, 2018, the NTC renewed our Provisional Authority until December 24, 2021. In a certification dated August 25, 2020, the NTC confirmed that our Company is in good standing with the NTC. In September 2020, we filed an application for renewal of the Provisional Authority. In October 13, 2021, the NTC granted the Company a CPCN to operate and maintain a nationwide wired and wireless broadband network in the Philippines and to offer broadband communications services and other ancillary services. The CPCN is co-terminus with the Company's legislative franchise.

COMPLIANCE WITH ENVIRONMENTAL LAWS

Any project that could be expected to have a significant impact to the quality of the environment is subject to the Philippine Environment Impact Study system, for which an ECC would need to be obtained from the Philippine DENR, before the project can proceed. Our nationwide submarine cable network that connects the main islands of the Philippine archipelago, requires the relevant ECC to be obtained. We comply with this requirement as we expand to Visayas and Mindanao regions.

HUMAN RESOURCES

We believe that our employees are critical to the success of Converge, and we place great importance on attracting and retaining the most talented and qualified employees to be part of our team. As of November 15, 2021, Converge had 2,651 full-time employees.

In addition, as of the same date, Metroworks had 1,510 full-time employees. Furthermore, we engage various third-party manpower service providers to support the personnel requirements of our business. These include manpower agencies for various technical and skilled worker as well as maintenance and janitorial services. Metroworks engages third-party contractors for various construction and installation works.

We have no collective bargaining agreement with any employee and none of our employees belong to

a union. We believe that we have a good relationship with our employees.

PROPERTY

None of our properties are used as collateral for our Company liabilities except for certain transportation equipment under finance lease which are subject to chattel mortgage. Land, Buildings, and Leasehold Improvements. As of December 16, 2021, we own several parcels of land located in, among others:

- San Carlos City, Negros Occidental
- Bacong, Negros Oriental
- Naga City, Cebu
- Roxas City, Capiz
- San Juan, Batangas
- Tagbilaran, Bohol
- Roxas, Oriental Mindoro
- Zarraga, Iloilo
- Polo, Bulacan
- Candon City, Ilocos Sur
- Bogo, Cebu
- Toledo City, Cebu
- Masbate City, Masbate
- Milagros, Masbate
- Mandaue City, Cebu
- Pili, Camarines Sur
- Pasacao, Camarines Sur
- Legazpi City, Albay
- Pasacao, Camarines Sur
- Buenavista, Agusan del Norte
- Calamba, Laguna
- Lucban, Quezon
- Bago, Davao City
- Kauswagan, Cagayan de Oro
- Ormoc City, Leyte
- Talisay City, Negros Occidental
- Malay, Aklan
- Taytay, Palawan
- Zarraga, Iloilo Zapote Road, Las Pinas
- Angono, Rizal
- North Fairview, Quezon City
- Tagaytay City, Cavite
- Sto. Nino, Marikina
- Sta. Cruz, Manila; and
- Bauang, La Union

LICENSES AND PERMITS

See “*Description of Permits and Licenses.*”

QUALITY CONTROL, HEALTH, SAFETY, AND ENVIRONMENTAL MATTERS

We are compliant with applicable statutes and regulations on health, safety and environment and we possess the required permit and licenses to operate our facilities. The costs of compliance with the foregoing regulations are included in the cost for permits and licenses. For further discussion, please refer to the section on “*Regulatory and Environmental Matters—Environmental Laws*” and section on “*Description of Permits and Licenses*”.

LEGAL PROCEEDINGS

The Company and its subsidiaries are not currently involved in any material litigation, arbitration or similar proceedings, and we are not aware of any such proceedings pending or threatened against us

or any of our properties. There was no bankruptcy, receivership or similar proceedings initiated during the past five years.

DESCRIPTION OF PERMITS AND LICENSES

This section outlines the major permits and licenses necessary to operate our business. We believe that we have all the applicable and material permits and licenses necessary to operate our business as currently conducted and such permits and licenses are valid, subsisting, or pending renewal. Moreover, we have adopted processes to strengthen our compliance culture in order to manage and ensure that all requirements, permits and approvals are obtained in a timely manner. See *“Risk Factors—Risks Relating to Our Business—We are subject to significant government regulation and supervision, and our failure to obtain and maintain regulatory licenses and permits could materially and adversely affect our operating and financial performance”*.

Our Company has all the material permits and licenses necessary for its business as currently conducted, which are valid and subsisting as of the date of this Prospectus.

We were granted a legislative franchise under R.A. No. 9707 to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines. Our franchise is for a term of 25 years from the date of effectivity of R.A. No. 9707 and is expected to last until 2034. Prior to its expiration, we intend to apply for the renewal of our franchise. For further discussion of our legislative franchise, please refer to the section on *Regulatory and Environmental Matters* on page 155 of this Prospectus. We have been operating on the basis of a valid Provisional Authority issued by the NTC. On September 28, 2018, the NTC renewed our Provisional Authority until December 24, 2021. In a certification dated August 25, 2020, the NTC confirmed that our Company is in good standing with the NTC. In October 13, 2021, the NTC granted the CPCN to operate and maintain a nationwide wired and wireless broadband network in the Philippines and to offer broadband communications services and other ancillary services. The CPCN is co-terminus with the Company's legislative franchise.

General Permits and Licenses

No.	Type of Permit	Issuing Agency	Issue Date (DD/MM/YR)	Expiry Date (DD/MM/YR)
1.	Certificate of Incorporation	SEC	17/10/2007	N/A
2.	Legislative Franchise (Republic Act No. 9707)	Congress	Lapsed into law without the signature of the President on 08/08/2009	2034
3.	Certificate of Public Convenience and Necessity (“CPCN”)	National Telecommunications Commission (“NTC”)	13/10/2021	10/09/2034
4.	Certificate of Registration	Bureau of Internal Revenue (“BIR”)	17/10//2007	N/A
5.	Certificate of Registration in the Philippine Government Electronic Procurement System	Department of Budget and Management (“DBM”)	17/05/2021	19/05/2022
6.	Certificate of Registration	Social Security System (“SSS”)	August 2011 (coverage start date)	N/A
7.	Certificate of Registration	Philippine Health Insurance Corporation (“PhilHealth”)	12/12/2012	N/A
8.	Certificate of Registration	Pag-IBIG Fund (“Pag-IBIG”)	25/10/2013	N/A
9.	Certificate of Registration re compliance with Rule 1020 of the	Department of Labor and Employment (“DOLE”)	07/09/2015	N/A
10.	Certification on Registration	National Privacy Commission (“NPC”)	25/08/2019 ¹	08/03/2023

Business Centers

No.	Office	Type of Permit	Issuing Agency	Issue Date (DD/MM/YR)	Expiry Date (DD/MM/YR)
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¹ The is the date of original certificate of registration. Our Company is waiting for the issuance of the renewed certificate of registration issued by the NPC.

11.	Angeles Branch (Plaza Anghel old Jenra)	Business Permit	City of Angeles	12/01/2022	31/12/2022
12.	Angeles Branch (Jenra)	Certificate of Registration	Bureau of Internal Revenue	11/02/2013	N/A
13.	Bacoor Branch	Business Permit	City of Bacoor	07/2/2022 ²	31/12/2022
14.	Bacoor Branch	Certificate of Registration	Bureau of Internal Revenue	26/10/2018	N/A
15.	Calamba Branch	Business Permit	City of Calamba	18/2/2022 ³	31/12/2022
16.	Calamba Branch	Certificate of Registration	Bureau of Internal Revenue	30/07/2018	N/A
17.	Dagupan Branch	Business Permit	City of Dagupan	02/03/2022	31/12/2022
18.	Dagupan Branch	Certificate of Registration	Bureau of Internal Revenue	22/11/2018	N/A
19.	Lipa Branch	Business Permit	City of Lipa	09/02/2022	31/12/2022
20.	Lipa Branch	Certificate of Registration	Bureau of Internal Revenue	28/08/2018	N/A
21.	Mabalacat Branch	Business Permit	City of Mabalacat	31/1/2022	31/12/2022
22.	Mabalacat Branch	Certificate of Registration	Bureau of Internal Revenue	05/04/2017	N/A
23.	Naga Branch	Business Permit	City of Naga	11/2/2022	31/12/2022
24.	Naga Branch	Certificate of Registration	Bureau of Internal Revenue	26/10/2018	N/A
25.	Olongapo Branch	Business Permit	City of Olongapo	31/01/2022	31/12/2022
26.	Olongapo Branch	Certificate of Registration	Bureau of Internal Revenue	23/11/2015	N/A
27.	Pasig Branch	Business Permit	City of Pasig	01/3/2022	31/12/2022
28.	Pasig Branch	Certificate of Registration	Bureau of Internal Revenue	06/09/2011	N/A
29.	San Carlos City Branch	Business Permit	City of San Carlos	23/02/2022	31/12/2022
30.	San Carlos City Branch	Certificate of Registration	Bureau of Internal Revenue	03/09/2019	N/A
31.	San Fernando Branch	Business Permit	City of San Fernando	31/01/2022	31/12/2022
32.	San Fernando Branch	Certificate of Registration	Bureau of Internal Revenue	23/06/2017	N/A
33.	San Pedro Branch	Business Permit	City of San Pedro	17/02/2022	31/12/2022
34.	San Pedro Branch	Certificate of Registration	Bureau of Internal Revenue	27/03/2019	N/A
35.	Santa Rosa Branch	Business Permit	City of Santa Rosa	21/02/2022 ⁴	31/12/2022
36.	Santa Rosa Branch	Certificate of Registration	Bureau of Internal Revenue	12/09/2019	N/A
37.	Tarlac Branch (Casa Amelita)	Business Permit	City of Tarlac	*	31/12/2022
38.	Tarlac Branch (Casa Amelita)	Certificate of Registration	Bureau of Internal Revenue	25/04/2018	N/A
39.	Trece Martires Branch	Business Permit	City of Trece Martires	07/02/2022	31/12/2022
40.	Trece Martires Branch	Certificate of Registration	Bureau of Internal Revenue	16/08/2018	N/A

² This is the date of the official receipt for payment of the fees for the renewal of the business permit.

³ This is the date of the official receipt for payment of the fees for the renewal of the business permit.

⁴ This is the date of the official receipt for payment of the fees for the renewal of the business permit.

41.	Urdaneta Branch	Business Permit	City of Urdaneta	21/02/2022	31/12/2022
42.	Urdaneta Branch	Certificate of Registration	Bureau of Internal Revenue	09/11/2018	N/A
43.	Apalit Branch	Business Permit	Municipality of Apalit	08/02/2022	31/12/2022
44.	Apalit Branch	Certificate of Registration	Bureau of Internal Revenue	23/05/2017	N/A
45.	Arayat Branch	Business Permit	Municipality of Arayat	28/02/2022	31/12/2022
46.	Arayat Branch	Certificate of Registration	Bureau of Internal Revenue	11/02/2013	N/A
47.	Balayan Branch	Business Permit	Municipality of Balayan	28/02/2022	31/12/2022
48.	Balayan Branch	Certificate of Registration	Bureau of Internal Revenue	01/04/2019	N/A
49.	Bamban Branch	Business Permit	Municipality of Bamban	*	31/12/2022
50.	Bamban Branch	Certificate of Registration	Bureau of Internal Revenue	17/06/2015	N/A
51.	Camiling Branch	Business Permit	Municipality of Camiling	31/02/2022	31/12/2022
52.	Camiling Branch	Certificate of Registration	Bureau of Internal Revenue	05/03/2015	N/A
53.	Capas Branch	Business Permit	Municipality of Capas	31/01/2022	31/12/2022
54.	Capas Branch	Certificate of Registration	Bureau of Internal Revenue	10/07/2015	N/A
55.	Concepcion Branch	Business Permit	Municipality of Concepcion	*	31/12/2022
56.	Concepcion Branch	Certificate of Registration	Bureau of Internal Revenue	27/03/2015	N/A
57.	Daet Branch	Business Permit	Municipality of Daet	09/02/2022	31/12/2022
58.	Daet Branch	Certificate of Registration	Bureau of Internal Revenue	01/08/2019	N/A
59.	Limay Branch	Business Permit	Municipality of Limay	16/02/2022	31/12/2022
60.	Limay Branch	Certificate of Registration	Bureau of Internal Revenue	28/01/2015	N/A
61.	Macabebe Branch	Business Permit	Municipality of Macabebe	09/02/2022	31/12/2022
62.	Macabebe Branch	Certificate of Registration	Bureau of Internal Revenue	05/06/2017	N/A
63.	Mariveles Branch (Balon Anito)	Business Permit	Municipality of Mariveles	14/02/2022	31/12/2022
64.	Mariveles Branch (Balon Anito)	Certificate of Registration	Bureau of Internal Revenue	28/01/2015	N/A
65.	Mariveles Branch (San Carlos)	Business Permit	Municipality of Mariveles	14/02/2021	31/12/2022
66.	Mariveles Branch (San Carlos)	Certificate of Registration	Bureau of Internal Revenue	28/01/2015	N/A
67.	Magalang Branch	Business Permit	Municipality of Magalang	31/01/2022	31/12/2022
68.	Magalang Branch	Certificate of Registration	Bureau of Internal Revenue	24/03/2017	N/A
69.	Mexico (Pandacaqui) Branch	Business Permit	Municipality of Mexico	27/01/2022	31/12/2022
70.	Mexico (Pandacaqui) Branch	Certificate of Registration	Bureau of Internal Revenue	05/04/2017	N/A

71.	Morong Branch	Business Permit	Municipality of Morong	03/02/2022	31/12/2022
72.	Morong Branch	Certificate of Registration	Bureau of Internal Revenue	10/02/2016	N/A
73.	Orani Branch	Business Permit	Municipality of Orani	02/02/2022	31/12/2022
74.	Orani Branch	Certificate of Registration	Bureau of Internal Revenue	28/01/2015	N/A
75.	Paniqui Branch	Business Permit	Municipality of Paniqui	07/02/2022	31/12/2022
76.	Paniqui Branch	Certificate of Registration	Bureau of Internal Revenue	04/04/2018	N/A
77.	Porac Branch	Business Permit	Municipality of Porac	02/02/2022	31/12/2022
78.	Porac Branch	Certificate of Registration	Bureau of Internal Revenue	16/01/2018	N/A
79.	San Marcelino Branch	Business Permit	Municipality of San Marcelino	18/01/2022	31/12/2022
80.	San Marcelino Branch	Certificate of Registration	Bureau of Internal Revenue	21/02/2019	N/A
81.	Silang Branch	Business Permit	Municipality of Silang	21/01/2022	31/12/2022
82.	Silang Branch	Certificate of Registration	Bureau of Internal Revenue	09/08/2019	N/A
83.	Sta. Ana Branch	Business Permit	Municipality of Sta. Ana	22/02/2022	31/12/2022
84.	Sta. Ana Branch	Certificate of Registration	Bureau of Internal Revenue	07/08/2015	N/A
85.	Sto. Tomas Branch	Business Permit	Municipality of Sto. Tomas	04/02/2022	31/12/2022
86.	Sto. Tomas Branch	Certificate of Registration	Bureau of Internal Revenue	05/12/2018	N/A

Business centers with Managed Service Providers (MSPs)

No.	Branch	Type of Permit	Issuing Agency	Issue Date (DD/MM/YR)	Expiry Date (DD/MM/YR)
87	Malolos Branch	Business Permit	City of Malolos (Bulacan)	*	31/12/2022
88	Malolos Branch	Certificate of Registration	Bureau of Internal Revenue	24/05/2019	N/A
89.	Baliwag Branch	Business Permit	Municipality of Baliwag (Bulacan)	*	31/12/2022
90.	Baliwag Branch	Certificate of Registration	Bureau of Internal Revenue	04/08/2016	N/A
91.	Bulakan Branch	Business Permit	Municipality of Bulakan (Bulacan)	*	31/12/2022
92.	Bulakan Branch	Certificate of Registration	Bureau of Internal Revenue	14/02/2018	N/A
93.	Calumpit Branch	Business Permit	Municipality of Calumpit (Bulacan)	*	31/12/2022
94.	Calumpit Branch	Certificate of Registration	Bureau of Internal Revenue	08/06/2017	N/A
95.	Guiguinto Branch	Business Permit	Municipality of Guiguinto (Bulacan)	*	31/12/2022
96.	Guiguinto Branch	Certificate of Registration	Bureau of Internal Revenue	26/02/2016	N/A
97.	Hagonoy Branch	Business Permit	Municipality of Hagonoy (Bulacan)	*	31/12/2022
98.	Hagonoy Branch	Certificate of Registration	Bureau of Internal Revenue	13/04/2018	N/A
99.	Norzagaray Branch	Business Permit	Municipality of Norzagaray (Bulacan)	*	31/12/2022
100	Norzagaray Branch	Certificate of Registration	Bureau of Internal Revenue	08/09/2017	N/A

101 .	Plaridel Branch	Business Permit	Municipality of Plaridel (Bulacan)	*	31/12/2022
102 .	Plaridel Branch	Certificate of Registration	Bureau of Internal Revenue	22/07/2015	N/A
103 .	Santa Maria Branch	Business Permit	Municipality of Santa Maria (Bulacan)	*	31/12/2022
104 .	Santa Maria Branch	Certificate of Registration	Bureau of Internal Revenue	16/03/2015	N/A
105 .	Agoo Branch	Business Permit	Municipality of Agoo (La Union)	*	31/12/2022
106 .	Agoo Branch	Certificate of Registration	Bureau of Internal Revenue	18/10/2019	N/A
107 .	San Pablo Branch	Business Permit	City of San Pablo	*	31/12/2022
108 .	San Pablo Branch	Certificate of Registration	Bureau of Internal Revenue	17/10/2018	N/A
109 .	Atimonan Branch	Business Permit	Municipality of Atimonan	31/01/2022	31/12/2022
110 .	Atimonan Branch	Certificate of Registration	Bureau of Internal Revenue	13/02/2019	N/A
111 .	Lopez Branch	Business Permit	Municipality of Lopez	28/01/2022	31/12/2022
112 .	Lopez Branch	Certificate of Registration	Bureau of Internal Revenue	13/02/2019	N/A
113 .	Lucena City Branch	Business Permit	City of Lucena	*	31/12/2022
114 .	Lucena City Branch	Certificate of Registration	Bureau of Internal Revenue	27/05/2019	N/A
* Fully paid. Actual certification / permit pending release.					

We retain legal counsel to ensure our continued compliance with applicable laws and regulations affecting our operations. We have secured, applied for, or are in the process of applying or renewing all material permits and licenses required to conduct our business. We expect to obtain these permits and licenses in the ordinary course.

MARKET PRICE OF AND DIVIDENDS ON CONVERGE'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Converge was incorporated in 2007 and was listed on the PSE in October 26, 2020.

Market Information

Converge common shares are listed in the PSE.

Stock Prices (in ₱/share)

	<u>Low</u>		<u>Close</u>		<u>High</u>	
	2021	2020	2021	2020	2021	2020
First Quarter	14.54	N/A	18.70	N/A	21.20	N/A
Second Quarter	17.58	N/A	22.70	N/A	23.45	N/A
Third Quarter	22.25	N/A	40.00	N/A	40.40	N/A
Fourth Quarter	27.90	13.20	31.90	14.90	45.40	16.98

The market capitalization of Converge as of December 31, 2021, based on the closing price of ₱31.90/share on December 31, 2021 (the last trading day of the said month), was ₱240 billion.

Stockholders

The following are the top 20 direct holders of the common and preferred shares of the Company:

Common Shares: *There are approximately 17 registered holders of common shares of the Company as of January 31, 2022:*

	Stockholder Name	No. of Common Shares	Percentage (of common shares)
1.	Comclark Network and Technology Corp.	4,797,417,274	63.74%
2.	PCD Nominee Corporation (Non-Filipino) Inclusive of the shares of Coherent Cloud Investments B.V. of 771,412,844 (10.25%)	1,993,808,122	26.49%
3.	PCD Nominee Corporation (Filipino) ¹	734,836,060	9.76%
4.	Laarni N. Enriquez	150,000	
5.	Berck Y. Cheng or Alvin Y. Cheng or Diana Y. Cheng or Cheryl Y. Cheng	50,000	
6.	Weixi	15,000	
7.	Myra P. Villanueva	10,000	
8.	Mylene C. Arnigo	3,000	
9.	Manuel Jorge L. Cristobal or Lorna T. Cristobal	2,000	
10.	Myrna P. Villanueva	1,000	
11.	Milagrosa P. Villanueva	1,000	
12.	Marietta V. Cabreza	1,000	
13.	Jose Paminutan de Jesus	1	
14.	Amando M. Tetangco, Jr.	1	
15.	Roman Felipe S. Reyes	1	
16.	Francisco Ed. Lim	1	
17.	Saurabh N. Agarwal	1	

¹Excludes the 281,640,597 scripless shares of Comclark Network and Technology Corp., and includes the shares of Dennis Anthony H. Uy and Maria Grace Y. Uy of one (1) share each.

DIVIDEND POLICY

We do not intend to make any dividend payments in the short to medium term, as we currently intend to retain all future earnings to finance the continued nationwide expansion of our end-to-end fiber network, which would require substantial cash expenditures. Our Board, may, at any time, modify such dividend policy depending upon the results of operations and future projects and plans and other considerations.

Dividends, if any, shall be declared and paid out of our unrestricted retained earnings which shall be payable in cash, property or stock to all shareholders on the basis of the outstanding stock held by them. Unless otherwise required by law, our Board, has sole discretion to determine the amount, type and date of payment of the dividends to the shareholders, taking into account various factors, including:

- the level of our earnings, cash flow, return on equity and retained earnings;
 - our results for and financial condition at the end of the year in respect of which the dividend is to be paid and expected financial performance;
 - the projected levels of capital expenditures and other investment programs;
 - restrictions on payments of dividends that may be imposed on us by any current or future financing arrangements and current or prospective debt service requirements; and
 - such other factors as the Board deems appropriate.
- We may also in the future enter into certain financing arrangements that would restrict our ability to pay dividends.

Prior to the Stock Split, our authorized capital stock of ₱5,000,000,000 was divided into 435,000,000 Common Shares and 65,000,000 Convertible and Non-Reissuable Preferred Shares, each with a par value of ₱10.00 per share, of which 125,000,000 common shares and 51,136,363 convertible and non-reissuable preferred shares were issued and outstanding. Pursuant to our amended Articles of Incorporation to implement the Stock Split, as approved by our Board of Directors and shareholders on June 10, 2020 and approved by the Philippine SEC on September 28, 2020, our Company has an authorized capital stock of ₱5,000,000,000 divided into (i) 16,900,000,000 Common Shares; (ii) 3,060,000,000 Preferred Shares; and (iii) 4,000,000,000 Preferred B Shares. Immediately prior to the Share Conversion, there were 5,000,000,000 Common Shares and 2,045,454,520 Preferred Shares issued and outstanding. The terms and conditions of the Preferred B Shares were approved by the Board of Directors in an enabling resolution (the "Enabling Resolution") on August 13, 2020. The Board's approval of the Enabling Resolution was subject to the Philippine SEC approval of the amendments to our Articles of Incorporation, which approval was secured on September 28, 2020. The Company is required to secure Philippine SEC approval of the Enabling Resolution prior to any issuance of such Preferred B Shares. Under such Enabling Resolution, the Preferred B Shares may be issued from time to time certain eligible investors only (i.e., Dennis Anthony H. Uy and Maria Grace Y. Uy, their companies, corporations, or any affiliates related to them). In relation to the Preferred Shares that we may issue, our Board is authorized to determine the dividend rate and other terms and conditions of any issuance of Preferred Shares.

HISTORY OF DIVIDEND PAYMENT

On July 3, 2019, Pentagon Holding Co., Inc. ("Pentagon"), authorized and approved the declaration of cash dividends to its then common shareholders out of the retained earnings as of December 31, 2018, amounting to ₱192,000,000, which was later corrected via an amended resolution to ₱190,000,000 or ₱152 per share.

On August 15, 2019, our Board of Directors authorized and approved the declaration of certain cash dividends to holders of record of Common Shares as of August 22, 2019, out of the unappropriated retained earnings as of December 31, 2018, as follows:

Date of Declaration	Dividend		Record Date
	Rate (per share)	Amount	

August 15, 2019	₱1.08	₱134,897,402	August 22, 2019
August 15, 2019	U.S.\$0.10	U.S.\$12,171,914 (₱635,313,051)	August 22, 2019

The above-described dividend declarations by our Company were one-time only declarations made as part of the agreements in connection with the commitment by Warburg Pincus in 2019 to invest U.S.\$ 225,000,000 in our Company, all of which have now been invested (the "Investment") and have been paid as of June 2020. These dividend declarations in connection with the Investment do not represent and should not be construed as our Company's dividend policy.

On August 20, 2020, Pentagon's BOD authorized and approved the declaration of cash dividends to its common stockholders of record as of the said date, amounting to P262,994,740. As of the dividend declaration date, Pentastar was the stockholder of record of 99% of the shareholdings of Pentagon. On September 18, 2020, the Bureau of Internal Revenue issued the Certificate Authorizing Registration of the transfer of all of the shareholdings of Pentastar in Pentagon to the Parent Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Prospective investors should read this discussion and analysis of our financial condition and results of operations in conjunction with the sections entitled "Financial Information" December 31, 2017, 2018, 2019 and 2020 (the "audited consolidated financial statements") and the reviewed condensed consolidated interim financial statements as of and for the nine months ended September 30, 2020 and 2021 (the "reviewed condensed consolidated interim financial statements"), in each case including the notes relating thereto, included elsewhere in this Prospectus. The audited consolidated financial statements were prepared in accordance with PFRS and were audited by PwC in accordance with the PSA. The reviewed condensed consolidated interim financial statements were prepared in accordance with PAS 34 and reviewed by PwC in accordance with PSRE 2410.

CRITICAL ACCOUNTING POLICIES

We prepare our financial information in conformity with PFRS. Critical accounting policies are those that are both (i) relevant to the presentation of our financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become even more subjective and complex. In order to provide an understanding of how our management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, we have identified our critical accounting judgments, estimates and assumptions in the relevant note to our audited consolidated financial statements included elsewhere in this Prospectus.

The main items subject to critical accounting estimates and assumptions by management are in respect of:

- Expected credit losses on trade and other receivables and amounts due from related parties, based on which we determine whether impairment of such assets is necessary. For more information, see the relevant note to our audited consolidated financial statements included elsewhere in this Prospectus;
- Estimated useful lives of property, plant and equipment, intangible assets and right-of-use assets;
- Principal assumptions that are selected and used by our actuaries for estimation of retirement benefit obligation;
- Determining the incremental borrowing rate, which is the rate at which the remaining lease payments on lease liabilities and right-of-use assets are discounted to present value; and
- Principal assumptions that are selected and used for estimation of the costs of share-based payments

The main items subject to critical accounting judgments by management are in respect of:

- Recoverability of network materials and supplies during our assessment of whether provisions for obsolescence are necessary;
- Recoverability of property, plant and equipment, intangible assets and right-of-use assets during our assessment of whether impairments of the carrying amounts of such assets for obsolescence are necessary;
- Income taxes;

- Determining whether or not a contract contains a lease; and
- Determining the lease term for property and equipment leases and whether and how lease extension and termination options should be factored into the lengths of such lease terms.

While we believe that all aspects of our financial statements, including the accounting policies discussed in our audited consolidated financial statements and the September 30, 2021 reviewed condensed consolidated interim financial statements should be studied and understood in assessing our current and expected financial condition and results of operations, we believe that the financial information in our audited consolidated financial statements and reviewed condensed consolidated interim financial statements that is subject to these estimates, assumptions and judgments warrants particular attention.

DESCRIPTION OF KEY LINE ITEMS

The following discussion provides a description of the key line items of our consolidated statements of total comprehensive income for the years ended December 31, 2017, 2018, 2019 and 2020, and nine-month periods ended September 30, 2020 and 2021.

<i>in Php Millions</i>	For the years ended December 31				For the nine-month periods ended September 30	
	2017	2018	2019	2020	2020	2021
Revenues	2,940	5,055	9,139	15,652	10,677	18,831
Cost of Services	(1,050)	(2,328)	(4,441)	(7,065)	(4,944)	(7,461)
Gross Profit	1,890	2,726	4,699	8,588	5,733	11,370
General and administrative expenses	(442)	(913)	(1,415)	(2,772)	(1,771)	(3,272)
Provision for impairment of trade and other receivables	(78)	(125)	(530)	(720)	(491)	(778)
Unrealized fair value loss on financial asset at FVTPL	-	-	-	(26)	(41)	-
Equity in net profit of joint ventures	-	-	-	-	-	26
Other income (loss), net	(72)	51	18	360	166	(158)
Profit from operations	1,299	1,740	2,772	5,429	3,597	7,188
Finance costs	(11)	(71)	(275)	(550)	(454)	(448)
Profit before income tax	1,287	1,669	2,497	4,879	3,142	6,740
Income tax expense	(57)	(427)	(593)	(1,491)	(952)	(1,542)
Profit for the year	1,230	1,242	1,905	3,388	2,190	5,198
Other comprehensive income (loss):	2	8	45	(47)	(19)	-
Total comprehensive income	1,232	1,250	1,950	3,341	2,171	5,198

RESULTS OF OPERATIONS

Nine months ended September 30, 2021 compared to nine months ended September 30, 2020

Revenues

The Company earned ₱18,831 million of consolidated revenues in the first nine months of 2021, representing a 76% increase (YoY). The significant growth in revenue came from our residential business which showed a 95% increase from ₱8,413 million for the first nine months of 2020 to ₱16,374 million in the first nine months of 2021. Converge's monthly residential ARPU remained steady from ₱1,352 in the third quarter of 2020 to ₱1,346 during the same period in 2021.

For the nine months ended September 30, 2021, Converge's enterprise business earned consolidated revenues of ₱2,457 million, which is a 9% increase from the revenues for the same business for the first nine months of 2020, amounting to ₱2,264 million. The successful launch of the Company's SME product flexiBIZ earlier this year allowed us to more than double our SME customer base in the third quarter of 2021 from the same period last year. Our overall enterprise

customer base increased from 10,953 unique customers as of September 30, 2020 to 21,425 as of September 30, 2021.

Cost of Services

Cost of services increased by 51%, or ₱2,518 million, from ₱4,944 million for the nine months ended September 30, 2020 to ₱7,461 million for the nine months ended September 30, 2021. The increase was primarily attributable to increases in depreciation and amortization costs, network materials and supplies used, amortization of deferred contract cost, and personnel cost.

Depreciation and amortization costs increased by 55%, or ₱914 million, from ₱1,651 million for the nine months ended September 30, 2020 to ₱2,565 million for the nine months ended September 30, 2021 primarily due to our fiber network expansion and customer premises equipment issuances to subscribers.

Network materials and supplies used increased by 91%, or ₱739 million, from ₱807 million for the nine months ended September 30, 2020 to ₱1,546 million for the nine months ended September 30, 2021 due to material issuances used in our subscriber installations.

Amortization of deferred contract cost increased by 129%, or ₱687 million, from ₱533 million for the nine months ended September 30, 2020 to ₱1,220 million for the nine months ended September 30, 2021. The growth is due to the increase in subscriber acquisition costs from the expansion of our residential customers.

Personnel costs increased by 74%, or ₱166 million, from ₱225 million for the nine months ended September 30, 2020 to ₱391 million for the nine months ended September 30, 2021 due to increase in headcount and key hires for the period from October 2020 to September 2021, to support the Company's growing business, and the issuance of the share options to selected employees.

Gross Profit

Gross profit increased by 98%, or ₱5,636 million, from ₱5,733 million for the nine months ended September 30, 2020 to ₱11,370 million for the nine months ended September 30, 2021. Gross margin, or gross profit as a percentage of revenue, increased from 54% in 2020 to 60% in 2021. The increase in gross margin was primarily due to the growth in revenue which was more than the growth in some of our significant costs

General and Administrative Expenses

General and administrative expenses increased by 85%, or ₱1,501 million, from ₱1,771 million for the nine months ended September 30, 2020 to ₱3,272 million for the nine months ended September 30, 2021. The increase was primarily attributable to an increase in personnel costs, outside services, managed service fees, and taxes and licenses.

Personnel costs increased by 36%, or ₱272 million, from ₱758 million for the nine months ended September 30, 2020 to ₱1,030 million for the nine months ended September 30, 2021 due to increase in headcount and key hires for the period from October 2020 to September 2021, to support the Company's growing business, and the issuance of the share options to selected employees.

Managed service fees increased by 335%, or ₱429 million, from ₱128 million for the nine months ended September 30, 2020 to ₱557 million for the nine months ended September 30, 2021 primarily from the additions of new Managed Service Providers ("MSPs") to serve our growing subscriber base. Also, our MSPs were able to reach their targets for the period, which drove up their commissions and other incentives.

Outside services increased by 231%, or ₱254 million, from ₱110 million for the nine months ended September 30, 2020 to ₱363 million for the nine months ended September 30, 2021 due to additional call center service providers, to improve on our customer support while we scale up our business.

Taxes and licenses increased by 243%, or ₱198 million, from ₱82 million for the nine months ended September 30, 2020 to ₱280 million for the nine months ended September 30, 2021, since the Company paid higher business taxes in 2021 due to the Company's growing business.

Provision for Impairment of Trade and Other Receivables

Provision for impairment of trade and other receivables increased by 59%, or ₱288 million, from ₱491 million for the nine months ended September 30, 2020 to ₱778 million for the nine months ended September 30, 2021 primarily due to a higher amount of receivables outstanding as of September 30, 2021. As a percentage of revenue, our provisions slightly decreased from 4.6% in 2020 to 4.1% in 2021 due to the update in our Expected Credit Loss ("ECL") rates, based on the net disconnected accounts.

Other Income (Expenses), net

Other income, net decreased by ₱324 million from ₱166 million gain for the nine months ended September 30, 2020 to ₱158 million loss for the nine months ended September 30, 2021. For the nine months ended September 30, 2021, other expenses, net is primarily related to net foreign exchange loss on the weakening of the Philippine Peso against the US Dollar, which had an unfavorable impact in our financials since we are in a net liability position in our USD denominated balances.

Profit from Operations

Profit from operations increased by 100%, or ₱3,591 million, from ₱3,597 million for the nine months ended September 30, 2020 to ₱7,188 million for the nine months ended September 30, 2021 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 decreased by 1%, or ₱6 million, from ₱454 million for the nine months ended September 30, 2020 to ₱448 million for the nine months ended September 30, 2021 as we paid out ₱1.8 billion of our long-term loans early in 2021 and we only had additional loans availments starting of June 2021.

Profit Before Income Tax

Profit before income tax increased by 114%, or ₱3,598 million, from ₱3,142 million for the nine months ended September 30, 2020 to ₱6,740 million for the nine months ended September 30, 2021 for the reasons described above, in particular the 100% increase in profit from operations in 2021.

Income Tax Expense

Income tax expense increased by 62%, or ₱589 million, from ₱952 million for the nine months ended September 30, 2020 to ₱1,542 million for the nine months ended September 30, 2021 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 23% for the nine months ended September 30, 2021 compared to 30% for the nine months ended September 30, 2020. This has decreased because of the impact of the CREATE bill, approved in March 2021, which lowers the corporate income tax rate from 30% to 25%. Further decreasing the effective tax rate to 23% is the reversal of the 2020 provision for income tax rates since the 25% tax rate is effective starting July 1, 2020, and one of our major subsidiaries elected for the optional standard deduction in their income tax filings in 2021.

Profit for the Period

For the reasons discussed above, profit for the period increased by 137%, or ₱3,008 million, from ₱2,190 million for the nine months ended September 30, 2020 to ₱5,198 million for the nine months

ended September 30, 2021.

Year ended December 31, 2020 compared to year ended December 31, 2019

Revenues

Revenues increased by 71.3%, or ₱6,512.8 million, from ₱9,139.5 million for the year ended December 31, 2019 to ₱15,652.3 million for the year ended December 31, 2020 due to increases in revenue from our Residential and Enterprise Businesses.

Residential Business revenue increased by 98.7%, or ₱6,274.4 million, from ₱6,353.9 million for the year ended December 31, 2019 to ₱12,628.3 million for the year ended December 31, 2020 primarily due to an increase in residential subscribers of 96.0%, or 508,692, subscribers, from 529,629 subscribers as of December 31, 2019 to 1,038,321 subscribers as of December 31, 2020. FTTH subscribers increased by 148.9%, or 492,170 subscribers, from 330,621 FTTH subscribers as of December 31, 2019 to 822,791 FTTH subscribers as of December 31, 2020. HFC subscribers increased by 8.3%, or 16,522 subscribers, from 199,008 HFC subscribers as of December 31, 2019 to 215,530 HFC subscribers as of December 31, 2020. The residential subscriber increase was driven by our ability to deepen our presence in existing areas and expand our network to new areas, increasing our ports from 2,009,771 as of December 31, 2019 to 3,506,841 as of December 31, 2020 and attract new subscribers to take-up available ports and increase port utilization across our network. We maintained our residential blended ARPU at ₱1,298 in 2020, in line with 2019 level of ₱1,293.

Enterprise Business revenue increased by 8.6%, or ₱238.4 million, from ₱2,785.6 million for the year ended December 31, 2019 to ₱3,024.0 million for the year ended December 31, 2020 primarily driven by the adoption of new enterprise products including WFH connectivity solutions. Unique enterprise customers increased by 10.0%, or 1,007 customers, from 10,083 customers as of December 31, 2019 to 11,090 customers as of December 31, 2020. Monthly ARPU decreased by 13.3% or ₱3,653.0, from ₱27,462.0 for the year ended December 31, 2019 to ₱23,809.0 for the year ended December 31, 2020, which reflects the additional customers including multi-site branches (e.g., retail clients with multiple nationwide branches), which require less bandwidth than our traditional large enterprise clients (e.g., financial institutions, BPOs); and the temporary adjustments that businesses have made in light of COVID-19, whereby a portion of their enterprise connectivity spend has temporarily shifted towards WFH home internet solutions for their employees, which are lower ARPU products.

Cost of Services

Cost of services increased by 59.1%, or ₱2,623.9 million, from ₱4,440.7 million for the year ended December 31, 2019 to ₱7,064.6 million for the year ended December 31, 2020. The increase was primarily attributable to increases in depreciation and amortization costs, bandwidth and leased line cost, amortization of deferred contract cost, network materials and supplies used, service fees, personnel cost, and other cost of services.

Depreciation and amortization costs increased by 50.4%, or ₱771.6 million, from ₱1,531.8 million for the year ended December 31, 2019 to ₱2,303.4 million for the year ended December 31, 2020 primarily due to the expansion of our fiber network, increase in our intangible assets and additional right-of-use assets.

Bandwidth and leased line costs increased by 14.1%, or ₱116.6 million, from ₱829.0 million for the year ended December 31, 2019 to ₱945.6 million for the year ended December 31, 2020 due to the purchase of additional bandwidth capacity from international carriers, partially offset by declining unit prices

Bandwidth and leased line costs decreased as a percentage of revenue from 9.1% in December 31, 2019 to 6.0% in December 31, 2020, due to partnerships formed with global carriers in order to secure proprietary access to bandwidth capacity on certain key international network routes.

Network materials and supplies used increased by 72.1%, or ₱573.9 million, from ₱796.3 million for

the year ended December 31, 2019 to ₱1,370.2 million for the year ended December 31, 2020 due to the expansion of our residential subscriber base.

Amortization of deferred contract cost increased by 132.6%, or ₱471.3 million, from ₱355.4 million for the year ended December 31, 2019 to ₱826.7 million for the year ended December 31, 2020 due to additional subscriber acquisition costs and installation costs reflecting our expanding and increasing residential subscriber base.

Service fees increased by 79.5%, or ₱273.5 million, from ₱344.2 million for the year ended December 31, 2019 to ₱617.8 million for the year ended December 31, 2020 due to an increase in bundled broadband packages sold to HFC subscribers and bundling fees paid to service providers.

Personnel costs increased by 74.0%, or ₱169.5 million, from ₱229.1 million for the year ended December 31, 2019 to ₱398.7 million for the year ended December 31, 2020 primarily due to an increase in headcount in line with expansion and maintenance of a larger network and customer base.

Others increased by 192.9%, or ₱211.6 million, from ₱109.7 million for the year ended December 31, 2019 to ₱321.3 million for the year ended December 31, 2020 primarily due to an increase in repairs and maintenance expense as a result of the damage caused by a series of typhoons in the Philippines.

Gross Profit

Gross profit increased by 82.8%, or ₱3,889.0 million, from ₱4,698.8 million for the year ended December 31, 2019 to ₱8,587.7 million for the year ended December 31, 2020. Gross margin, or gross profit as a percentage of revenue, increased from 51.4% in 2019 to 54.9% in 2020. The increase in gross margin was primarily due to the increase in revenue, which outpaced increases in costs, each as described above.

General and Administrative Expenses

General and administrative expenses increased by 95.9%, or ₱1,357.2 million, from ₱1,414.8 million for the year ended December 31, 2019 to ₱2,772.1 million for the year ended December 31, 2020. The increase was primarily attributable to an increase in personnel costs, professional fees, managed service fees, and provision for contingencies.

Personnel costs increased by 102.1%, or ₱530.7 million, from ₱519.8 million for the year ended December 31, 2019 to ₱1,050.4 million for the year ended December 31, 2020 due to an increase in headcount to keep up with the demands of our growing business. We also made senior management hires during the period to support the business.

Managed service fees increased by 222.4%, or ₱181.8 million, from ₱81.7 million for the year ended December 31, 2019 to ₱263.5 million for the year ended December 31, 2020 primarily due to an increase in the commissions of our MSPs, as well as, higher collection commissions and fees to our collecting agents, because of their rigorous efforts, which resulted in a higher collections during the year.

Professional fees increased by 141.6%, or ₱126.6 million, from ₱89.4 million for the year ended December 31, 2019 to ₱216.0 million for the year ended December 31, 2020 primarily due to an increase in the number of consultants and counsels for our initial public offering.

For the year ended December 31, 2020, we recognized ₱110.9 million as provision for contingencies which represents our best estimate of the probable cost that may arise from certain ongoing operational contingencies in the ordinary course of business.

Provision for Impairment of Trade and Other Receivables

Provision for impairment of trade and other receivables increased by 36.0%, or ₱190.5 million, from

₱529.9 million for the year ended December 31, 2019 to ₱720.5 million for the year ended December 31, 2020. The increase in provisions in 2020 was driven by payment extensions for a certain period to our customers as mandated by the government which resulted in an increase in trade receivables, as well as a more conservative ECL approach, brought about by the continuing impact of COVID-19 on our business. To minimize the impact of the pandemic and increase the likelihood to recover receivables from our customers, we offered to some of our customers the ability to settle their outstanding bills in staggered payments.

Other Income (Expenses), net

Other income, net increased by 1,864.8%, or ₱342.0 million, from other income, net of ₱18.3 million for the year ended December 31, 2019 to other income, net of ₱360.3 million for the year ended December 31, 2020. For the year December 31, 2020, other income, net is primarily related to net foreign exchange gain on the strengthening of the Philippine Peso against the US Dollar, and gains from our sale of network materials. Also, we had an increase in our interest income from cash and cash equivalents as we had short-term placements during the year. For the year ended, December 31, 2020, we also have interest income from the finance lease receivable arising from our sale and leaseback arrangement with our related parties, and interest income on financial assets at FVTPL, which relates to the exchangeable bond we issued to our ultimate parent. These gains are partially offset by the loss on disposal of our property, plant and equipment.

Profit from Operations

Profit from operations increased by 95.8%, or ₱2,656.7 million, from ₱2,772.3 million for the year ended December 31, 2019 to ₱5,429.0 million for the year ended December 31, 2020 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 100.1%, or ₱275.3 million, from ₱275.1 million for the year ended December 31, 2019 to ₱550.3 million for the year ended December 31, 2020, since we had drawn long-term loans throughout the period as an additional funding for our planned fiber network expansion, and to support our operations as we service a larger network and subscriber base.

Profit Before Income Tax

Profit before income tax increased by 95.4%, or ₱2,381.5 million, from ₱2,497.3 million for the year ended December 31, 2019 to ₱4,878.7 million for the year ended December 31, 2020 for the reasons described above, in particular the 95.8%, or ₱2,656.7 million, increase in profit from operations in 2020, which was partially offset by higher debt servicing costs.

Income Tax Expense

Income tax expense increased by 151.6%, or ₱898.4 million, from ₱592.5 million for the year ended December 31, 2019 to ₱1,490.9 million for the year ended December 31, 2020 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 23.7% for the year ended December 31, 2019 compared to 30.6% for the year ended December 31, 2020. Our effective tax rate increased due to our current income tax expense being offset by a lower deferred income tax credit. The decrease in the deferred tax credit is due to adopting the same method of deduction in computing deferred tax credit in 2019 and 2020, which is itemized deduction, as compared to 2019 wherein there was a change from optional standard deduction ("OSD") in 2018 to itemized deduction in 2019.

Profit for the Year

For the reasons discussed above, profit for the period increased by 77.9%, or ₱1,483.1 million, from ₱1,904.7 million for the year ended December 31, 2019 to ₱3,387.8 million for the year ended December 31, 2020.

Remeasurement gain on retirement benefit obligation, net of tax

Remeasurement gain on retirement benefit obligation, net of tax decreased by 204.3%, or ₱92.3 million, from a gain of ₱45.2 million for the year ended December 31, 2019 to a loss of ₱47.1 million for the year ended December 31, 2020 due to experience adjustments and changes in economic and financial assumptions used in the actuarial valuation.

Total comprehensive income for the year

Total comprehensive income for the period increased by 71.3%, or ₱1,390.8 million, from ₱1,949.9 million for the year ended December 31, 2019 to ₱3,340.7 million for the year ended December 31, 2020.

Year ended December 31, 2019 compared to year ended December 31, 2018

Revenues

Revenues increased by 80.8%, or ₱4,084.9 million, from ₱5,054.6 million for the year ended December 31, 2018 to ₱9,139.5 million for the year ended December 31, 2019 due to increases in revenue from our Residential and Enterprise Businesses.

Residential Business revenue increased by 101.7%, or ₱3,203.2 million, from ₱3,150.7 million for the year ended December 31, 2018 to ₱6,353.9 million for the year ended December 31, 2019 primarily due to an increase in residential subscribers of 100.0%, or 264,764 subscribers, from 264,865 subscribers as of December 31, 2018 to 529,629 subscribers as of December 31, 2019. FTTH subscribers increased by 178.6%, or 211,959 subscribers, from 118,662 FTTH subscribers as of December 31, 2018 to 330,621 FTTH subscribers as of December 31, 2019. HFC subscribers increased by 36.1%, or 52,805 subscribers, from 146,203 HFC subscribers as of December 31, 2018 to 199,008 HFC subscribers as of December 31, 2019. The residential subscriber increase was driven by our ability to expand our network to new areas and deepen our presence in existing areas, increasing our ports from 1,050,927 as of December 31, 2018 to 2,009,771 as of December 31, 2019 and attract new subscribers to take-up available ports and increase port utilization across our network.

Enterprise Business revenue increased by 46.3%, or ₱881.7 million, from ₱1,903.9 million for the year ended December 31, 2018 to ₱2,785.6 million for the year ended December 31, 2019 primarily due to increases in unique customers and ARPU. Unique enterprise customers increased by 54.2%, or 3,544 customers, from 6,539 customers as of December 31, 2018 to 10,083 customers as of December 31, 2019. Monthly ARPU increased by 10.5% or ₱2,605, from ₱24,857 for 2018 to ₱27,462 for 2019.

Cost of Services

Cost of services increased by 90.7%, or ₱2,112.2 million, from ₱2,328.5 million for the year ended December 31, 2018 to ₱4,440.7 million for the year ended December 31, 2019. The increase was primarily attributable to increases in network materials and supplies used, depreciation and amortization costs, bandwidth and leased line cost, amortization of deferred contract cost and service fees.

Depreciation and amortization costs increased by 62.5%, or ₱589.2 million, from ₱942.6 million for the year ended December 31, 2018 to ₱1,531.8 million for the year ended December 31, 2019 primarily due to the expansion of our fiber network as well as the adoption of PFRS 16 with retrospective effect from January 1, 2019.

Bandwidth and leased line costs increased by 45.4%, or ₱258.9 million, from ₱570.1 million for the year ended December 31, 2018 to ₱829.0 million for the year ended December 31, 2019 due to the purchase of additional bandwidth capacity from local and international carriers. Bandwidth and leased line costs as percentage of our total revenues decreased from 11.3% for the year ended December 31, 2018 to 9.1% for the year ended December 31, 2019 highlighting our increased operating leverage as we grow our number of subscribers and expand our network.

Network materials and supplies used increased by 441.3%, or ₱649.2 million, from ₱147.1 million for the year ended December 31, 2018 to ₱796.3 million for the year ended December 31, 2019. Costs of network materials and supplies for 2019 includes one-time adjustments to the inventory count and average cost for network materials. Excluding such one-time adjustments, cost of network materials and supplies for 2019 would have represented 6.4% of revenue in 2019 as compared to 2.9% of revenue in 2018.

Amortization of deferred contract cost increased by 175.3%, or ₱226.3 million, from ₱129.1 million for the year ended December 31, 2018 to ₱355.4 million for the year ended December 31, 2019 reflecting subscriber acquisition costs to expand our residential subscriber base and installation costs as a result of the subscriber base increase.

Service fees increased by 45.6%, or ₱107.8 million, from ₱236.4 million for the year ended December 31, 2018 to ₱344.2 million for the year ended December 31, 2019 due to an increase in bundled broadband packages sold to HFC subscribers.

Personnel costs increased by 34.4%, or ₱58.6 million, from ₱170.5 million for the year ended December 31, 2018 to ₱229.1 million for the year ended December 31, 2019 primarily due to an increase in headcount in line with expansion and maintenance of a larger network and customer base. Personnel costs as a percentage of revenue decreased from 3.4% in 2018 to 2.5% in 2019 as we leveraged past investments in personnel as our network and operations continued to grow.

Gross Profit

Gross profit increased by 72.4%, or ₱1,972.7 million, from ₱2,726.1 million for the year ended December 31, 2018 to ₱4,698.8 million for the year ended December 31, 2019. Gross margin decreased from 53.9% in 2018 to 51.4% in 2019. The decrease in gross margin was primarily due to the increase in cost of services as described above.

General and Administrative Expenses

General and administrative expenses increased by 55.0%, or ₱502.1 million, from ₱912.7 million for the year ended December 31, 2018 to ₱1,414.8 million for the year ended December 31, 2019. The increase was primarily attributable to increases in expenses related to personnel costs, depreciation and amortization expenses, managed service fees and professional fees, partially offset by a decrease in rent expense.

Personnel costs increased by 50.8%, or ₱175.1 million, from ₱344.7 million for the year ended December 31, 2018 to ₱519.8 million for the year ended December 31, 2019 due to an increase in headcount during the year as we made key hires to support our business as it increased in scale.

Depreciation and amortization expenses increased by 299.1%, or ₱100.8 million, from ₱33.7 million for the year ended December 31, 2018 to ₱134.5 million for the year ended December 31, 2019 primarily due to the expansion of our fiber network and an increase in customer premises equipment driven by the growth in our subscribers. As a result of the introduction of PFRS 16, depreciation and amortization expenses for the year ended December 31, 2019 includes amortization expenses on right-of-use assets, such as office space, warehouses and transportation equipment.

Managed service fees increased by 487.8%, or ₱67.8 million, from ₱13.9 million for the year ended December 31, 2018 to ₱81.7 million for the year ended December 31, 2019 primarily due to an increase in our sales force during the year and more of our sales force achieving their sales targets.

Professional fees increased by 225.1%, or ₱61.9 million, from ₱27.5 million for the year ended December 31, 2018 to ₱89.4 million for the year ended December 31, 2019 primarily due to the fees paid to financial, tax and legal advisors in connection with our 2019 reorganization exercise.

Rent expense decreased by 85%, or ₱76.2 million, from ₱89.6 million for the year ended December 31, 2018 to ₱13.4 million for the year ended December 31, 2019 due to the introduction of PFRS 16, Leases, on January 1, 2019, under which rent payable is capitalized and recognized on a

straight-line basis over the lease term.

Provision for Impairment of Trade and Other Receivables

Provision for impairment of trade and other receivables increased by 324.2%, or ₱405.0 million, from ₱124.9 million for the year ended December 31, 2018 to ₱529.9 million for the year ended December 31, 2019 as we adopted a more conservative approach in assessing our expected credit losses and our subscriber base increased. We expect to continue this approach going forward. For more information, see Notes 3 and 23.3 to our audited consolidated financial statements included elsewhere in this Prospectus.

Other Income (Expenses), net

Other income decreased by 64.1%, or ₱32.8 million, from ₱51.1 million for the year ended December 31, 2018 to ₱18.3 million for the year ended December 31, 2019. For the year ended December 31, 2019, other income primarily related to net foreign exchange gain on the strengthening of the Philippine Peso against the US Dollar, as well as gains on the sale of network materials to related parties and commensurate services fees from related parties (in connection with, among other things, a marketing service arrangement with our pay TV affiliates), partially offset by a loss on disposal of financial asset at fair value through profit or loss related to a minority interest in an entity.

Profit from Operations

Profit from operations increased by 59.4%, or ₱1,032.7 million, from ₱1,739.7 million for the year ended December 31, 2018 to ₱2,772.3 million for the year ended December 31, 2019 for the reasons described above, in particular the 72.4%, or ₱1,972.7 million increase in gross profit, partially offset by the 55.0%, or ₱502.1 million, increase in general and administrative expenses and 324.2%, or ₱405.0 million, increase in provision for impairment of trade and other receivables.

Finance Costs

Finance costs increased by 289.8%, or ₱204.5 million, from ₱70.6 million for the year ended December 31, 2018 to ₱275.1 million for the year ended December 31, 2019 as we drew down a long-term loan throughout the year as an additional source of financing for the expansion of our fiber network and to maintain and service a larger network and subscriber base. Finance costs in 2019 also reflect the adoption of PFRS 16 with retrospective effect from January 1, 2019.

Profit Before Income Tax

Profit before income tax increased by 49.6%, or ₱828.2 million, from ₱1,669.1 million for the year ended December 31, 2018 to ₱2,497.3 million for the year ended December 31, 2019 for the reasons described above, in particular the 59.4%, or ₱1,032.7 million, increase in profit from operations in 2019, which was partially offset by higher debt servicing costs.

Income Tax Expense

Income tax expense increased by 38.6%, or ₱165.0 million, from ₱427.5 million for the year ended December 31, 2018 to ₱592.5 million for the year ended December 31, 2019 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 23.7% for the year ended December 31, 2019 compared to 25.6% for the year ended December 31, 2018. Our effective tax rate decreased due to an increase in deferred income tax expense as a result of our election of the optional standard deduction and an increase in provision for impairment of trade and other receivables.

Profit for the Year

For the reasons discussed above, profit for the year increased by 53.4%, or ₱663.1 million, from ₱1,241.6 million for the year ended December 31, 2018 to ₱1,904.7 million for the year ended December 31, 2019.

Remeasurement gain on retirement benefit obligation, net of tax

Remeasurement gain on retirement benefit obligation, net of tax increased by 431.8%, or ₱36.7 million, from ₱8.5 million for the year ended December 31, 2018 to ₱45.2 million for the year ended December 31, 2019 after evaluation of the carrying amounts of such obligations.

Total comprehensive income for the year

Total comprehensive income for the year increased by 56.0%, or ₱699.8 million, from ₱1,250.1 million for the year ended December 31, 2018 to ₱1,949.9 million for the year ended December 31, 2019.

Year ended December 31, 2018 compared to year ended December 31, 2017

Revenues

Revenues increased by 71.9%, or ₱2,114.4 million, from ₱2,940.2 million for the year ended December 31, 2017 to ₱5,054.6 million for the year ended December 31, 2018 primarily due to an increase in revenue from our Residential Business.

Residential Business revenue increased by 107.4%, or ₱1,631.2 million, from ₱1,519.5 million for the year ended December 31, 2017 to ₱3,150.7 million for the year ended December 31, 2018 primarily due to an increase in residential subscribers of 107.8%, or 137,373 subscribers, from 127,492 subscribers as of December 31, 2017 to 264,865 subscribers as of December 31, 2018. FTTH subscribers increased by 378.0%, or 93,839 subscribers, from 24,823 FTTH subscribers as of December 31, 2017 to 118,662 FTTH subscribers as of December 31, 2018. HFC subscribers increased by 42.4%, or 43,534 subscribers, from 102,669 HFC subscribers as of December 31, 2017 to 146,203 HFC subscribers as of December 31, 2018. The residential subscriber increase was driven by our ability to (a) expand our network to new areas and deepen our presence in existing areas, increasing our ports from 613,084 as of December 31, 2017 to 1,050,927 as of December 31, 2018 and (b) attract new subscribers to take-up available ports and increase port utilization across our network.

Enterprise Business revenue increased by 34.0%, or ₱483.2 million, from ₱1,420.7 million for the year ended December 31, 2017 to ₱1,903.9 million for the year ended December 31, 2018, due to increases in unique customers and ARPU. Unique enterprise customers increased by 8.2%, or 496 customers, from 6,043 customers as of December 31, 2017 to 6,539 customers as of December 31, 2018. Monthly ARPU increased by 11.4% or ₱2,538, from ₱22,319 for 2017 to ₱24,857 for 2018.

Cost of Services

Cost of services increased by 121.8%, or ₱1,278.6 million, from ₱1,049.9 million for the year ended December 31, 2017 to ₱2,328.5 million for the year ended December 31, 2018. The increase was primarily attributable to increases in depreciation and amortization costs, bandwidth and leased line costs and service fees.

Depreciation and amortization costs increased by 146.3%, or ₱559.9 million, from ₱382.7 million for the year ended December 31, 2017 to ₱942.6 million for the year ended December 31, 2018 primarily due to the expansion of our fiber network.

Bandwidth and leased line costs increased by 179.1%, or ₱365.8 million, from ₱204.3 million for the year ended December 31, 2017 to ₱570.1 million for the year ended December 31, 2018 primarily due to the expansion of our residential subscriber base.

Network materials and supplies used increased by 50.7%, or ₱49.5 million, from ₱97.6 million for the year ended December 31, 2017 to ₱147.1 million for the year ended December 31, 2018 primarily due to the expansion of our residential subscriber base.

Amortization of deferred contract cost increased by 198.2%, or ₱85.8 million, from ₱43.3 million for

the year ended December 31, 2017 to ₱129.1 million for the year ended December 31, 2018 reflecting subscriber acquisition costs to expand our residential subscriber base and installation costs as a result of the subscriber base increase.

Service fees increased by 146.0%, or ₱140.3 million, from ₱96.1 million for the year ended December 31, 2017 to ₱236.4 million for the year ended December 31, 2018 primarily due to an increase in bundled broadband packages sold to HFC subscribers.

Personnel costs increased by 85.9%, or ₱78.8 million, from ₱91.7 million for the year ended December 31, 2017 to ₱170.5 million for the year ended December 31, 2018 primarily due to an increase in headcount in line with expansion and maintenance of a larger network and customer base.

Gross Profit

Gross profit increased by 44.2%, or ₱835.8 million, from ₱1,890.3 million for the year ended December 31, 2017 to ₱2,726.1 million for the year ended December 31, 2018. Gross margin decreased from 64.3% in 2017 to 53.9% for 2018. The decrease in gross margin was primarily due to the increase in cost of services described above, in particular the increase in depreciation of fiber network associated with the continued expansion of our network.

General and Administrative Expenses

General and administrative expenses increased by 106.5%, or ₱470.8 million, from ₱441.9 million for the year ended December 31, 2017 to ₱912.7 million for the year ended December 31, 2018. The increase was primarily attributable to increases in expenses related to personnel costs, rent, meals and transportation, outside services and miscellaneous expenses.

Personnel costs increased by 81.1%, or ₱154.4 million, from ₱190.3 million for the year ended December 31, 2017 to ₱344.7 million for the year ended December 31, 2018 due to an increase in headcount during the year to support the growth of our business.

Rent expenses increased by 729.6%, or ₱78.8 million, from ₱10.8 million for the year ended December 31, 2017 to ₱89.6 million for the year ended December 31, 2018 as we entered into new contracts for warehouse and office space to support the expansion of our business.

Meals and transportation expenses increased by 187.1%, or ₱43.6 million, from ₱23.3 million for the year ended December 31, 2017 to ₱66.9 million for the year ended December 31, 2018 primarily due to an increase in headcount during the year.

Outside services expenses increased by 157.0%, or ₱39.1 million, from ₱24.9 million for the year ended December 31, 2017 to ₱64.0 million for the year ended December 31, 2018 primarily due to an increase in janitorial and security expenses.

Provision for Impairment of Trade and Other Receivables

Provision for impairment of trade and other receivables increased by 61.0%, or ₱47.3 million, from ₱77.6 million for the year ended December 31, 2017 to ₱124.9 million for the year ended December 31, 2018 as we adopted a more conservative approach in assessing our expected credit losses and our subscriber base increased.

Other Income (Loss), Net

We had other income of ₱51.1 million for the year ended December 31, 2018 compared to other loss of ₱72.2 million for the year ended December 31, 2017. Other loss in 2017 related to the disposal of property and equipment at a loss. Other income in 2018 was primarily attributable to gains on the sale of network materials to related parties and commensurate services fees from related parties (in connection with, among other things, a marketing service arrangement with our pay TV affiliates).

Profit from Operations

Profit from operations increased by 34.0%, or ₱441.1 million, from ₱1,298.6 million for the year ended December 31, 2017 to ₱1,739.7 million for the year ended December 31, 2018 for the reasons described above, in particular the 44.2%, or ₱835.8 million, increase in gross profit, partially offset by the 106.5%, or ₱470.8 million, increase in general and administrative expenses.

Finance Costs

Finance costs increased by 530.4%, or ₱59.4 million, from ₱11.2 million for the year ended December 31, 2017 to ₱70.6 million for the year ended December 31, 2018 as we drew down long-term loans throughout the year as an additional source of financing for the expansion of our network and to maintain and service a larger network and subscriber base.

Profit Before Income Tax

Profit before income tax increased by 29.6%, or ₱381.7 million, from ₱1,287.4 million for the year ended December 31, 2017 to ₱1,669.1 million for the year ended December 31, 2018 for the reasons described above, in particular the 34.0%, or ₱441.1 million, increase in profit from operations in 2018 compared to 2017, which was partially offset by higher debt servicing costs.

Income Tax Expense

Income tax expense increased by 651.3%, or ₱370.6 million, from ₱56.9 million for the year ended December 31, 2017 to ₱427.5 million for the year ended December 31, 2018 due to higher taxable profits and the cessation of an income tax holiday that was applicable in both 2016 and 2017. Our effective tax rate was 25.6% for the year ended December 31, 2018 compared to 4.4% for the year ended December 31, 2017.

Profit for the Year

For the reasons discussed above, profit for the year increased by 0.9%, or ₱11.1 million, from ₱1,230.5 million for the year ended December 31, 2017 to ₱1,241.6 million for the year ended December 31, 2018.

Remeasurement gain on retirement benefit obligation, net of tax

Remeasurement gain on retirement benefit obligation, net of tax increased by 431.3%, or ₱6.9 million, from ₱1.6 million for the year ended December 31, 2017 to ₱8.5 million for the year ended December 31, 2018.

Total comprehensive income for the year

Total comprehensive income for the year increased by 1.5%, or ₱18.0 million, from ₱1,232.1 million for the year ended December 31, 2017 to ₱1,250.1 million for the year ended December 31, 2018.

STATEMENT OF FINANCIAL POSITION

in Php Millions	As of December 31				As of September 30
	2017	2018	2019	2020	2021
Current assets					
Cash and cash equivalents	421	477	6,233	12,957	9,647
Trade and other receivables, net	472	918	2,106	2,173	3,080
Due from related parties, current portion	30	474	587	1,408	999
Network materials and supplies, net	641	1,159	963	2,031	3,392
Deferred contract costs, current portion	65	177	489	1,110	1,684
Other current assets	33	142	475	1,591	2,639
Total current assets	1,662	3,346	10,854	21,271	21,441

Non-current assets					
Property, plant and equipment, net	3,212	8,048	15,940	28,127	43,594
Advances to fixed assets suppliers	-	336	1,214	2,508	3,873
Right-of-use assets, net	-	192	1,638	1,859	1,912
Intangible assets, net	83	537	670	1,155	1,287
Deferred contract costs, net of current portion	33	80	229	543	652
Deferred input value-added tax, net of current portion	7	105	75	139	921
Deferred income tax assets, net	38	57	539	788	1,041
Due from related parties, net of current portion	-	-	-	163	163
Financial asset at fair value through profit or loss ("FVTPL")	-	19	-	72	72
Investment in joint ventures	-	-	-	-	389
Other non-current assets	-	-	-	87	87
Total non-current assets	3,372	9,374	20,306	35,441	53,992
Total assets	5,034	12,720	31,159	56,712	75,434
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other current liabilities	961	4,342	7,176	13,253	19,838
Loans payable, current portion	278	1,521	1,098	731	3,061
Lease liabilities, current portion	-	84	355	326	230
Due to related parties	11	423	167	218	129
Deferred revenue, current portion	35	105	199	464	884
Income tax payable	32	155	358	394	814
Dividends payable	-	-	808	-	-
Provision for contingencies	40	-	-	-	-
Total current liabilities	1,358	6,631	10,160	15,385	24,956
Non-current liabilities					
Deferred revenue, net of current portion	11	47	82	205	285
Loans payable, net of current portion	348	1,203	6,852	10,583	15,037
Lease liabilities, net of current portion	-	71	1,375	1,508	1,537
Retirement benefit obligation	55	65	31	123	142
Subscribers' deposits, net of current portion	36	95	492	1,133	390
Total non-current liabilities	450	1,481	8,831	13,552	17,390
Total liabilities	1,808	8,112	18,992	28,937	42,347
Equity					
Attributable to owners of the Parent Company					
Share capital					
Common shares	1,250	1,250	1,250	1,882	1,882
Convertible preferred shares	-	-	307	-	-
Additional paid-in capital	-	-	6,541	18,746	18,746
Retained earnings	-	-	-	-	-
Appropriated	-	2,200	2,200	-	-
Unappropriated	1,971	1,028	1,814	7,139	12,337
Reserve for remeasurements of retirement benefit obligation, net of tax	2	10	55	8	8
Reserve for share-based compensation	-	-	-	-	114

Other Reserves	-	83	-	-	-
	3,223	4,571	12,167	27,775	33,087
Non-controlling interest	4	37	-	-	-
Total equity	3,226	4,609	12,168	27,775	33,087
Total liabilities and equity	5,034	12,720	31,159	56,712	75,434

As of September 30, 2021 compared to December 31, 2020

Total Assets

Total assets as of September 30, 2021 stood at ₱75,433.8 million, an increase of 33.0%, or ₱18,721.7 million, compared to ₱56,712.1 million as of December 31, 2020. This increase was due to the following:

- Trade and other receivables, net increased by 41.8%, or ₱907.2 million, to ₱3,079.9 million as of September 30, 2021 from ₱2,172.7 million as of December 31, 2020 primarily due to the growth of our subscriber base, offset by our increased collections and higher allowance for doubtful accounts.
- Network materials and supplies increased by 67%, or ₱1,361.1 million, to ₱3,392.4 million as of September 30, 2021 from ₱2,031.4 million as of December 31, 2020 significantly because of the increased purchases due to expected higher usages and fiber network expansion.
- Deferred contract costs (current) increased by 51.8%, or ₱574.4 million, to ₱1,684.1 million as of September 30, 2021 from ₱1,109.7 million as of December 31, 2020. Deferred contract costs (net of current portion) increased by 20%, or ₱108.9 million, to ₱652.1 million as of September 30, 2021 from ₱543.2 million as of December 31, 2020. The increases were primarily due to increased subscriber acquisition and installation activities commensurate with the growth of our subscriber base.
- Other current assets increased by 65.8%, or ₱1,047.5 million, to ₱2,638.9 million as of September 30, 2021 from ₱1,591.4 million as of December 31, 2020 primarily due to an increase in advances to suppliers.
- Property, plant and equipment, net increased by 55%, or ₱15,467.1 million, to ₱43,594.2 million as of September 30, 2021 from ₱28,127.0 million as of December 31, 2020 primarily due to additions for land acquisitions, optical distribution network and inside plant facilities, office equipment and furniture, transportation equipment and leasehold improvements, heavy equipment and tools.
- Advances to fixed assets suppliers increased by 54.4%, or ₱1,365.4 million, to ₱3,873.3 million as of September 30, 2021 compared to ₱2,507.9 million as of December 31, 2020 primarily due to prepayments to global carriers in order to secure proprietary access to bandwidth capacity and other subcontractors.
- Right-of-use assets, net increased by 2.9%, or ₱53.1 million, to ₱1,912.4 million as of September 30, 2021 from ₱1,859.3 million as of December 31, 2020 primarily due to additional network assets and co-located sites.
- Intangible assets, net increased by 11.4%, or ₱132.1 million, to ₱1,286.7 million as of September 30, 2021 from ₱1,154.6 million as of December 31, 2020 primarily due to additional software and licenses in use by our network and operations team.
- Deferred input VAT (net of current portion) increased by 563%, or ₱782.1 million, to ₱921.0 million as of September 30, 2021 from ₱138.9 million as of December 31, 2020 primarily due to VAT portion of our additions to property, plant and equipment.
- Deferred income tax assets, net increased by 32.1%, or ₱252.8 million, to ₱1,041.2 million as of September 30, 2021 from ₱788.4 million as of December 31, 2020. The increase in deferred tax assets is due to deferred tax on unrealized forex loss, increase in provision for accounts receivables, and provision for contingencies.

The increase in total assets was partially offset by,

- Cash and cash equivalents decreased by 25.5%, or ₱3,310.5 million, to ₱9,646.9 million as of September 30, 2021 from ₱12,957.4 million as of December 31, 2020 primarily due to

payments of our liabilities brought about by our capital expenditures to expand our network, offset by the proceeds from our loan availments.

- Amounts due from related parties (current) decreased by 29.1%, or ₱409.2 million, to ₱999.1 million as of September 30, 2021 from ₱1,408.3 million as of December 31, 2020 primarily due to collections from related parties.

Total Liabilities

Total liabilities as of September 30, 2021 stood at ₱42,346.7 million, an increase of 46.3%, or ₱13,409.8 million, compared to ₱28,936.9 million as of December 31, 2020. This increase was due to the following:

- Trade and other payables increased by 49.7%, or ₱6,585.5 million, to ₱19,838.3 million as of September 30, 2021 from ₱13,252.8 million as of December 31, 2020. The increase is due to our additions in our inventories and property, plant, and equipment, to support the growth of the business and our fiber network expansion.
- Loans payable, current portion, increased by 318.6%, or ₱2,329.8 million, to ₱3,061.0 million as of September 30, 2021 from ₱731.2 million as of December 31, 2020, and Loans payable (net of current portion) increased by 42.1%, or ₱4,454.3 million, to ₱15,036.9 million as of September 30, 2021 from ₱10,582.6 million as of December 31, 2020 due to additional loan availments during the period.
- Deferred revenue (current) increased by 90.6%, or ₱420 million, to ₱883.6 million as of September 30, 2021 from ₱463.6 million as of December 31, 2020. Deferred revenue (net of current portion) increased by 39.2%, or ₱80.3 million, to ₱285.4 million as of September 30, 2021 from ₱205.1 million as of December 31, 2020. The increases were primarily due to additional deferred installation revenues from our additional subscriber during the period.
- Income taxes payable increased by 106.7%, or ₱420.2 million, to ₱814.1 million as of September 30, 2021 from ₱393.9 million as of December 31, 2020 primarily due to higher taxable profit for the period.

The increase in total liabilities was partially offset by:

- Lease liabilities (current) decreased by 29.3%, or ₱95.3 million, to ₱230.4 million as of September 30, 2021 from ₱325.7 million as of December 31, 2020. Lease liabilities (net of current portion) increased by 1.9%, or ₱28.7 million, to ₱1,536.6 million as of September 30, 2021 from ₱1,507.9 million as of December 31, 2020. The net decrease in lease liabilities is primarily due to lease payments during the period partially offset by additional leases for office and warehouse spaces entered during the period.
- Subscribers' deposits (net of current portion) decreased by 65.6%, or ₱743.3 million, to ₱389.7 million as of September 30, 2021 from ₱1,133.0 million as of December 31, 2020 due to reclassifications to the current portion. This is aligned with the Company's new selling scheme which generally does not require subscriber deposit from new subscribers.

Amounts due to related parties decreased by 40.9%, or ₱89.1 million, to ₱129.0 million as of September 30, 2021 from ₱218.0 million as of December 31, 2020 mostly from the payments made by a related party.

As of December 31, 2020 compared to December 31, 2019

Total Assets

Total assets as of December 31, 2020 stood at ₱56,712.1 million, an increase of 82.0%, or ₱25,552.6 million, compared to ₱31,159.5 million as of December 31, 2019. This increase was due to the following:

- Cash and cash equivalents increased by 107.9%, or ₱6,724.4 million, to ₱12,957.4 million as of December 31, 2020 from ₱6,233.0 million as of December 31, 2019 primarily due to the proceed from issuance of shares, partially offset by an increase in capital expenditures to expand our network.

- Trade and other receivables, net increased by 3.2%, or ₱67.2 million, to ₱2,172.7 million as of December 31, 2020 from ₱2,105.5 million as of December 31, 2019 primarily due to the growth of our subscriber base, offset by our increased collections and higher allowance for doubtful accounts.
- Amounts due from related parties (current) increased by 140.1%, or ₱821.7 million, to ₱1,408.3 million as of December 31, 2020 from ₱586.6 million as of December 31, 2019 primarily due to higher collections made on behalf of the Group, from same subscribers, and higher transfers of network materials to our related parties. Amounts due from related parties (net of current portion) was ₱163.4 million as of December 31, 2020 and nil as of December 31, 2019. Amounts due from related parties (net of current portion) are primarily related to the non-current portion of finance lease receivables.
- Network materials and supplies increased by 110.9%, or ₱1,068.0 million, to ₱2,031.4 million as of December 31, 2020 from ₱963.4 million as of December 31, 2019 significantly because of the increased usage due to a higher subscriber acquisitions and fiber network expansion.
- Deferred contract costs (current) increased by 126.7%, or ₱620.3 million, to ₱1,109.7 million as of December 31, 2020 from ₱489.4 million as of December 31, 2019. Deferred contract costs (net of current portion) increased by 136.9%, or ₱313.9 million, to ₱543.2 million as of December 31, 2020 from ₱229.3 million as of December 31, 2019. The increases were primarily due to increased subscriber acquisition and installation activities commensurate with the growth of our subscriber base.
- Other current assets increased by 234.7%, or ₱1,115.9 million, to ₱1,591.4 million as of December 31, 2020 from ₱475.5 million as of December 31, 2019 primarily due to an increase in input VAT and advances to suppliers.
- Property, plant and equipment, net increased by 76.5%, or ₱12,187.1 million, to ₱28,127.0 million as of December 31, 2020 from ₱15,939.9 million as of December 31, 2019 primarily due to additions for land acquisitions, optical distribution network and inside plant facilities, office equipment and furniture, transportation equipment and leasehold improvements, heavy equipment and tools.
- Advances to fixed assets suppliers increased by 106.6%, or ₱1,294.0 million, to ₱2,507.9 million as of December 31, 2020 compared to ₱1,213.9 million as of December 31, 2019 primarily due to prepayments to subcontractors.
- Right-of-use assets, net increased by 13.5%, or ₱220.9 million, to ₱1,859.3 million as of December 31, 2020 from ₱1,638.4 million as of December 31, 2019 primarily due to network assets and co-located sites, office and warehouse spaces added during the period.
- Intangible assets, net increased by 72.4%, or ₱484.7 million, to ₱1,154.6 million as of December 31, 2020 from ₱669.9 million as of December 31, 2019 primarily due to additional software and licenses in use by our network and operations team.
- Deferred input VAT (net of current portion) increased by 84.0%, or ₱63.4 million, to ₱138.9 million as of December 31, 2020 from ₱75.5 million as of December 31, 2019 primarily due to timing differences between the recognition and receipt of VAT.
- Deferred income tax assets, net increased by 46.2%, or ₱249.3 million, to ₱788.4 million as of December 31, 2020 from ₱539.1 million as of December 31, 2019. The increase in deferred tax assets is due to the increase in provision for accounts receivables, and provision for contingencies.
- Financial asset at fair value through profit or loss (FVTPL) was ₱71.9 million as of December 31, 2020 and is related to the exchangeable bond that was issued in May 2020, compared to nil as of December 31, 2019.

Total Liabilities

Total liabilities as of December 31, 2020 stood at ₱28,936.9 million, an increase of 52.4%, or ₱9,945.2 million, compared to ₱18,991.7 million as of December 31, 2019. This increase was due to the following:

- Trade and other payables increased by 84.7%, or ₱6,077.2 million, to ₱13,252.8 million as of December 31, 2020 from ₱7,175.6 million as of December 31, 2019. The increase primarily related to an increase in purchases and subcontractor costs to support the growth

of the business and our fiber network expansion.

- Loans payable (net of current portion) increased by 54.5%, or ₱3,731.0 million, to ₱10,582.6 million as of December 31, 2020 from ₱6,851.6 million as of December 31, 2019 due to the drawdown of our loan facility during the period. Loans payable (current) decreased by 33.4%, or ₱367.1 million, to ₱731.2 million as of December 31, 2020 from ₱1,098.3 million as of December 31, 2019 as short-term loans were repaid during the period.
- Deferred revenue (current) increased by 132.4%, or ₱264.1 million, to ₱463.6 million as of December 31, 2020 from ₱199.5 million as of December 31, 2019. Deferred revenue (net of current portion) increased by 150.1%, or ₱123.1 million, to ₱205.1 million as of December 31, 2020 from ₱82.0 million as of December 31, 2019. The increases were primarily due to increased deferred installation revenues commensurate with the growth of our subscriber base.
- Income taxes payable increased by 10.2%, or ₱36.3 million, to ₱393.9 million as of December 31, 2020 from ₱357.6 million as of December 31, 2019 primarily due to higher taxable profit for the period.
- Subscribers' deposits (net of current portion) increased by 130.4%, or ₱641.1 million, to ₱1,133.0 million as of December 31, 2020 from ₱491.8 million as of December 31, 2019 commensurate with the growth of our subscriber base.
- Retirement benefit obligation increased by 298.4%, or ₱92.2 million, to ₱123.1 million as of December 31, 2020 from ₱30.9 million as of December 31, 2019 due to increase in employee headcount and the decrease in the discount rate used in the valuation from 5.54% in 2019 to 3.89% in 2020.
- Amounts due to related parties increased by 30.7%, or ₱51.2 million, to ₱218.0 million as of December 31, 2020 from ₱166.8 million as of December 31, 2019 mostly from the advances made by a related party.
- Lease liabilities (net of current portion) increased by 9.7%, or ₱133.0 million, to ₱1,507.9 million as of December 31, 2020 from ₱1,374.9 million as of December 31, 2019 primarily due to additional leases for office and warehouse spaces entered into during the year. Lease liabilities (current) decreased by 8.3%, or ₱29.4 million to ₱325.7 million as of December 31, 2020 from ₱355.1 million as of December 31, 2019 due to lease payments.

The increase in total liabilities was partially offset by:

- Dividends payable decreased by 100.0%, or ₱807.7 million, to nil as of December 31, 2020 from ₱807.7 million as of December 31, 2019. Dividends were declared in 2019 as part of Warburg Pincus' investment into our Company.

As of December 31, 2019 Compared to December 31, 2018

Total Assets

Total assets as of December 31, 2019 stood at ₱31,159.5 million, an increase of 145.0%, or ₱18,439.3 million, compared to ₱12,720.2 million as of December 31, 2018. This increase was due to the following:

- Cash and cash equivalents increased by 1,207.7%, or ₱5,756.4 million, to ₱6,233.0 million as of December 31, 2019 from ₱476.7 million as of December 31, 2018 primarily due Warburg Pincus' investment into our Company and the drawdown of our term loans.
- Trade and other receivables, net increased by 129.4%, or ₱1,187.5 million, to ₱2,105.5 million as of December 31, 2019 from ₱918.0 million as of December 31, 2018 primarily due to the growth of our subscriber base.
- Amounts due from related parties increased by 23.6%, or ₱112.2 million, to ₱586.6 million as of December 31, 2019 from ₱474.4 million as of December 31, 2018 primarily due higher income generated on marketing service arrangement with our cable TV affiliates.
- Deferred contract costs (current) increased by 176.9%, or ₱312.7 million, to ₱489.4 million as of December 31, 2019 from ₱176.7 million as of December 31, 2018. Deferred contract costs (net of current portion) increased by 185.5%, or ₱149.0 million, to ₱229.3 million as of December 31, 2019 from ₱80.3 million as of December 31, 2018. The increases were

primarily due to increased subscriber acquisition and installation activities commensurate with the growth of our subscriber base.

- Other current assets increased by 235.8%, or ₱333.9 million, to ₱475.5 million as of December 31, 2019 from ₱141.6 million as of December 31, 2018 primarily due to increases in advances and prepayments to suppliers and value-added taxes related to our capital expenditures for our fiber network expansion.
- Property, plant and equipment, net increased by 98.1%, or ₱7,892.0 million, to ₱15,939.9 million as of December 31, 2019 from ₱8,047.9 million as of December 31, 2018 primarily due to additions of external and internal facilities, office equipment and furniture, transportation equipment and leasehold improvements, heavy equipment and tools.
- Advances to fixed assets suppliers increased by 261.0%, or ₱877.6 million, to ₱1,213.9 million as of December 31, 2019 compared to ₱336.3 million as of December 31, 2018 primarily due to prepayments to subcontractors.
- Right-of-use assets, net increased by 754.3%, or ₱1,446.6 million, to ₱1,638.4 million as of December 31, 2019 compared to ₱191.8 million as of December 31, 2018 since additional lease agreements were entered into in 2019 as a result of the scaling up of the business.
- Intangible assets, net increased by 24.7%, or ₱132.6 million, to ₱669.9 million as of December 31, 2019 from ₱537.3 million as of December 31, 2018 primarily due to additional software and licenses in use by our network and operations team.
- Deferred income tax assets, net increased by 849.1%, or ₱482.3 million, to ₱539.1 million as of December 31, 2019 from ₱56.8 million as of December 31, 2018. The increase in 2019 reflects a higher tax rate expected in 2020 for itemized deductions instead of the optional standard deduction, as well as an increase in provision for accounts receivables that are tax deductible, driven by a larger subscriber base.

The increase in total assets was partially offset by:

- Network materials and supplies decreased by 16.9%, or ₱195.3 million, to ₱963.4 million as of December 31, 2019 from ₱1,158.7 million as of December 31, 2018 primarily due to higher usage in line with the increase in our subscriber base, as well as improved inventory management and procurement processes.
- Deferred input VAT (net of current portion) decreased by 28.0%, or ₱29.4 million, to ₱75.5 million as of December 31, 2019 from ₱104.9 million as of December 31, 2018 primarily due to timing differences between the recognition and receipt of VAT.

Total Liabilities

Total liabilities as of December 31, 2019 stood at ₱18,991.7 million, an increase of 134.1%, or ₱10,880.1 million, compared to ₱8,111.7 million as of December 31, 2018. This increase was due to the following:

- Trade and other payables increased by 65.3%, or ₱2,833.5 million, to ₱7,175.6 million as of December 31, 2019 from ₱4,342.1 million as of December 31, 2018. The increase primarily related to an increase in purchases to support the growth of the business.
- Loans payable (net of current portion) increased by 469.4%, or ₱5,648.4 million, to ₱6,851.6 million as of December 31, 2019 from ₱1,203.2 million as of December 31, 2018 due to the drawdown of our loan facility in 2019. Loans payable (current) decreased by 27.8%, or ₱423.2 million, to ₱1,098.3 million as of December 31, 2019 from ₱1,521.5 million as of December 31, 2018 as short-term loans were repaid during the year.
- Deferred revenue (current) increased by 89.6%, or ₱94.3 million, to ₱199.5 million as of December 31, 2019 from ₱105.2 million as of December 31, 2018. Deferred revenue (net of current portion) increased by 74.1%, or ₱34.9 million, to ₱82.0 million as of December 31, 2019 from ₱47.1 million as of December 31, 2018. The increases were primarily due to increased deferred installation revenues commensurate with the growth of our subscriber base.
- Income taxes payable increased by 130.6%, or ₱202.5 million, to ₱357.6 million as of December 31, 2019 from ₱155.1 million as of December 31, 2018 primarily due to higher taxable profit for the year.
- Dividends payable were ₱807.7 million as of December 31, 2019 compared to nil as of December 31, 2018. Dividends were declared in 2019 as part of 'Warburg Pincus' investment into our Company and paid in the first half of 2020.

- Lease liabilities (current) increased by 320.5% or P270.7 million to P355.1 million as of December 31, 2019 from P84.4 million as of January 1, 2019. Lease liabilities (net of current portion) increased by 1,838.4% or P1,303.9 million to P1,374.9 million as of December 31, 2019 from P70.9 million as of December 31, 2018. The increase is attributable to the additional lease agreements entered into in 2019 as a result of the scaling up of the business.

The increase in total liabilities was partially offset by:

- Amounts due to related parties decreased by 60.5%, or P255.8 million, to P166.8 million as of December 31, 2019 from P422.6 million as of December 31, 2018. Amounts due as of December 31, 2018 primarily related to a one-time acquisition of 24,630 subscribers from our affiliates. The subscriber acquisition was completed in 2018 and the consideration was fully paid in 2019.
- Retirement benefit obligation decreased by 52.4%, or P34.0 million, to P30.9 million as of December 31, 2019 from P64.9 million as of December 31, 2018 as we revised the basis of our computation by computing withdrawal rate using our actual attrition rate instead of the country standard rate.

As of December 31, 2018 Compared to December 31, 2017

Total Assets

Total assets as of December 31, 2018 stood at P12,720.2 million, an increase of 152.7%, or P7,686.0 million, compared to P5,034.1 million as of December 31, 2017. This increase was due to the following:

- Cash and cash equivalents increased by 13.4%, or P56.2 million, to P476.7 million as of December 31, 2018 from P420.5 million as of December 31, 2017 primarily due to an increase in cash generated from operations, partially offset by an increase in capital expenditures to expand our network.
- Trade and other receivables, net increased by 95%, or P446.3 million, to P918.0 million as of December 31, 2018 from P471.7 million as of December 31, 2017 primarily due to the growth of our subscriber base.
- Amounts due from related parties increased by 1,497.3%, or P444.7 million, to P474.4 million as of December 31, 2018 from P29.7 million as of December 31, 2017. The increase occurred as we consolidated certain operations and provided internet services to our pay TV affiliates.
- Network materials and supplies increased by 80.6%, or P517.3 million, to P1,158.7 million as of December 31, 2018 from P641.5 million as of December 31, 2017 due to an increase in requirements for installation materials, customer premise equipment and cable wires in line with increased gross subscriber additions.
- Deferred contract costs (current) increased by 171.4%, or P111.6 million, to P176.7 million as of December 31, 2018 from P65.1 million as of December 31, 2017. Deferred contract costs (non-current) increased by 143.3% or P47.3 million, to P80.3 million as of December 31, 2018 from P33.0 million as of December 31, 2017. These increases were primarily due to increased subscriber acquisition and installation activities commensurate with the growth of our subscriber base.
- Other current assets increased by 324.0%, or P108.2 million, to P141.6 million as of December 31, 2018 from P33.4 million as of December 31, 2017 primarily due to increases in advances paid to suppliers.
- Property, plant and equipment, net increased by 150.5%, or P4,835.8 million, to P8,047.9 million as of December 31, 2018 from P3,212.2 million as of December 31, 2017 primarily due to additions of external and internal facilities, office equipment and furniture, transportation equipment and leasehold improvements, heavy equipment and tools.
- Advances to fixed assets suppliers was P336.3 million as of December 31, 2018 compared to nil as of December 31, 2017. The advances related to prepayments to subcontractors.
- Intangible assets, net increased by 551.3%, or P454.8 million, to P537.3 million as of December 31, 2018 from P82.5 million as of December 31, 2017 due to customer list acquisitions in 2018.

- Deferred input VAT (net of current portion) increased by 1,398.6%, or ₱97.9 million, to ₱104.9 million as of December 31, 2018 from ₱7.0 million as of December 31, 2017 primarily due to timing differences between the recognition and receipt of VAT.
- Deferred income tax assets, net increased by 51.1% or ₱19.2 million, to ₱56.8 million as of December 31, 2018 from ₱37.6 million as of December 31, 2017. The increase in 2018 reflects higher deferred revenue.

Total Liabilities

Total liabilities as of December 31, 2018 stood at ₱8,111.7 million, an increase of 348.7%, or ₱6,304.0 million, compared to ₱1,807.7 million as of December 31, 2017. This increase was due to the following:

- Trade and other payables increased by 352.0%, or ₱3,381.5 million, to ₱4,342.1 million as of December 31, 2018 from ₱960.6 million as of December 31, 2017. The increase primarily related to an increase in purchases to support the growth of the business.
- Loans payable (current) increased by 446.7%, or ₱1,243.2 million, to ₱1,521.5 million as of December 31, 2018 from ₱278.3 million as of December 31, 2017. Loans payable (non-current) increased by 245.6%, or ₱855.1 million, to ₱1,203.2 million as of December 31, 2018 from ₱348.1 million as of December 31, 2017. The increases were due to the drawdown of our loan facility in 2018.
- Amounts due to related parties increased by 3,777.1%, or ₱411.7 million, to ₱422.6 million as of December 31, 2018 from ₱10.9 million as of December 31, 2017 and primarily related to a one-time acquisition of 24,630 subscribers from our affiliates. The subscriber acquisition was completed in 2018 and the consideration was fully paid in 2019.
- Deferred revenue (current) increased by 197.2%, or ₱69.8 million, to ₱105.2 million as of December 31, 2018 from ₱35.4 million as of December 31, 2017. Deferred revenue (net of current portion) increased by 336.1%, or ₱36.3 million, to ₱47.1 million as of December 31, 2018 from ₱10.8 million as of December 31, 2017. The increases were related primarily to an increase in deferred installation revenues commensurate with the growth of our subscriber base.
- Income taxes payable increased by 377.2%, or ₱122.6 million, to ₱155.1 million as of December 31, 2018 from ₱32.5 million as of December 31, 2017 due to the cessation of an income tax holiday in 2018.
- Retirement benefit obligation increased by 18.4%, or ₱10.1 million, to ₱64.9 million as of December 31, 2018 from ₱54.8 million as of December 31, 2017 due to an increase in headcount during the year to support a larger subscriber base and network and increased subscriber acquisition activities.
- Subscribers' deposits (net of current portion) increased by 162.0%, or ₱58.5 million, to ₱94.6 million as of December 31, 2018 from ₱36.1 million as of December 31, 2017 due to an increase in subscribers.

Financial Ratios

	For the years ended December 31				For the nine-month periods ended September 30 ⁵	
	2017	2018	2019	2020	2020	2021
Total Debt to EBITDA (gross)	0.4x	1.0x	1.7x	1.4x	1.3x	1.4x
Net Debt to EBITDA	0.1x	0.8x	0.4x	-0.2x	0.4x	0.6x
Debt Service Coverage ^(a)	38.7x	3.9x	2.4x	3.0x	1.7x	4.4x
Interest Coverage (gross) ^(b)	154.4x	39.6x	16.8x	14.9x	13.8x	23.9x
Debt to Equity (gross) ^(c)	0.2x	0.6x	0.7x	0.4x	0.5x	0.5x

⁵ EBITDA figures pertain to the last 12 months of the given period.

Net Debt to Equity ^(d)	0.1x	0.5x	0.1x	-0.1x	0.1x	0.3x
Return on Invested Capital ^(e)	26.4x	20.3%	19.7%	20.0%	20.0%	21.7%

Note

(a) Debt Service Coverage is the ratio of (a) the annual EBITDA in the immediately preceding financial year to (b) the annual debt service requirements due over the same corresponding period, including interests, principal and lease payments, both as of relevant date for calculation or the latest definition under the prevailing generally accepted accounting principles in the Philippines. The calculation of the Borrower's Debt Service Coverage Ratio shall be based on its audited financial statements.

(b) Interest Coverage (gross) is computed as LTM EBITDA divided by LTM finance costs

(c) Debt to Equity (gross) is computed as total debt divided by total shareholders' equity

(d) Net Debt to Equity is computed as the difference between total debt and cash and cash equivalents divided by total shareholders' equity

(e) Return on Invested Capital is tax-adjusted (25% assumed effective tax rate for 2021 and 30% for 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

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, 2021 amounted to ₱75,434 million compared to ₱56,712 million as of December 31, 2020. Consolidated cash, cash equivalents and short-term investments was at ₱9,647 million as of September 30, 2021 compared to ₱12,957.4 million as of December 31, 2020.

We had outstanding loan payables of ₱18,097.9 million as of September 30, 2021 compared to ₱11,313.8 million as of December 31, 2020. Our Net Debt position, defined as loan payables less cash and cash equivalents amounted to ₱8,451 million as of September 30, 2021 compared to our Net Cash position of ₱1,643.6 million as of December 31, 2020. The move from a net cash position to net debt position is due to our CAPEX expenditures as well as the Company starting to use the IPO proceeds for its intended use. Our resulting Net Debt to EBITDA ratio, based on the last twelve months EBITDA over the period from October 2020 to September 2021, was 0.6 times. This conservative leverage level gives us, together with our increasing and strong cash flow generation, ample 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 Ratio ("DSCR") ratio of 4.4x. As of September 30, 2021, Converge's DSCR ratio was 4.3x, well above the required minimum liquidity threshold.

Converge's capital efficiency measured by our ROIC was 21.7% in the first nine months of 2021 (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.

Cash Flows

The following discussion of our cash flows for 2017, 2018, 2019 and 2020 and for the nine months ended September 30, 2020 and 2021 should be read in conjunction with the statements of cash flows included in the audited consolidated financial statements and the reviewed condensed consolidated interim financial statements.

in Php Millions	For the years ended December 31				For the nine-month periods ended September 30	
	2017	2018	2019	2020	2020	2021
Net cash from operating activities	1,430	2,032	1,685	7,299	5,012	6,942
Net cash used in investing activities	(1,692)	(4,089)	(7,381)	(14,507)	(8,880)	(16,268)
Net cash from financing activities	366	2,114	11,474	13,872	4,434	6,028
Net increase (decrease) in cash and cash equivalents	104	56	5,778	6,663	566	(3,298)
Cash and cash equivalents at beginning of year/period	316	421	477	6,233	6,233	12,957
Effects of exchange rate changes in cash and cash equivalents	(0)	(0)	(21)	61	(64)	(12)
Cash and cash equivalents at end of year / period	421	477	6,233	12,957	6,735	9,647

Net cash flows from operating activities

Our cash from operations primarily comprises cash payments received from subscribers under the terms of their subscription plans with us.

Net cash from operating activities was ₱6,942 million for the nine months ended September 30, 2021. Our cash flows generated from operating activities for 2021 are calculated by adjusting our profit before income tax of ₱6,740 million by (i) non-cash and other items, primarily comprising ₱2,722 million of depreciation and amortization, ₱778 million in provision for impairment of trade and other receivables, ₱1,220 million of amortization of deferred contract costs and ₱448 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 ₱3,600 million, due from related parties of ₱410 million, and deferred revenue of ₱500 million (iii) changes in certain working capital items that negatively impacted cash flows from operating activities, in particular a ₱1,685 million increase in trade and other receivables, a ₱2,289 million increase in network materials and supplies and a ₱1,903 million increase in other deferred contract costs.

Net cash from operating activities was ₱7,298.5 million for the year ended December 31, 2020. Our cash flows generated from operating activities for 2020 are calculated by adjusting our profit before income tax of ₱4,878.7 million by (i) non-cash and other items, primarily comprising ₱2,459.4 million of depreciation and amortization, ₱720.5 million in provision for impairment of trade and other receivables, ₱826.7 million of amortization of deferred contract costs, ₱110.9 million in provision for contingencies and ₱550.3 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 ₱5,833.6 million and subscriber deposits of ₱641.1 million, (iii) changes in certain working capital items that negatively impacted cash flows from operating activities, in particular a ₱2,720.8 million increase in network materials and supplies, a ₱1,760.9 million increase in deferred contract costs, a ₱1,197.1 million increase in other current and non-current assets, a ₱806.5 million increase in due from related parties, and a ₱787.6 million increase in trade and other receivables, and (iv) income taxes paid during the year amounting to ₱1,683.6 million.

Net cash from operating activities was ₱1,684.8 million for the year ended December 31, 2019. Our cash flows generated from operating activities for 2019 are calculated by adjusting our profit before income tax of ₱2,497.3 million by (i) non-cash and other items, primarily comprising ₱1,666.4 million of depreciation and amortization, ₱529.9 million in provision for impairment of trade and other receivables, ₱355.4 million of amortization of deferred contract costs and ₱275.1 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 ₱1,855.0 million and subscriber deposits of ₱397.2 million, and (iii) changes in certain working capital items that negatively impacted

cash flows from operating activities, in particular a ₱2,335.7 million increase in trade and other receivables, a ₱1,386.4 million increase in network materials and supplies and a ₱817.1 million increase in deferred contract costs.

Net cash from operating activities was ₱2,031.6 million for the year ended December 31, 2018. Our cash flows generated from operating activities for 2018 are calculated by adjusting our profit before income tax of ₱1,669.1 million by (i) non-cash and other items, primarily comprising ₱976.4 million of depreciation and amortization, ₱124.9 million in provision for impairment of trade and other receivables, ₱129.1 million of amortization of deferred contract costs and ₱70.6 million in finance costs, (ii) changes in certain working capital items that positively impacted cash flows from operating activities, in particular a ₱1,865.0 million increase in trade and other payables, and (iii) changes in certain working capital items that negatively impacted cash flows from operating activities, in particular a ₱1,516.2 million increase in network materials and supplies, a ₱601.1 million increase in trade and other receivables and a ₱434.0 million increase in amounts due from related parties.

Net cash from operating activities was ₱1,430.2 million for the year ended December 31, 2017. Our cash flows generated from operating activities for 2017 are calculated by adjusting our profit before income tax of ₱1,287.4 million by (i) non-cash and other items, primarily comprising ₱397.0 million of depreciation and amortization, and (ii) changes in certain working capital items that positively impacted cash flows from operating activities, in particular a ₱576.7 million increase in trade and other payables, and (iii) changes in certain working capital items that negatively impacted cash flows from operating activities, in particular a ₱641.4 million increase in network materials and supplies, a ₱242.0 million increase in trade and other receivables and a ₱106.1 million increase in deferred contract costs.

Net cash flows used in investing activities

Net cash used in investing activities was, ₱1,691.9 million, ₱4,088.9 million, ₱7,381.1 million, ₱14,507.4 million and ₱16,268 million in 2017, 2018, 2019, 2020 and the nine months ended September 30, 2021, respectively. During each 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 (our customer list, telecommunication franchise, and software and licenses).

Cash used for acquisitions of property, plant and equipment was ₱1,656.8 million, ₱3,918.1 million, ₱6,770.9 million, ₱13,597.5 million and ₱15,565.4 million in 2017, 2018, 2019, 2020 and the nine months ended September 30, 2021, respectively. 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 customer premise equipment, and general IT related investments such as laptop computers and other office IT equipment.

Cash used for acquisitions of intangible assets was ₱35.2 million, ₱170.8 million, ₱510.8 million, ₱672.9 million and ₱339.1 million in 2017, 2018, 2019, 2020 and the nine months ended September 30, 2021, respectively. Over that period, we made the following significant investments: (i) additions in software and licenses, (ii) additions in intangible assets relating to customer list acquisitions, and (iii) additional investments in intangible assets relating to licenses such as our telecommunication franchise to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines.

For the year ended December 31, 2020, there were also acquisition of right-of-use assets amounting to ₱127.0 million and investments in financial assets through FVTPL amounting to ₱104.5 million.

Net cash flows from financing activities

Net cash from financing activities was ₱6,028 million during the nine months ended September 30, 2021. Cash flows from financing activities primarily consisted of ₱8,833 million of loan availments, offset by ₱2,049 million loan amortizations and repayments, and ₱757 million of payments for

interest and lease liabilities.

Net cash from financing activities was ₱13,871.8 million during the year ended December 31, 2020. Cash flows from financing activities primarily consisted of ₱8,078.1 million of proceeds from issuance of common shares, ₱4,567.9 million of proceeds from the issuance of convertible preferred shares and ₱5,462.2 million of proceeds from loans, which was partially offset by ₱2,098.3 million of repayments of loans and ₱1,088.3 million of dividends

Net cash from financing activities was ₱11,474.0 million during the year ended December 31, 2019. Cash flows from financing activities primarily consisted of ₱7,056.5 million of proceeds from the issuance of convertible preferred shares and ₱6,789.0 million of proceeds from loans, which was partially offset by ₱1,563.8 million of repayments of loans.

Net cash from financing activities was ₱2,113.6 million during the year ended December 31, 2018. Cash flows from financing activities primarily included ₱2,706.8 million of proceeds from loans, which was partially offset by ₱608.5 million of repayments of loans.

Net cash from financing activities was ₱366.0 million during the year ended December 31, 2017. Cash flows from financing activities primarily included ₱405.0 million of proceeds from loans, which was partially offset by ₱31.6 million of repayments of loans.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of September 30, 2021:

	Total	Within 1 year (in ₱ millions)	1-5 years	Over 5 Years
Loans payable, net of current portion	15,036.9	-	10,004.5	5,032.5
Loans payable – current	3,061.0	3,061.0	-	-
Trade and other payables	18,335.6	17,945.9	389.6	-
Total	36,433.5	21,006.9	10,394.1	5,032.5

Off-Balance Sheet Arrangements

As of September 30, 2021, we have unused credit lines from local banks amounting to ₱23.5 billion. As of September 30, 2021, we have entered into agreements with various suppliers for the construction, delivery and installation of property and equipment amounting to ₱16.7 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.

SUMMARY OF RELATED PARTY TRANSACTIONS

A summary of our transactions and outstanding balances with related parties as of and for the year ended December 31, 2020 and as of and for the nine-month period ended September 30, 2021 is set out below. For more information, see Note 17 to our audited consolidated financial statements as of and for the years ended December 31, 2017, 2018, 2019 and 2020 and Note 2.7 to our reviewed condensed consolidated interim financial statements as of and for the nine months ended September 30, 2021.

In Php Millions	Transactions for the year ended	Outstanding balance as of	Transactions for the nine months ended	Outstanding balance as of
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	December 31, 2020	December 31, 2020	September 30, 2021	September 30, 2021
Due from related parties ⁽¹⁾	1,140.2	1,571.7	385.8	1,162.5
Trade and other receivables	2.0	1.8	-	1.8
Financial asset at FVTPL	104.5	71.9	-	71.9
Trade payables ⁽²⁾	723.5	-	-	-
Accruals ⁽¹⁾	701.2	326.6	485.2	729.1
Due to related parties ⁽¹⁾	187.8	218.0	265.5	128.9
Lease liabilities ⁽³⁾	216.6	1,400.9	74.5	1,273.3
Dividends payables ⁽⁴⁾	263.0	-	-	-
Key management compensation ⁽⁵⁾	393.1	71.0	110.7	50.8

Notes:

1. Primarily in connection to activities undertaken pursuant to the Converge-PKN Agreement. See “– Related Party Transaction – 4. Converge-PKN Agreement”
2. Primarily in connection to terrestrial backbone construction activities undertaken by FKC. See “– Related Party Transaction – 1. Terrestrial Backbone Construction”
3. In connection to lease arrangements pursuant to the Real Estate Lease Agreements. See “– Related Party Transaction – 2. Real Estate Lease Agreements”. Leases are capitalized in accordance with PFRS 16.
4. One-time, transaction-related dividends in connection to Warburg Pincus' Investment in 2019, which balance has been fully paid as of the date of this Prospectus. See “– Dividends and Dividend Policy”
5. Includes retirement benefits; pertains to a subset of Senior Management compensation

Transfer Pricing Regulations

Under Section 50 of the National Internal Revenue Code, in the case of two or more businesses owned or controlled directly or indirectly by the same interests, the BIR Commissioner is authorized to distribute, apportion, or allocate gross income or deductions between or among such businesses. On January 23, 2013, the BIR issued Regulation No. 2-2013 on Transfer Pricing Regulations (the “Transfer Pricing Regulations”) which adheres to the arm’s length methodologies set out under the Organization for Economic Cooperation and Development Transfer Pricing Guidelines. The Transfer Pricing Regulations are applicable to cross-border and domestic transactions between related parties and associated enterprises. The BIR Transfer Pricing Regulations defines related parties as two or more enterprises where one enterprise participates directly or indirectly in the management, control, or capital of the other; or if the same persons participate directly or indirectly in the management, control, or capital of the enterprises. The arm’s length principle requires the transaction with a related party to be made under comparable conditions and circumstances as a transaction with an independent party such that if two related parties derive profits at levels above or below comparable market levels solely by reason of the special relationship between them, the profits will be deemed as non-arm’s length. In such a case, the BIR can make the necessary adjustments to the taxable profits of the related parties so as to reflect the true value that would otherwise be derived on an arm’s length basis. See “Risk Factors—Risks Relating to Our Business—Our contractual arrangements with Comclark and its affiliates expose us to transfer pricing risk and we are party to a number of related party transactions.

DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

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, 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

The following states the business experience of our incumbent directors for the last five years:

Mr. Dennis Anthony H. Uy, aged 55, co-founded Converge with Ms. Maria Grace Y. Uy in 2007 and currently serves as our CEO and Executive Director. Mr. Uy launched his first business while still in university. He founded Comclark, the controlling shareholder of Converge, in Pampanga in 1997 and remains the CEO and President of Comclark. Mr. Uy also serves on the boards of several companies in the technology, media, power, and real estate sectors.

Mr. Uy holds a Bachelor of Science degree in Electrical Engineering from the Holy Angels University, Pampanga.

Ms. Maria Grace Y. Uy, aged 53, co-founded Converge with Mr. Dennis Anthony H. Uy in 2007 and currently serves as our President, Chief Resources Officer and Executive Director. Prior to that, she served as the Accounting Manager of IBM Philippines from 1990 to 1997 and Vice President for Finance in Savers Mall Group of Companies from 1997 to 2000. Ms. Uy is currently the Chief Finance Officer of Angeles City Cable Television Network and Comclark.

Ms. Uy graduated from De La Salle University in 1988 where she obtained her Bachelor of Science in Accountancy. She placed 16th nationwide in the Certified Public Accountant Licensure Board Examination in 1989.

Mr. Jose Pamintuan de Jesus, aged 87, was appointed as Chairman and an Independent Non-Executive Director in June 2020. Mr. de Jesus is a Director of several companies, including, Private Infra Development Corporation, SMC SLEX, Inc., Petron Corporation, SMC Skyway Corporation and Alviera Country Club. He is also a consultant of Clark Development Corporation and San Miguel Corporation. He served as Independent Chairman of Converge and Metroworks ICT Construction Inc. and Vice Chairman of COMSTECH Integration Alliance, Inc. from May 2014 to February 2019. Prior to joining Converge, he held senior positions in a number of organizations, such as the Department of Public Works & Highways (Secretary), the Department of Transportation and Communication (Secretary), Manila Electric Company (President & Chief Operating Officer), Manila North Tollways Corporation (President & Chief Executive Officer), Philippine Long Distance Telephone (Executive Vice President), Nationwide Development Corporation (President and CEO), First Philippine Balfour Corporation (Director), Rockwell Corporation (Director), and the Philippine Electric Market Corporation (Director).. He is also a member of the board of trustees in Kapampangan Development Foundation, Holy Angel University, and Automobile Association of the Philippines.

Mr. de Jesus graduated from Ateneo de Manila University in 1956, where he obtained his AB (Economics). He later received his Master of Arts in Social Psychology from Ateneo de Manila University in 1965. In 1968, he finished his Graduate Studies in Human Development in the University of Chicago, USA.

Mr. Amando M. Tetangco, Jr., aged 69, was appointed as an Independent Non-Executive Director in June 2020. Mr. Tetangco holds directorship in a number of entities including the Belle Corporation, SM

Prime Holdings, Inc., Pilipinas Shell Petroleum Corporation, Toyota Motors Philippines, St. Luke's Medical Center and The Manila Hotel. Mr. Tetangco was an Independent Director of the Philippine Airlines between 2017 and 2019. He was the third Governor of the Bangko Sentral ng Pilipinas (BSP) and served for two consecutive six-year terms from July 2005 to July 2017. He was concurrently the Chairman of the BSP Monetary Board, the Anti-Money Laundering Council, and Philippine International Convention Center; Vice-Chairman of the Agriculture Credit Policy Council; member of the Capital Market Development Council,

Export Development Council, PhilExport Board of Trustees, Philippine Export-Import Credit Agency; and director of the Philippine Deposit Insurance Corporation, National Development Council, and National Home Mortgage Finance Corporation. He was connected with the Management Services Division of SGV before he joined the BSP.

Mr. Tetangco graduated from Ateneo de Manila University with an AB Economics degree (cum laude), where he also took his Master in Business Administration. He obtained his MA in in Public Policy and Administration (Development Economics) in 1978 at the University of Wisconsin-Madison, in Wisconsin, USA.

Mr. Roman Felipe S. Reyes, aged 70, was appointed as an Independent Non-Executive Director in June 2020. Mr. Reyes is the Founding Partner & Chairman of Reyes Tacandong & Co. Prior to founding Reyes Tacandong & Co., he served as the Senior Partner at Sycip Gorres Velayo & Co, the Philippine practice of Ernst & Young Global Limited ("E&Y Philippines"), for 25 years. He was also Vice Chairman for Client Services and Accounts, Head of the Japan Business Services, Head of E&Y Philippines' highest revenue generating business unit, and member of the Management and Operations Committees of E&Y Philippines. He served as a Director of the Bank of Commerce and the National Reinsurance Corporation of the Philippines. He likewise served as a Trustee of the Government service Insurance System. Mr. Reyes is currently a member of the board of directors of the Philippine Geothermal Production Company, RPN 9, Pasudeco, All-Asian Countertrade, and a member of the board of trustees in San Beda University, Manila, San Beda College Alabang, and the San Beda College Alumni Association Foundation. He is currently the Chairman of the Board of the Nicanor Reyes Memorial Foundation and the Rockwell Club.

Mr. Reyes is a Certified Public Accountant. He graduated from San Beda College in 1972, where he obtained his Bachelor's degree in Commerce, major in Accounting. He received his Master's degree in Business Administration, concentration in Finance from the University of Detroit, Michigan, USA in 1975.

Mr. Francisco Ed. Lim, aged 66, was appointed as a Non-Executive Director in June 2020. Mr. Lim is a Senior Legal Counsel of the Angara Abello Concepcion Regala & Cruz Law Offices. Mr. Lim served as President and Chief Executive Officer of the Philippine Stock Exchange from 2004 to 2010. During his time at the Philippine Stock Exchange, he also held key positions in various institutions such as the Securities Clearing Corporation of the Philippines, the Capital Market Development Center, Inc., the Philippine Stock Exchange Foundation, Inc., the Philippine Dealing and Exchange Corporation, the Philippine Dealing System Holdings, Inc., the Capital Market Development Council, and the Securities Investors Protection Fund. He is currently a director/ trustee of a number of private and public corporations, such as Alphaland Corporation, the Energy Development Corporation, The Insular Life Assurance Company, Ltd. and Producers Savings Bank Corporation, Management Association of the Philippines, the Financial Executives Institute of the Philippines (FINEX), CIBI Foundation, Inc., Judicial Reform Initiative, Inc., and a law professor of the Ateneo Law School and the San Beda College Graduate School of Law. He is the Vice Chairman of the Commercial Law Department and Professional Lecturer of the Philippine Judicial Academy, Supreme Court. He is also a Fellow of the Institute of Corporate Directors and a Columnist in Rappler.

Mr. Lim graduated from University of Sto. Tomas, Manila, the Philippines in 1975, where he obtained a Bachelor of Philosophy (*Magna Cum Laude*) and a Bachelor of Arts (*Cum Laude*). He received a Bachelor of Laws (Second Honors) from Ateneo de Manila University, Quezon City, Philippines in 1981. He received his Master of Laws from the University of Pennsylvania, USA in 1987. He is currently a member of the Philippine Bar and the New York State Bar.

Mr. Saurabh Narayan Agarwal, aged 40, was appointed as a Non-Executive Director on August 23, 2019. Mr. Agarwal is a Partner at Warburg Pincus and joined the firm in 2009. Prior to joining Warburg Pincus, he worked at McKinsey & Company in New Jersey and New Delhi and Temasek Holdings in Mumbai. In addition to being a member of our Board, Mr. Agarwal is currently also a member of the board of directors of Vietnam Technological and Commercial Joint Stock Bank (HOSE:TCB), CirclesLife, M-Service (MOMO) and Clean Max Enviro Solutions, and previously served on the Board of several companies including RSEG Group, AAG Energy (HKG: 2686), Mosaic Inc. and Competitive Power Ventures Inc.

Mr. Agarwal graduated from India Institute of Technology, Bombay, India in June 2004, where he obtained a Bachelor in Technology, Electrical Engineering and a Master in Technology and Microelectronics. He received his MBA degree in June 2009 from Harvard Business School, Boston, USA.

MANAGEMENT

Senior Management and Senior Adviser

The following table sets forth our executive officers ("Senior Management") and senior adviser:

<u>Name</u>	<u>Position</u>	<u>Citizenship</u>
Dennis Anthony H. Uy	Chief Executive Officer, Founder & Executive Director	Filipino
Maria Grace Y. Uy	President, Chief Resources Officer, Founder and Executive Director	Filipino
Jesus Romero	Chief Operating Officer	Filipino
Benjamin Rex Emilio Azada	Chief Strategy Officer	Filipino
Ronald G. Brusola	Chief Technology Officer	Filipino
Alberto L. Santos	Chief Customer Experience Officer	Filipino
Ulysses Naguit	Chief Information Officer	Filipino
<u>Major Subsidiary</u>		
Miles Tonn C. Chua	President and Chief Operating Officer, Metroworks	Filipino
<u>Consultant/ Adviser</u>		
Matthias Vukovich*	Chief Financial Office Adviser	Austrian

** Mr. Matthias Vukovich is employed by Converge ICT Solutions (Global) Limited (Hong Kong) and assists our Company as consultant and adviser.*

The following states the business experience of our Senior Management and Senior Adviser for the last five years:

Mr. Jesus C. Romero, aged 57, was appointed as Chief Operating Officer in February 2016. He oversees and manages our day-to-day operations, covering revenue generation, customer experience, product development, and organic growth initiatives through partnerships. Prior to joining Converge, Mr. Romero held senior leadership positions spanning all aspects of operation from Globe Telecom, DTSI Group, ComStream Corporation and Hughes Network systems. He has 33 years in industry experience to date and has led market entry, growth and transformation in the areas of Telecommunications, Systems Integration and IT services.

Mr. Romero received a Bachelor's degree in Electronics and Communications Engineering (B.S.E.E.) from the De La Salle University in Manila, the Philippines in 1984.

Mr. Miles Tonn Chua, aged 53, was appointed President and Chief Operating Officer of our subsidiary, MetroWorks in January 2020 and in June 2018, respectively. Prior to joining Metroworks, Mr. Chua held various executive positions on fields related to network development and transformation in Islacom,

Globe Telecom, SUN Cellular, PT Smartfren (Indonesia) and Huawei Philippines. He has 28 years in industry experience to date.

Mr. Chua graduated Bachelor of Science in Electronics & Communications Engineering (B.S.E.C.E.) from the University of San Carlos, Cebu City.

Mr. Benjamin Rex Emilio Azada, aged 48, was appointed as Chief Strategy Officer in 2020. Prior to joining Converge, Mr. Azada was a Partner with PwC's Southeast Asia Consulting practice, with P&L responsibility for operations in the Philippines. His clients included top enterprises in the telecommunications, media, technology and financial services sectors. He spent over a decade of his career with PwC Hong Kong, where he helped clients in Hong Kong and China transform their operations, comply with new regulations, and enter new markets. He has 24 years of industry experience to date.

Mr. Azada holds a Bachelor of Science degree in Industrial Engineering from the University of the Philippines Diliman, and a post-graduate diploma in Business Administration (with Merit) from the University of Durham, United Kingdom.

Mr. Ronald G. Brusola, aged 58, was appointed as Chief Technology Officer in 2014. Prior to joining Converge, Mr. Brusola served as R&D and RF Applications Engineer in Signal Consolidated Corp. and as Facilities Engineer, Administrator for Transmission and Customer and Engineering and Telephone Sales Area Manager in Philippine Global Communications, Inc. He then moved to Bayantel and occupied various positions, as Network Planning Manager then Senior Manager for LEC Transmission and Director for Leased Lines. He later moved to Globe Telecom as Director for Data and Transmission Network Engineering and joined Comclark as Consultant for Strategy and Control in 2010. He has 31 years of industry experience to date.

Mr. Brusola graduated from Polytechnic University of the Philippines with a degree in Bachelor of Arts in Electronics and Communication Engineering.

Mr. Alberto L. Santos, aged 52, was appointed the Chief Customer Experience Officer in December 2020. Mr. Santos has over 20 years of experience and success in leading and driving operational growth, establishing and growing start-up companies, maximizing business opportunities and ensuring compliance in achieving Service Quality metrics for both financial service companies and Customer Service/Business Process organizations. Mr. Santos has built a successful career in the Offshore and Outsourcing Industry. His talent and competency in upholding a distinct brand of service delivery has enabled him to hold key leadership positions in Alorica, Convergys, ePLDT, AIG Philippines, and Citibank.

Mr. Santos is a graduate of De La Salle University with a degree in B.S. Management.

Mr. Ulysses Naguit, aged 52, was appointed the Chief Information Officer in December 2020. Prior to joining Converge, Mr. Naguit was part of Voyager Innovations where he provided technology leadership for value creation and digital innovations to drive the market growth and service performance of PayMaya digital payments ecosystem. He has a strong background in developing and deploying corporate information systems having worked with various companies with local and foreign business operations for the past 20 years in the areas of Investment Management, Fintech, Telecommunications, Cable Television, Courier, Remittance and Real Estate Conglomerate – residences, office buildings, resorts, hotels, convention centers and gaming.

Mr. Naguit is a licensed Engineer and holds a Bachelor of Science degree in Electronics and Communications Engineering from Mapua Institute of Technology, Executive Program from Asian Institute of Management and Six Sigma from Motorola University.

Mr. Matthias Vukovich, aged 42, has served as Chief Financial Office Adviser since March 2020. Prior to joining Converge ICT Solutions (Global) Limited (Hong Kong), he worked as CFO for Shenzhen based telecommunication technology Company uCloudlink (Nasdaq: UCL). From 2007 to 2018 Mr. Vukovich worked as Executive Director in Morgan Stanley's Investment Banking division. During his 12 years at Morgan Stanley, he worked in the Investment Banks' Tokyo, London and Hong Kong Media & Communication coverage teams, where he was involved in various M&A and financing transactions

with a special focus on the telecommunications infrastructure space. Before joining Morgan Stanley, Mr. Vukovich worked for the Japanese wireless operator NTT DOCOMO for five years, where he gained experience in the corporate sales and in international business development divisions. He has 18 years of industry experience to date.

Mr. Vukovich holds a M.A. in Business Administration from the Vienna University of Economics and a B.A. in Japanese Studies from Vienna University.

To the best of our knowledge, in the last five years, none of the above-named directors or members of senior management has been subject to the following:

- any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his or her involvement in any type of business, securities, commodities, or banking activities; or
- found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation.

Corporate Officers

The following table sets out details of other key corporate officers and members of management:

Name	Position	Citizenship
Christine Renee R. Blabagno	Treasurer and Deputy Chief Financial Officer	Filipino
Elvira C. Oquendo	Corporate Secretary, Legal Services Director	Filipino
Laurice P. Esteban-Tuazon	Compliance Officer	Filipino
Anthony Vergel B. Velasco	Internal Audit Director	Filipino
Owen Kieffer D. Ocampo	Investor Relations Officer	Filipino

Ms. Christine Renee R. Blabagno, aged 50, was appointed as Treasurer in March 2021. Prior to joining Converge, Ms. Blabagno was the Vice President for Consolidated Core Business Controllershship of Globe Telecom and most recently held the position as CFO of the Philippine Business for Social Progress, a corporate membership non-profit organization. She also worked for 10 years with SGV's audit team and has over 25 years of experience to date.

Ms. Blabagno graduated from the Notre Dame University, Cotabato City with a degree of Bachelor of Science in Commerce, Major in Accounting. She is a Certified Public Accountant, a Certified Management Accountant and a Certified Enterprise Risk Manager. She completed her Master of Business Management Major in Finance at the Asian Institute of Management.

Ms. Elvira C. Oquendo, aged 54, was appointed as Corporate Secretary in June 2020 and is our Legal Services Director. She holds a double degree in Physics and Computer Engineering from the Ateneo de Manila University, where she also later went on to receive her Juris Doctor degree. After graduation from law school in 1992, she joined Carpio Villaraza & Cruz Law Office where she specialized in Litigation, Commercial and Banking Law, Intellectual Property Law, Telecommunications Law and

Labor Law. In 2001, she joined the government as Solicitor III in the Office of the Solicitor General, and in 2002, she became the Chief of Staff/Head Executive Assistant of the Office of the Ombudsman. Prior to joining Converge, Ms. Oquendo served as Legal Director and Corporate Secretary of various corporations under the Cemex Philippines Group of Companies and was also a Board member of the CEMEX Philippines Foundation. Ms. Oquendo also participated in the Management Development Program of the Asian Institute of Management.

Ms. Laurice P. Esteban-Tuason, aged 40, has 14 years of corporate experience in the legal and compliance space. She worked for reputable organizations where she gained her well rounded exposure in corporate, legal, banking and financial institution compliance and anti-money laundering rules and regulations, litigation and handling cases in money-laundering, commercial, contract, intellectual property, mining, labor and maritime laws. She started her career in 2007 with highly reputable law firms as Junior Associate, then embarked in Government service with the Bangko Sentral ng Pilipinas in 2011 as Legal Officer II. In 2016, Atty. Tuason joined ABS-CBN Corporation and held leadership roles in legal and compliance with its various subsidiaries such as ABS-CBN E-Money Plus Inc., ABS-CBN Global Ltd., and U-Pay Digital Technologies, Inc. Prior to joining Converge, Atty. Tuason was the Compliance Officer–Director of ABS-CBN Corporation.

Ms. Tuason graduated from Ateneo de Manila University with a degree in BS Legal Management in 2002 and completed her Juris Doctor degree in 2006. Ms. Tuason was admitted to the Philippine Bar the following year.

Mr. Anthony Vergel B. Velasco, aged 46, was appointed as Internal Audit Director in May 2021. He previously served as the Vice-President and Group's Chief Audit Executive of Megawide Construction Corporation from 2018 to 2020. He also worked as the Group Chief Audit Executive at 2GO Group, Inc for six years. A former IT Audit Manager of Premiere Bank now Security Bank Savings as well as Senior Audit Systems Specialist of the Philippine Health Insurance Corporation (PhilHealth). Mr. Velasco brings over 22 solid years of professional experience as an Internal Auditor from different industries like Government, Banking, End-to-End Supply Chain, Construction, Transportation, and Telecommunications. Thus, possess varied exposure and experience on audit – financial, compliance, information system, and operations. Board of Trustee, lecturer, and an active member and currently the Membership Committee Chair at the Institute of Internal Auditors-Philippines.

Mr. Velasco graduated from San Beda College for his bachelor's degree and earned his MBA from National College for Business and Arts. He is also a Certified Internal Auditor ("CIA"), Certified Information Systems Audit ("CISA"), and Certified ISO 31000 Lead Risk Manager.

Mr. Owen Kieffer D. Ocampo, aged 30, was appointed as Investor Relations Officer in January 2021. He started his career with J.P. Morgan & Chase before moving to KPMG in the Philippines where he was part of the Deal Advisory Group for almost four years, specializing in transaction advisory and corporate finance. Immediately prior to joining Converge, he was the Investor Relations Manager of Metro Pacific Investments Corporation for more than three years.

Mr. Ocampo graduated from De La Salle University – Manila and holds a double degree in Applied Economics and Commerce.

BOARD COMMITTEES

Management, together with the following Board Committees, support the Board in discharging its responsibilities. Pursuant to our By-laws, the Board of Directors has constituted an Executive Committee, an Audit and Related Party Transactions Committee, a Corporate Governance Committee, a Board Risk Oversight Committee, and a Remuneration Committee.

Executive Committee

The Executive Committee may act, by majority of vote of all its members, on such specific matters within the competence of the board, as may be delegated to it in the bylaws or by majority vote of the board, except with respect to the: (a) approval of any action for which shareholders' approval is also required; (b) filing of vacancies in the board; (c) amendment or repeal of bylaws or the adoption of new

bylaws; (d) amendment or term is not amendable or repealable; and (e) distribution of cash dividends to the shareholders.

The Executive Committee is chaired by Dennis Anthony H. Uy; with Maria Grace Y. Uy, Saurabh N. Agarwal, Amando M. Tetangco, Jr., Jose P. de Jesus, Jesus Romero (non-voting), Miles Tonn Chua (non-voting), Benjamin Rex Emilio Azada (non-voting) and Christine Renee Blabagno (non-voting) as members.

Audit and Related Party Transactions Committee

The Audit and Related Party Transactions Committee shall enhance the Board's oversight capability over the Company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. It shall also review and evaluate related party transactions so as to enhance corporate transparency and promote fair transactions.

The Audit and Related Party Transactions Committee shall consist of at least three appropriately qualified non-executive directors, majority of whom, including the chairman of the Audit and Related Party Transactions Committee should be independent non-executive directors. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance. The chairman of the Audit and Related Party Transactions Committee should not be the chairman of the Board or of any other committees.

The Audit and Related Party Transactions Committee is chaired by Roman Felipe S. Reyes with Jose P. de Jesus, Amando M. Tetangco, Jr., Maria Grace Y. Uy and Saurabh N. Agarwal as members.

Corporate Governance Committee

The Corporate Governance Committee has the duty and responsibility to assist the Board of Directors in the performance of its corporate governance responsibilities, including functions of a nomination committee who shall assist the Board in the performance of the following functions: review the structure, size and composition of the Board; review and evaluate the qualifications of the persons nominated to the Board and to other positions requiring appointment by the Board; assess the effectiveness of the Corporation's nomination and selection process for the Board and Board Committees.

It shall be composed of at least three members, all of whom should be independent non-executive directors, including the chairman of the Corporate Governance Committee.

The Corporate Governance Committee is chaired by Jose P. de Jesus with Amando M. Tetangco, Jr., Roman Felipe S. Reyes and Francisco Ed. Lim as members.

Board Risk Oversight Committee

The Board Risk Oversight Committee shall be responsible for (1) reviewing the adequacy and effectiveness of our risk management function, including its market compliance function, risk management policies and systems, insurance, review and monitor risk events; and (2) overseeing the Company's sustainability framework and reviewing the said framework to ensure that it remains appropriate in light of material changes to the Company's size, complexity and business strategy, as well as its business and regulatory environments. It shall be composed of at least three non-executive directors, two of whom are independent non-executive directors, including the chairman of the Board Risk Oversight Committee.

The Board Risk Oversight Committee is chaired by Amando M. Tetangco, Jr. with Roman Felipe S. Reyes and Francisco Ed. Lim as members.

Remuneration Committee

The Remuneration Committee is tasked to provide guidance to and assist the Board in developing a compensation philosophy or policy; oversee the development and administration of the Company's executive compensation programs; establish an effective performance management framework; and assist the Board in the succession planning for Officers and in overseeing the development and implementation of professional development programs for Officers.

The committee is chaired by Jose P. de Jesus with Dennis Anthony H. Uy, Maria Grace Y. Uy, Francisco Ed. Lim and Saurabh N. Agarwal as members.

EXECUTIVE COMPENSATION

The compensation for our executive officers for the years ended December 31, 2018, 2019, and 2020 are shown below:

Names	Position	Year	Salary	Bonus
Aggregate executive compensation for the following key management officers:				
Mr. Dennis Anthony H. Uy				
Ms. Maria Grace Y. Uy				
Mr. Jesus C. Romero				
Mr. Benjamin Rex Emilio Azada		2018	₱31.9 million	₱1.8 million
(2020 only)		2019	₱42.8 million	₱9.6 million
Mr. Ronald G. Brusola		2020	₱60.2 million	₱242.3 million*
Mr. Alberto Santos (2020 only)				
Mr. Ulysses Naguit (2020 only)				
Aggregate executive compensation of all other Officers and Directors, unnamed				
		2018	₱2.9 million	-
		2019	₱4.3 million	₱1.2 million
		2020	₱17.4 million	₱5.0 million

*Majority was awarded for the completion of the IPO

STANDARD ARRANGEMENTS

Other than directors' fees or payment of reasonable per diem for every meeting and a minimum variable compensation as may be determined by the Board, there are no standard arrangements pursuant to which our directors are compensated, or are to be compensated, directly or indirectly, for any services provided as a director for the last completed fiscal year and the ensuing year.

EMPLOYMENT CONTRACTS BETWEEN THE COMPANY AND SENIOR MANAGEMENT OFFICERS

Employment contracts between our Company and certain members of Senior Management, including the Founders, have been entered into on arms' length terms. In addition, we have provided retirement benefits, management incentives and stock options to qualified employees, including to the Senior Management.

WARRANTS AND OPTIONS HELD BY THE SENIOR MANAGEMENT OFFICERS AND DIRECTORS

Other than the Share Options (as defined below under the ESOP), no share options or warrants have been issued by our Company to Senior Management or our other directors and/or officers. The Founders and Coherent Cloud have entered into certain incentivization arrangements as further detailed under "Principal and Selling Shareholders— Arrangements in Contemplation of the Offer— Founder Incentive Plan."

EMPLOYEE STOCK OPTION PLAN

To provide incentivization to certain of our executive officers, employees and other eligible participants, we established an employee share option plan ("ESOP") on September 18, 2020 pursuant to which the Board of Directors may issue share options to eligible participants ("Share Options") that may, subject to the terms of the proposed ESOP, become exercisable into Common Shares during certain exercise periods.

It is anticipated that the maximum number of Share Options that may be granted by Converge under the proposed ESOP will be 59,886,400 (based on the Company's share capital following the Stock Split), which is expected to represent 0.85% of the total number of issued shares in the capital of the Company upon adoption of the ESOP (based on the Company's share capital following the Stock Split), calculated on a fully diluted basis.

Share Options will be awarded under the ESOP subject to vesting which is typically over five years, with 20% of the Share Options vesting on the first anniversary of the grant date of such options, although terms may vary between participants in the ESOP. Share Options will be issued subject to typical leaver provisions. Vested Share Options will only be exercisable by participants during defined exercise periods, the first of which (assuming the Offer occurs) is anticipated to take place in 2022.

SIGNIFICANT EMPLOYEES

While we value the contribution of each of our senior management, corporate officers and senior employees, we believe that there is no senior employee as of the date of this Prospectus, the resignation or loss of whom, would have a material adverse impact on our business. Other than standard employment contracts, there are no special arrangements with non-senior management employees.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS OF DIRECTORS AND SENIOR MANAGEMENT

None of the Directors and Senior Management of the Company have been the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, which has not been reversed, suspended or vacated, for the past five years up to the date that is material to the evaluation of his or her ability or integrity to hold the relevant position in the Company.

FAMILY RELATIONSHIPS

Mr. Dennis Anthony H. Uy and Ms. Maria Grace Y. Uy are spouses. Other than the foregoing, there are no family relationships either by consanguinity or affinity up to the fourth civil degree among our Directors, executive officers and shareholders.

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN RECORD AND BENEFICIAL OWNERS

As of December 10, 2021, the following are the owners of our capital stock in excess of 5% of total issued and outstanding shares:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares held	Percentage of Ownership
Common	Comclark Network and Technology Corp./ Pres. Manuel Roxas Ave., Clark Special Economic Zone, Clarkfield, Angeles City, Pampanga/ Srockholder of Record	Dennis Anthony H. Uy and Maria Grace Y. Uy	Filipino	4,797,417,274	63.74%
Common	PCD Nominee Corporation (Non-Filipino) <i>inclusive of the shares of Coherent Cloud Investments B.V. of 771,412,844 (10.25%)</i> Strawinskylaan 3051, 1077 ZX Amsterdam The Netherlands	For Coherent Cloud Investments B.V., the funds are ultimately managed by affiliates of Warburg Pincus LLC; The rest is public ownership	Dutch Various	2,374,547,229	31.55%

SECURITY OWNERSHIP OF MANAGEMENT

As of December 10, 2021, the following are the shareholdings of our Board of Directors and Senior Management. Under the Revised Corporation Code, each director is required to hold at least one share in his/her name in the books of the corporation to qualify as a member of the board of directors.

Title of Class	Name of Record Owner	Position	Citizenship	Amount and Nature of Beneficial Ownership ¹⁴	Percentage of Total Outstanding Shares
Common	Jose P. de Jesus	Chairman	Filipino	1 common share Independent Director	Nil
Common	Dennis Anthony H. Uy*	CEO	Filipino	4,797,417,274 common shares (Indirect)*	Nil
Common	Maria Grace Y. Uy*	President and CRO	Filipino	1 common share Nominee Director	Nil
Common	Amando M. Tetangco, Jr.	INED	Filipino	1 common share Independent Director	Nil
Common	Roman Felipe S. Reyes	INED	Filipino	1 common share Independent Director	Nil

Common	Francisco Ed. Lim	NED	Filipino	1 common share Nominee Director	Nil
Common	Saurabh Agarwal	NED	Indian	1 common share Nominee Director	Nil
Common	Jesus C. Romero	Chief Operations Officer	Filipino	0	
Common	Ulysses C. Naguit	Chief Information Officer	Filipino	14,800 common shares (Direct) 28,300 common shares (Indirect)	
Common	Benjamin Rex Emilio Azada	Chief Strategy Officer	Filipino	0	
Common	Ronald G. Brusola	Chief Technology Officer	Filipino	37,200 (Direct)	
Common	Elvira C. Oquendo	Corporate Secretary	Filipino	0	
Common	Laurice P. Esteban- Tuason	Compliance Officer	Filipino	0	
Common	Alberto L. Santos	Chief Customer Experience Officer	Filipino	0	
Common	Owen Kieffer D. Ocampo	Investor Relations Officer	Filipino	0	
Common	Anthony Vemrgel B. Velasco	Internal Audit Director	Filipino	0	
Common	Christine Renee R. Blabagno	Treasurer	Filipino	0	

* Dennis Anthony H. Uy and Maria Grace Y. Uy beneficially own 4,797,417,274 common shares of the Company through Comclark Network and Technology Corp.

Except for the foregoing, no other members of the Board or Senior Management own any shares in Converge.

VOTING TRUST HOLDERS OF 5% OR MORE

There are no persons holding more than 5.0% of a class of our shares under a voting trust or similar agreement.

CHANGE IN CONTROL

There have been no changes in control in our Company.

RECENT ISSUANCES OF SECURITIES CONSTITUTING EXEMPT TRANSACTIONS

On August 8, 2019, our Company, the Founders, Comclark and Coherent Cloud entered into a share subscription agreement pursuant to which we agreed to issue, and Coherent Cloud agreed to subscribe for the 51,136,363 Preferred Shares for an aggregate consideration of U.S.\$225,000,000. The subscription was completed in two tranches as follows:

Date of Issuance	No. of Preferred	Consideration
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Security Ownership of Management and Certain Record and Beneficial Owners

	Shares*	
August 23, 2019	30,681,818	U.S.\$135,000,000
February 7, 2020	20,454,545	U.S.\$90,000,000

**Number of Shares before the Stock Split and the Conversion.*

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In the ordinary course of business, we enter into transactions with related parties and affiliates, principally consisting of construction, lease and services arrangements. Our policy with respect to related party transactions is to ensure that these transactions are entered on an arm's length basis and entered into on terms comparable to those available from or to unrelated third parties, as the case may be. We have established an Audit and Related Parties Transactions Committee to comply with the Board and shareholder voting mechanisms provided under the Philippine Corporation Code and the relevant regulations of the Philippine SEC for related party transactions.

The related party transactions we have entered into with the Founders or entities controlled by the Founders include the following:

1. Terrestrial Backbone Construction

In the ordinary course of business, we engage multiple third-party contractors to perform terrestrial backbone construction services, including FKC. As of 2020, FKC, a terrestrial backbone contractor, is majority-owned and controlled by three unrelated third parties, including Mr. Hea Kyoung Birkner, the founder of the predecessor company of FKC. FKC which, together with its predecessor company, has 15 years of experience in underground fiber cable installations across several markets including New Zealand, using specialized HDD technology.

In connection with Warburg Pincus' investment, on August 23, 2019, Pentagon (one of Converge's subsidiaries) divested its majority stake in FKC to a company owned by the Founders, which subsequently on June 24, 2020 and September 7, 2020, made an indirect divestment of all its stake in FKC to an unrelated third-parties. As of September 30, 2021, the Founders no longer own a stake in FKC.

For the year ended December 31, 20 total payments from Converge to FKC in respect of the terrestrial backbone construction amount to ₱316.6 million. As of September 30, 2021, FKC is no longer a related party.

2. Real Estate Lease Agreements

We have lease agreements with our controlling shareholder, Comclark and certain affiliates, pursuant to which Comclark and certain affiliates leased to us (and certain of our affiliates and our subsidiary) selected real estate assets, including office premises and warehouse space (the "Lease Agreements"). These Lease Agreements were entered into on arm's length commercial terms and conditions.

3. Comclark Services Agreement

In connection with Warburg Pincus' investment, on August 14, 2019, we entered into a services agreement pursuant to which Comclark and Converge agreed to, among other things, provide certain services, including the provision of broadband and related services, to each other (the "Comclark Services Agreement"). The Comclark Services Agreement were entered into on arm's length commercial terms and will expire on August 14, 2049.

4. Converge-PKN Agreement

We do not hold and do not intend to obtain a license for the provision of cable TV services, noting that under Philippine law, cable TV companies must be 100% owned and controlled by Philippine Nationals.

We entered into a services agreement with Pacific Kabelnet Holding Co. Inc. ("PKN"), an entity 100% owned and controlled by our Founders, who are Philippine Nationals, pursuant to which Converge and PKN agreed to provide certain services to each other, including our respective affiliates, in connection with offering bundled and value added services, back office shared services, facilities sharing and other business support services (the "Converge-PKN Agreement"). The Converge-PKN Agreement was entered under arm's length commercial terms.

5. Converge-Metroworks Service Agreement

Converge entered into a service agreement with its subsidiary Metroworks, wherein Metroworks will provide outside plant management services and operation and maintenance services of existing infrastructure. Metroworks is fully owned by the Company's subsidiary Pentagon Holding Co., Inc. The service agreement was made in arms length commercial terms.

Summary of Related Party Transactions

A summary of our transactions and outstanding balances with related parties as of and for the year ended December 31, 2020 and as of and for the nine- month period ended September 30, 2021 is set out below. For more information, see Note 17 to our audited consolidated financial statements as of and for the years ended December 31, 2017, 2018, 2019 and 2020 and Note 2.7 to our reviewed condensed consolidated interim financial statements as of and for the nine months ended September 30, 2021.

In Php Millions	Transactions for the year ended December 31, 2020	Outstanding balance as of December 31, 2020	Transactions for the nine months ended September 30, 2021	Outstanding balance as of September 30, 2021
Due from related parties ⁽¹⁾	1,140.2	1,571.7	385.8	1,162.5
Trade and other receivables	2.0	1.8	-	1.8
Financial asset at FVTPL	104.5	71.9	-	71.9
Trade payables ⁽²⁾	723.5	-	-	-
Accruals ⁽¹⁾	701.2	326.6	485.2	729.1
Due to related parties ⁽¹⁾	187.8	218.0	265.5	128.9
Lease liabilities ⁽³⁾	216.6	1,400.9	74.5	1,273.3
Dividends payables ⁽⁴⁾	263.0	-	-	-
Key management compensation ⁽⁵⁾	393.1	71.0	110.7	50.8

Notes:

1. Primarily in connection to activities undertaken pursuant to the Converge-PKN Agreement. See “– Related Party Transaction – 4. Converge-PKN Agreement”
2. Primarily in connection to terrestrial backbone construction activities undertaken by FKC. See “– Related Party Transaction – 1. Terrestrial Backbone Construction”
3. In connection to lease arrangements pursuant to the Real Estate Lease Agreements. See “– Related Party Transaction – 2. Real Estate Lease Agreements”. Leases are capitalized in accordance with PFRS 16.
4. One-time, transaction-related dividends in connection to Warburg Pincus' Investment in 2019, which balance has been fully paid as of the date of this Prospectus. See “– Dividends and Dividend Policy”
5. Includes retirement benefits; pertains to a subset of Senior Management compensation

Transfer Pricing Regulations

Under Section 50 of the National Internal Revenue Code, in the case of two or more businesses owned or controlled directly or indirectly by the same interests, the BIR Commissioner is authorized to distribute, apportion, or allocate gross income or deductions between or among such businesses. On January 23, 2013, the BIR issued Regulation No. 2-2013 on Transfer Pricing Regulations (the "Transfer Pricing Regulations") which adheres to the arm's length methodologies set out under the Organization for Economic Cooperation and Development Transfer Pricing Guidelines. The Transfer Pricing Regulations are applicable to cross-border and domestic transactions between related parties and associated enterprises. The BIR Transfer Pricing Regulations defines related parties as two or more enterprises where one enterprise participates directly or indirectly in the management, control, or capital of the other; or if the same persons participate directly or indirectly in the management, control, or capital of the enterprises. The arm's length principle requires the transaction with a related party to be made under comparable conditions and circumstances as a transaction with an independent party such that if two related parties derive profits at levels above or below comparable market levels solely by reason of the special relationship between them, the profits will be deemed as non-arm's length. In such a case, the BIR can make the necessary adjustments to the taxable profits of the related parties so as to reflect the true value that would otherwise be derived on an arm's length basis. See "Risk Factors—Risks Relating to Our Business—Our contractual arrangements with Comclark and its affiliates expose us to transfer pricing risk and we are party to a number of related party transactions".

CORPORATE GOVERNANCE

In compliance with pertinent regulations, the Integrated Annual Corporate Governance Report (“iACGR”) will replace the Corporate Governance section of the SEC 17-A, the previous SEC Form ACGR and PSE’s CGR-1 and is submitted by the Company to pertinent regulatory agencies on or before May 30 of every year. The latest iACGR is available in the Company website.

The Board has adopted the Manual on Corporate Governance (“Manual”), which institutionalizes the principles of good corporate governance in the entire organization. We believe that it is a necessary component of sound strategic business management, hence, we undertake efforts to create awareness within the organization.

The Manual provides that it is the Board that has the primary responsibility for the governance of the corporation. In addition to setting the policies for the accomplishment of corporate objectives, it has the duty to provide an independent check on the Management. The Board is mandated to attend its regular and special meetings in person or through teleconferencing.

In adopting the Manual, we understand the responsibilities of the Board and its members, in governing the conduct of our business, the Board Committees, in focusing on specific board functions to aid in the optimal performance of its roles and responsibilities, and the officers, in ensuring adherence to corporate principles and best practices. See “Risk Factors—Risks Relating to Our Business—Our majority shareholders may exert substantial influence over Converge and their interests may not be the same as those of other shareholders”.

REGULATORY AND ENVIRONMENTAL MATTERS

The following description is a summary of certain sector specific laws and regulations in the Philippines, which are applicable to our Company. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations set out below may not be exhaustive and are only intended to provide general information to the investors and are neither designed nor intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

GOVERNMENT FRANCHISE

R.A. No. 9707, which lapsed into law on August 8, 2009, granted our Company the franchise to construct, install, establish, operate and maintain for commercial and in the public interest, throughout the Philippines and between the Philippines and other countries and territories, wire and/or wireless telecommunications systems including, but not limited to, mobile, cellular, paging, fiber optics, multichannel multipoint distribution system (MMDS), local multipoint distribution system (LMDS), satellite transmit and receive systems, switches and their value-added services such as, but not limited to, transmission of voice, data, facsimile, control signs, audio and video, information services bureau and all other telecommunications systems technologies as are at present available or will be made available through technological advances or innovations in the future; and/or construct, acquire, lease and operate or manage transmitting and receiving stations, lines, cables or systems as in or are convenient or essential to efficiently carry out the purpose of the said franchise. Unless the Congress grants a renewal or unless the franchise is revoked or cancelled on an earlier date, our franchise will expire in the year 2034, 25 years from the date of effectivity of R.A. No. 9707.

R.A. No. 9707 outlines the non-transferability of the franchise as well as scope of our franchise, responsibility to the public, and necessity to acquire government approvals, including securing a CPCN from the NTC. It also recognizes the special right granted to the President of the Philippines in times of war, rebellion, public peril, calamity, emergency, disaster or disturbance of peace and order, to temporarily take over and operate the stations, transmitters, facilities or equipment of the grantee, to temporarily suspend the operation of any station, transmitter, facility or equipment in the interest of public safety, security and public welfare, or to authorize the temporary use and operation thereof by any agency of the government, upon due compensation to the grantee, for the use of said stations, transmitters, facilities or equipment during the period when they shall be so operated.

R.A. No. 9707 mandates the Company to offer at least 30% of its outstanding capital stock or higher percentage that may hereafter be provided by law in any securities exchange in the operations in compliance with the constitutional provision to encourage public participation in public utilities (the "Converge Public Offering"), which shall occur within five years from the commencement of operations of the Company pursuant to Section 16 of R.A. No. 9707 otherwise, the franchise may be revoked. Nevertheless, under Section 17 of R.A. No. 9707, which provide that "any advantage, favor, privilege, exemption or immunity granted under existing franchises for telecommunications system, or which may hereafter be granted, shall ipso facto become part of this franchise and shall be accorded immediately and unconditionally to the herein grantee" (the "Equality Clause"), the applicable period for the Converge Public Offering is in fact ten years from the commencement of operations of the Company. Considering that at least two legislative franchises granted in June 1998 under Republic Act No. 8645 for Mindoro Telecommunications Corporation and Republic Act No. 8678 for Sear Telecommunications Inc. provide that the public offering requirement of least 30% of their outstanding capital stock or higher percentage be undertaken within 10 years from commencement of operations, the period for the Converge Public Offering should likewise be deemed automatically extended from five years to ten years. On June 18, 2020, in reply to the letter from the Company requesting for clarification on this matter, the NTC confirmed that the applicable period for the Converge Public Offering is 10 years from commencement of the Company's operations in 2012. As of end-November 2021, the Company has reached 26% public float. The Company expects to fully comply with the 30% public float requirement under RA 9707 on or before June 2022.

PUBLIC TELECOMMUNICATIONS POLICY ACT OF THE PHILIPPINES

The Public Telecommunications Policy Act of the Philippines or Republic Act No. 7925 ("R.A. No. 7925") governs all public telecommunications entities in the Philippines, which pertains to any person, firm, partnership or corporation engaged in the provision of telecommunications services to the public for

compensation. R.A. 7925 sets out the general law and policy on public telecommunications while the government franchises are special laws relating to specific telecommunications entities. In the event of an inconsistency between R.A. 7925 and the government franchise, the provisions of the latter, being a special law, would control unless the statute, considered in its entirety, indicates a contrary intention upon the part of the legislature.

The law also governs value-added service ("VAS") providers, which refers to entities which, relying on the transmission, switching and local distribution facilities of the local exchange and inter-exchange operators, and overseas carriers, offer enhanced services beyond those ordinarily provided for by such carriers.

The NTC is designated as the principal administrator of the R.A. No. 7925, with authority to grant CPCNs, impose conditions, such as the duration and termination of the privilege, concession or standard or technical aspects of the equipment, rates, or service, not contrary to the terms of the franchise. The NTC likewise has power to establish rates and tariffs which are fair and reasonable and which provide for the economic viability of telecommunications entities and a fair return on their investments considering the prevailing cost of capital in the domestic and international market.

R.A. No. 7925 mandates all public telecommunications entities to obtain a franchise prior to commencement or conduct of business. However, a VAS provider need not secure a franchise, provided that it does not put up its own network. Such VAS provider shall be allowed to competitively offer its services and/or expertise and lease or rent telecommunications equipment and facilities necessary to provide such specialized services, in the domestic and/or international market in accordance with network compatibility, provided that: (i) prior approval of the NTC is secured to ensure that such VAS offerings are not cross-subsidized from the proceeds of their utility operations; (ii) other providers of VAS are not discriminated against in rates nor denied equitable access to their facilities; and, (iii) separate books of accounts are maintained for the VAS. However, a VAS provider is mandated to register with the NTC, which requires the submission of the following: application form and documents on system configuration, mode of operation, method of changing rates and lease agreement with the Public Telecommunications Entity ("PTE"), among others.

Subject to the specific provision under the legislative franchise of telecommunications entities, R.A. No. 7925 likewise requires all telecommunications entities with regulated types of services to make a bona fide public offering through the stock exchanges of at 30% of its aggregate common stock within a period of five years from effectivity of R.A. No. 7925 or the entity's first start of commercial operations, whichever date is later.

Except for provisions relating to territory covered, life span or type of service authorized by the franchise, any advantage, favor, privilege, exemption, or immunity granted under existing franchises, or may hereafter be granted, shall ipso facto become part of previously granted telecommunications franchises and shall be accorded immediately and unconditionally to the grantees of such franchises.

The NTC issued Memorandum Circular No. 02-02-2018 on "Additional Frequency Allocations for Broadband Wireless Access (BWA)", which reallocates 3300-3400 MHz for Broadband Wireless Access forming part of the National Radio Frequency Allocation Table. Memorandum Circular No. 09-09 (2003) requires dealers and suppliers of Wireless Data Networks ("WDN") to be accredited by the NTC. Indoor WDN equipment and devices must likewise be submitted for type approval and acceptance registration by accredited dealers and suppliers prior to sale or placement on stock.

DEPARTMENT OF INFORMATION AND COMMUNICATIONS TECHNOLOGY ACT OF 2015

Republic Act No. 10844 or the Department of Information and Communications Technology Act of 2015 ("R.A. No. 10844"), signed into law on May 23, 2016, seeks to ensure the provision of a strategic, reliable, cost-efficient and citizen-centric information and communications technology ("ICT"). The Department of Information and Communications Technology ("DICT") shall be the primary policy, planning, coordinating, implementing, and administrative entity of the Executive Branch of the government that will plan, develop, and promote the national ICT development agenda. It shall prescribe rules for the establishment, operation and maintenance of ICT infrastructures in unserved and underserved areas, and ensure and protect the rights and welfare of consumers and business users to

privacy, security and confidentiality in matters relating to ICT, in coordination with agencies concerned, private sector and relevant international bodies.

ICT refers to the totality of electronic means to access, create, collect, store, process, receive, transmit, present and disseminate information, while the ICT Sector pertains to those engaged in providing goods and services primarily intended to fulfill or enable the function of information processing and communication by electronic means. The ICT Sector includes telecommunications and broadcast information operators, ICT equipment manufacturers, multimedia content developers and providers, ICT solution providers, internet service providers, ICT training institutions, software developers and ICT-Enabled Services providers.

The law abolishes the following agencies with their powers and functions, applicable funds and appropriation, records, equipment, property, and personnel transferred to the DICT: (i) Information and Communications Technology Office; (ii) National Computer Center; (iii) National Computer Institute; (iv) Telecommunications Office; (v) National Telecommunications Training Institute; and (vi) All operating units of the Department of Transportation and Communications dealing with communications. The following agencies, on the other hand, are attached to the DICT and will continue to operate and function in accordance with the charters, laws or orders creating them insofar as not inconsistent with R.A. No. 10844: (i) NTC; (ii) NPC; and (iii) Cybercrime Investigation and Coordination Center.

GENERAL BUSINESS REGULATORY FRAMEWORK

REVISED CORPORATION CODE

Republic Act No. 11232 or the Revised Corporation Code ("Revised Corporation Code") was signed into law on February 20, 2019 and became effective on March 8, 2019. Among the salient features of the Revised Corporation Code are:

- corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Revised Corporation Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Philippine SEC that it elects to retain its specific corporate term under its current Articles of Incorporation;
- the Revised Corporation Code allows the creation of a "One Person Corporation" ("OPC"), which is a corporation composed of a single stockholder, provided that, only natural person, trust or an estate may form such. No minimum authorized capital stock is also required for an OPC, unless provided for under special laws;
- material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same;
- the right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option; and
- in case of transfer of shares of listed companies, the Philippine SEC may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Philippine SEC. The Revised Corporation Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

The Revised Corporation Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

On April 23, 2021, the SEC issued SEC Memorandum Circular No. 7, series of 2021 which provides the rules for the calling of special stockholders' meetings by any number of shareholders ("Qualifying Shareholders") of a publicly-listed corporation who hold at least 10% or more of the outstanding capital stock ("Qualifying Shares"). The Qualifying Shareholders should have continuously held the Qualifying Shares for a period of at least one (1) year prior to the receipt by the corporate secretary of a written call for a special stockholders' meeting,

THE PHILIPPINE COMPETITION ACT

Republic Act No. 10667, otherwise known as the Philippine Competition Act ("PCA"), was signed into law on July 21, 2015 and took effect on August 8, 2015. The PCA was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the PCA provides for the creation of the Philippine Competition Commission ("PCC"), an independent quasi-judicial agency with powers to conduct investigations, issue subpoenas, conduct administrative proceedings, impose administrative fines and penalties, and determine the relevant thresholds that trigger notification requirements in cases of mergers and acquisitions. To conduct a search and seizure, however, the PCC must still apply for a warrant with the relevant court. The PCA prohibits and imposes sanctions on:

- i. anti-competitive agreements between or among competitors, which restrict competition as to price, or other terms of trade and those fixing price at an auction or in any form of bidding including cover bidding, bid suppression, bid rotation and market allocation and other analogous practices of bid manipulation; and those which have the object or effect of substantially preventing, restricting or lessening competition;
- ii. (mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition in the relevant market or in the market for goods or services, or breach the thresholds provided in the Implementing Rules and Regulations ("PCA IRR") without notice to the PCC; and
- iii. practices which are regarded as abuse of dominant position, by engaging in conduct that would substantially prevent, restrict or lessen competition, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to certain exceptions.

PCC Resolution No. 02-2020, effective March 1, 2020, amended the notification thresholds for mergers and acquisitions. It requires parties to a merger or acquisition to provide notification when: (a) Size of Party exceeds ₱6.0 billion; and (b) Size of Transaction exceeds ₱2.4 billion.

Section 4(eee) of Republic Act No. 11494 or the Bayanihan 2 Act exempts from compulsory notification all mergers and acquisitions with transaction values below ₱50 billion if entered into within two years from the effectivity of Bayanihan 2 Act, or from 15 September 2020. A transaction is considered "entered into" upon signing by the parties of the definitive agreement.

Under the PCC Resolution No. 22-2020 adopting the rules implementing Section 4 (eee) of the Bayanihan 2 Act, mergers and acquisitions shall still be subject to compulsory notification when:

- i. Both the transaction value and the size of the ultimate parent entity of either party is at least ₱50 billion; and
- ii. The transaction is entered into prior to the effectivity of the Bayanihan 2 act and exceeds the thresholds applicable

Additionally, the Bayanihan Act 2 suspends PCC's power to motu proprio review mergers and acquisitions for one year from the effectivity of the law. However, transactions entered into prior to the effectivity of the Bayanihan 2 Act which has not yet been reviewed by the PCC; and transactions pending review by the PCC prior to the effectivity of the Bayanihan 2 Act shall not be covered by the

exemption from the PCC's power to review transactions *motu proprio*. Further, mergers and acquisitions entered into during the effectivity of the Bayanihan 2 Act may still be reviewed by the PCC *motu proprio* after one year from the effectivity of the law.

Any voluntary notification shall constitute a waiver to the exemption from review.

On September 15, 2017, the PCC published the Rules of Procedure ("PCC Rules of Procedure") which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The PCC Rules of Procedure also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders. On November 23, 2017, the PCC published the 2017 Rules on Merger Procedure ("PCC Merger Rules") which provides for the procedure for review or investigation of mergers and acquisition pursuant to the PCA. The PCC Merger Rules provide, among others, that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the IRR are required to notify the PCC within thirty (30) days from the signing of definitive agreements relating to the notifiable merger.

Under the PCA and the PCA IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of one percent (1%) to five percent (5%) of the value of the transaction. Criminal penalties for entities that enter into anti-competitive agreements, as defined, include: (i) a fine of not less than ₱50 million, but not more than ₱250 million; and (ii) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱110 million to ₱275 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

DATA PRIVACY ACT

Republic Act No. 10173 or the Data Privacy Act of 2012 is a comprehensive and strict privacy legislation aimed to protect the fundamental human right to privacy of data subjects by: (a) protecting the privacy of individuals while ensuring free flow of information; (b) regulating the collection, recording, organization, storage, updating or modification, retrieval, consultation, use, consolidation, blocking, erasure or destruction of personal data; and (c) ensuring that the Philippines complies with international standards set for data protection through National Privacy Commission ("**Privacy Commission**").

Intended to protect the privacy of individuals, it mandates companies to inform the individuals about how their personal information are collected and processed. It also ensures that all personal information must be (a) collected and processed with lawful basis, which includes consent, and only for reasons that are specified, legitimate, and reasonable; (b) handled properly, ensuring its accuracy and retention only for as long as reasonably needed; and (c) discarded properly to avoid access by unauthorized third parties.

Its Implementing Rules and Regulations ("**IRR**") took effect on September 9, 2016, mandating all Philippines companies to comply with the following: (a) appointment of a Data Protection Officer; (b) conduct of a privacy impact assessment; (c) adoption of a privacy management program and privacy policy; (d) implement privacy and data protection measures; and (e) establish a breach reporting procedure. In addition, companies with at least 250 employees or access to sensitive personal information of at least 1,000 individuals are required to register their data processing systems with the Privacy Commission. The IRR, furthermore provides the only instances when data sharing is allowed, to wit: (a) data sharing is authorized by law, provided that there are adequate safeguards for data privacy and security, and processing adheres to principles of transparency, legitimate purpose and proportionality; (b) in the private sector, data sharing for commercial purposes is allowed upon (i) consent of data subject, and (ii) when covered by a data sharing agreement; (c) data collected from parties other than the data subject for purpose of research shall be allowed when the personal data is publicly available; and (d) data sharing among government agencies for purposes of public function or provision of a public service shall be covered by a data sharing agreement.

ELECTRONIC COMMERCE ACT

Republic Act No. 8792 or the Electronic Commerce Act of 2000 ("R.A. No. 8792") recognizes the vital role of information and communications technology in nation building, the need to create an information-friendly environment which supports and ensures the availability, diversity and affordability of information and communications technology products and services. It aims to facilitate domestic and international dealings, transactions, arrangement agreements, contracts and exchanges and storage of information through the utilization of electronic, optical and similar medium to promote the universal use of electronic transaction in the government and general public.

R.A. No. 8792 restricts access to an electronic file, or an electronic signature of an electronic data message or electronic document only in favor of the individual or entity having a legal right to the possession or the use of plaintext, electronic signature or file and solely for the authorized purposes. The law also ensures confidentiality and prohibits any person who obtains access to any electronic key, electronic data message, electronic document, book, register, correspondence, information, or other material pursuant to any powers conferred under the said law, from conveying to or sharing the same with any other person, except for purposes expressly authorized by law. The implementing rules of the law provides that the electronic key for identity or integrity shall not be made available to any person or party without the consent of the individual or entity in lawful possession of that electronic key.

The law clarifies that violations of the Consumer Act of the Philippines or Republic Act No. 7394 and other related laws through transactions covered by or using electronic data messages or electronic documents shall be penalized with the same penalties as provided therein.

INTELLECTUAL PROPERTY CODE

Under the Intellectual Property Code of the Philippines ("IP Code"), the rights to a trademark are acquired through the registration with the Bureau of Trademarks of the Intellectual Property Office, which is the principal government agency involved in the registration of brand names, trademarks, patents and other registrable intellectual property materials.

Upon registration, the Intellectual Property Office shall issue a certificate of registration to the owner of the mark, which shall confer the right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs or containers for goods or services which are identical or similar to those in respect of which the mark is registered. The said certificate of registration shall also serve as prima facie evidence of the validity of registration and the registrant's ownership of the mark. A certificate of registration shall remain in force for an initial period of ten (10) years and may be renewed for periods of ten (10) years at its expiration.

LOCAL GOVERNMENT CODE

Republic Act No. 7160, otherwise known as the Local Government Code ("LGC") establishes the system and powers of provincial, city, municipal, and barangay governments in the country. The LGC general welfare clause states that every local government unit ("LGU") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

An LGU, through its respective legislative bodies, may enact ordinances and approve resolutions, as shall be necessary and proper to provide for health and safety, comfort and convenience, maintain peace and order, improve the morals, and promote the prosperity and general welfare of the community and the inhabitants thereof, and the protection of property therein. Ordinances can reclassify land, impose real property taxes, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Businesses are required to obtain a local business permit from the LGU having jurisdiction over the territory where the entity seeks to operate before commencement of actual operations. In order to obtain a local business permit for any business or activity, a clearance must first be obtained from the barangay where such business or activity is located or conducted.

Subject to certain limitations, the power to tax is also exercised by the LGU through their respective legislative bodies, upon enactment of an appropriate ordinance.

LABOR LAWS

Labor Code of the Philippines

The Labor Code of the Philippines ("Labor Code") seeks to protect labor, promote full employment, ensure equal opportunities regardless of sex, race or creed and regulate the relations between workers and employers. The Labor Code prescribes the rules for hiring and termination of private employees, the conditions of working including maximum work hours and overtime, employee benefits such as holiday pay, thirteenth month and retirement pay and the guidelines in the organization and membership to labor unions. The Department of Labor and Employment ("DOLE") is the Government agency mandated to formulate policies, implement programs and services, and serves as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The DOLE has exclusive authority in the administration and enforcement of labor and employment laws such as the Labor Code and the Occupational Safety and Health Standards, as amended, and such other laws as specifically assigned to it or to the Secretary of the DOLE.

On March 15, 2017, Department Order No. 174 (2017) ("D.O. 174") was issued by the DOLE providing for the guidelines on contracting and subcontracting, as provided for under the Labor Code. It has reiterated the policy that Labor-Only Contracting is absolutely prohibited where: (1) (a) the contractor or subcontractor does not have substantial capital, or does not have investments in the form of tools, equipment, machineries, supervision, work premises, among others; and (b) the contractor's or subcontractor's employees recruited and placed are performing activities which are directly related to the main business operation of the principal; or (2) the contractor or subcontractor does not exercise the right to control over the performance of the work of the employee. The failure of legitimate contractors to register gives rise to the presumption that the contractor is engaged in labor-only contracting.

Subsequently, DOLE issued Department Circular No. 1 (2017) clarifying that the prohibition under D.O. 174 does not apply to business process outsourcing, knowledge process outsourcing, legal process outsourcing, IT Infrastructure outsourcing, application development, hardware and/or software support, medical transcription, animation services, and back office operations or support.

D.O. No. 174 reaffirms the constitutional and statutory right to security of tenure of workers. It absolutely prohibits labor-only contracting and other illicit forms of employment arrangement. D.O. No. 174 permits contracting and subcontracting provided: (i) the contractor or subcontractor is engaged in a distinct and independent business and undertakes to perform the job or works on its own responsibility, according to its own manner and method; (ii) the contractor or subcontractor has substantial capital to carry out the job farmed out by the principal on his account, manner and method, investment in the form of tools, equipment, machinery and supervision; (iii) in performing the work farmed out, the contractor or subcontractor is free from the control and/or direction of the principal in all matters connected with the performance of the work except as to the result thereto; and (iv) the service agreement ensures compliance with all the rights and benefits for all employees of the contractor or subcontractor under the labor laws.

On May 2, 2018, President Rodrigo Duterte signed Executive Order No. 51, reiterating the prohibition of the practice of illegal contracting or subcontracting in the country. The executive order aims to protect the worker's right to security of tenure, self-organization and collective bargaining and peaceful concerted activities.

DOLE Mandated Work-Related Programs

Under the Comprehensive Dangerous Drugs Act, a national drug abuse prevention program implemented by the DOLE must be adopted by private companies with 10 or more employees. For this purpose, employers must adopt and establish company policies and programs against drug use in the workplace in close consultation and coordination with the DOLE, labor and employer organizations, human resource development managers and other such private sector organizations. DOLE

Department Order No. 053-03 sets out the guidelines for the implementation of Drug-Free Workplace policies and programs for the private sector.

The employer or the head of the work-related, educational or training environment or institution, also has the duty to prevent or deter the commission of acts of sexual harassment and to provide the procedures for the resolution, settlement or prosecution of such cases. Under the Anti-Sexual Harassment Act, the employer will be solidarily liable for damages arising from the acts of sexual harassment committed in the workplace if the employer is informed of such acts by the offended party and no immediate action is taken. Notwithstanding, the victim of sexual harassment is not precluded from instituting a separate and independent action for damages and other affirmative relief. Any person who violates the provisions of this law shall, upon conviction, be penalized by imprisonment of not less than one month nor more than six months, or a fine of not less than ₱10,000 nor more than ₱20,000, or both such fine and imprisonment, at the discretion of the court. Any action arising from the violation of the provisions of this law shall prescribe in three years.

Moreover, Department Order No. 102-10 requires all private workplaces to have a policy on HIV and AIDS and to implement a workplace program in accordance with the Philippines AIDS Prevention and Control Act. The workplace policies aim to manage sensitive issues, such as confidentiality of medical information and continuation of employment for HIV-positive staff, and to avoid the discrimination of any employee due to HIV/AIDS. Any HIV/AIDS-related information of workers should be kept strictly confidential and kept only on medical files, whereby access to it are strictly limited to medical personnel. All private workplaces are also required to establish policies and programs on solo parenting, Hepatitis B, and tuberculosis prevention and control.

Occupational Safety and Health Standards Law

On August 17, 2018, Republic Act No. 11058 or the Occupational Safety and Health Standards Law was signed into law. It mandates employers, contractors or subcontractors and any person who manages, controls or supervises the work, to furnish the workers a place of employment free from hazardous conditions that are causing or are likely to cause death, illness or physical harm to the workers. It also requires to give complete job safety instructions or orientation and to inform the workers of all hazards associated with their work, health risks involved or to which they are exposed, preventive measures to eliminate or minimize the risks and steps to be taken in cases of emergency.

Department Order No. 198 (2018) ("D.O. 198") was promulgated by the DOLE to implement the Occupational Safety and Health Standards Law. It classifies establishments as low, medium or high risk and, depending on the number of employees per establishment, D.O. 198 provides for the corresponding requirements and provisions required of each employer, such as, designation of Safety Officers, provision of health personnel and facilities, and submission of reports to the DOLE.

An employer, contractor or subcontractor who willfully fails or refuses to comply with the Occupational Safety and Health Standards shall be administratively liable for a fine. Further, the liability of the employer, project owner, general contractor, contractor or subcontractor, if any, and any person who manages, controls or supervises the work, shall be solidary.

Retirement Law

Republic Act No. 7641 provides for the mandated payment of retirement benefits to eligible employees. All employees are entitled to receive retirement benefits that they have earned upon retirement under existing laws or collective bargaining agreements. In the absence of a retirement plan or agreement providing for retirement benefits of employees, an employee, upon reaching the age of sixty (60) years or more, but not beyond sixty-five (65) years, who has served at least five (5) years in the establishment, may retire and shall be entitled to retirement pay equivalent to at least one-half ($\frac{1}{2}$) month salary for every year of service, a fraction of at least six (6) months being considered as one whole year.

Social Security Law

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under Republic Act No. 8282 or the Social Security Law ("R.A. No. 8282") to ensure coverage of employees following procedures set out by the law and the Social Security System

("SSS"). Under the said law, social security coverage is compulsory for all employees under sixty (60) years of age. An employer must deduct and withhold from its compulsorily covered employees their monthly contributions based on a given schedule, pay its share of contribution and remit these to the SSS within a period set by law and/or SSS regulations. R.A. No. 8282 provides financial benefits to qualified members in cases of contingencies such as retirement, disability, death, sickness, maternity and other employment-related injuries. R.A. No. 8282 imposes penalties of imprisonment and/or fine for failure by any employer to comply with the provisions of the law. For corporations, associations or partnerships, the penalty is imposed upon its directors, managing head, or partners, as the case may be.

National Health Insurance Act

Employers are likewise required to ensure enrollment of its employees in a National Health Insurance Program administered by the Philippine Health Insurance Corporation ("PhilHealth"), a government corporation attached to the Department of Health tasked with ensuring sustainable, affordable and progressive social health insurance pursuant to the provisions of the National Health Insurance Act of 1995, as amended by Republic Act No. 11223, otherwise known as the Universal Health Care Act. An employer is required to deduct and withhold the contributions from its employee's salary, wage or earnings, make a counterpart contribution for the employee, and remit both amounts to the PhilHealth. The PhilHealth will subsidize personal health services required by the employee subject to certain terms and conditions under the law. The registration, accurate and timely deductions and remittance of contributions to the Philippine Health Insurance Corporation is mandatory as long as there is employer-employee relationship. The law imposes penalties of imprisonment and/or fine, for any violation of the law such as the failure or refusal to register its employees, regardless of their employment status, or to deduct contributions from its employee's compensation or remit the same to PhilHealth.

Home Development Fund Law

Republic Act No. 9679 or the Home Development Mutual Fund Law of 2009 ("R.A. No. 9679") or the Pag-IBIG Fund Law, created the Home Development Mutual Fund ("HDMF"), a national savings program as well as a fund to provide for affordable financing to Filipino workers. Coverage under the HDMF is compulsory for all SSS members and employers. The employer is mandated to deduct and withhold 2% of the employee's monthly compensation up to a maximum of ₱5,000.00, likewise make a counterpart contribution of 2% of the employee's monthly compensation, and remit to the Pag-IBIG Fund the respective contributions of the employees under the prescribed schedule.

R.A. No. 9679 imposes penalties of fine and/or imprisonment for failure or refusal without lawful cause or with fraudulent intent, by the employer to comply with the law or its implementing rules and regulations. For corporations, the penalty is imposed on its president or general manager and members of the governing board of directors.

CUSTOMS MODERNIZATION AND TARIFF ACT

Laws on Importation

Republic Act No. 10863 or the Customs Modernization and Tariff Act ("CMTA") requires all goods imported from any foreign country into the Philippines, to be subject to import taxes.

In 2018, Department of Finance Order No. 11-2018 ("D.O. No. 11-2018") repealed the Bureau of Internal Revenue Import Clearance Certificate requirement for importers. In accordance with the CMTA, D.O. No. 11-2018 and Customs Memorandum Order No. 05-2018 ("C.M.O. No. 05-2018") provides that the authority to accredit and register importers and customs brokers is reverted solely to the Bureau of Customs ("BOC"). In 2019, the BOC issued Customs Memorandum Order No. 31-2019 amended C.M.O. No. 05-2018 and provided for the guidelines for accreditation of importers and customs brokers, to ensure that no accredited importers may be used as dummies thus maximizing accountability of real importers and ensure compliance with Republic Act No. 11032, or the Ease of Doing Business Act.

The importation of WDN equipment and devices is governed by NTC MC No. 09-09-03 dated September 12, 2003, which specifically covers all WDNs and devices operating within 2400MHz to 2483.5MHz, 5150MHz to 5350MHz and 5470MHz to 5850MHz bands. WDN refers to a network of computers and other computing devices utilizing radio frequencies. Accredited dealers and suppliers intending to import WDN equipment and devices shall secure a permit to import from the NTC. The application for a permit to import shall be supported by pro forma invoice detailing, among others, the make/type/model and number of units to be imported. Upon release of the imported equipment and devices from the Bureau of Customs, a sales and stock report must be submitted to the NTC. The NTC shall issue NTC Type Approval/Acceptance Registration Number for each of the units imported upon payment of the required registration fee.

ENVIRONMENTAL LAWS

Environmental Impact Statement System

Undertakings or operations on any declared environmentally critical project or area are required to obtain an ECC prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau (“EMB”), determines whether a project is environmentally critical or located in an environmentally critical area and processes all applications for an ECC. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement (“EIS”) to the EMB, which is a result of a positive determination by the EMB on the preventive, mitigating and enhancement measures adopted addressing possible adverse consequences of the project to the environment. The EIS refers to the document, prepares and submitted by the project proponent and/or the Environmental Impact Assessment Consultant which provides for a comprehensive study of the significant impacts of a project to the environment. On the other hand, a non-environmentally critical project in an environmentally critical area is generally required to submit an Initial Environmental Examination (“IEE”) to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required in addition to the IEE.

The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas. While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project’s environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socioeconomic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC.

The issuance of an ECC is a Government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the abandonment phase of the project. Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures.

FOREIGN INVESTMENTS AND LAWS AND REGULATIONS RELATING TO RESTRICTIONS ON FOREIGN EQUITY

The Philippine Constitution requires franchises, certificates, or other forms of authorization for the operation of a public utility to be granted only to citizens of the Philippines, or to corporations or associations organized under the laws of the Philippines, at least sixty percent (60%) of whose capital is owned by Filipinos. The participation of foreign investors in the governing body of any public utility enterprise shall be limited to their proportionate share in its capital, and all the executive and managing officers of such corporation or association must be citizens of the Philippines. In determining compliance with the nationality restrictions imposed upon public utilities, the Philippine SEC issued Memorandum

Circular No. 08 (2013), mandating Filipino ownership in both: (i) the total number of outstanding shares of stock entitled to vote in the election of directors; and, (ii) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors.

Under Commonwealth Act No. 146 of the Public Service Act, public utilities include every individual, co-partnership, association, corporation, or joint-stock company, whether domestic or foreign, that own, operate, manage or control in the Philippines, gas, electric light, heat, power, water, oil, telephone, wire or wireless telegraph system, plant or equipment and broadcasting stations, when owned, operated, managed, or controlled for public use or service within the Philippines, among others. Under the Public Service Act, entities engaged in telecommunications are deemed operators of public utilities. Thus, entities engaged in telecommunications are covered by the aforementioned restriction on foreign equity.

Foreign Investments Act of 1991

The Foreign Investments Act of 1991 or Republic Act No. 7042 liberalized the entry of foreign investments into the Philippines. As a general rule, there are no restrictions on the extent of foreign ownership of export enterprises.

A Philippine National is defined under the law to mean any of the following: (i) a citizen of the Philippines; (ii) a domestic partnership or association wholly owned by citizens of the Philippines; (iii) a corporation organized under the laws of the Philippines of which at least sixty percent (60%) of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines; (iv) a corporation organized abroad and registered as doing business in the Philippines under the Revised Corporation Code of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or (v) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippines national and at least sixty percent (60%) of the fund will accrue to the benefit of the Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least sixty percent (60%) of the total shares outstanding and voting, the corporation shall be considered as a wholly Filipino-owned corporation. Restrictions under the Philippine Constitution require corporations engaged in the operation of public utilities to ensure at least sixty percent (60%) of its capital is owned by Filipinos.

Land Ownership

The Philippine Constitution and related statutes set forth restrictions on foreign ownership of owning land in the Philippines. Article XII, Section 7 of the Philippine Constitution, in relation to Article XII, Section 2 of the Philippine Constitution and Chapter 5 of Commonwealth Act No. 141, states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

Regulations on the Implementation of Community Quarantine

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, has spread globally over the course of 2020, and in March 2020 was declared as a pandemic by the World Health Organization. In light of the pandemic, the Inter-Agency Task Force for the Management of Emerging Infectious Diseases (“IATF”) was created by virtue of Executive Order (E.O.) 168, to facilitate the Philippine government’s response to the COVID-19 pandemic. Among other issuances, the IATF issues and updates the Omnibus Guidelines on the Implementation of Community Quarantine in the Philippines (“**Quarantine Guidelines**”), which provide for the implementation of measures imposing restrictions on movement and transportation of people, regulation of the operation of industries, provision of food and essential services with varying levels of restriction.

On March 13, 2020, the President of the Philippines Rodrigo Duterte imposed stringent social distancing measures in the National Capital Region effective March 15, 2020, and on March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and imposing an enhanced community quarantine throughout the island of Luzon until April 12, 2020. Social distancing, travel restrictions, quarantine, suspension and closure of business,

lockdown and other restrictive measures were later extended, re-implemented or strengthened multiple times in the Philippines in 2020 and 2021.

Due to the rising number of COVID-19 cases in the country, President Duterte re-imposed the enhanced community quarantine (“**ECQ**”) in the Metro Manila and in Bulacan, Cavite, Laguna and Rizal provinces (“**NCR Plus**”) from March 29, 2021 to April 4, 2021. The ECQ in these areas was then further extended for another week until April 11, 2021. During this period, strict social distancing measures were implemented. These include (i) curfew hours from 6 p.m. to 5 a.m. except for food delivery and other essential services; (ii) home quarantine for all households, with movement of residents limited to accessing essential goods and services; (iii) on-site skeletal workforce for certain establishments including government agencies and instrumentalities; (iv) prohibition of gatherings outside of residences and; (v) suspension of face-to-face classes at all school levels.

Subsequently, the ECQ was lifted and replaced with the less stringent MECQ, which was in effect from April 12, 2021 until May 14, 2021. Social Distancing measures that were implemented during MECQ include (i) curfew hours from 8 p.m. to 5 a.m. except for food delivery and other essential services; (ii) home quarantine for all households, with movement of residents limited to accessing essential goods and services; (iii) a maximum limit of 50% on-site capacity imposed for all establishments to encourage work-from-home arrangements; (iv) government agencies and instrumentalities operating fully, with a skeleton workforce on-site and the remainder under alternative work arrangements; (v) prohibition of gatherings outside of residences and; (vi) suspension of face-to-face classes at all school levels.

On May 13, 2021, President Duterte approved the IATF recommendation downgrading the quarantine classification of NCR Plus to general community quarantine (“**GCQ**”) “with heightened restrictions” from May 15 to May 31. Under GCQ with heightened restrictions, the following measures are in place: (i) indoor gyms are not allowed to operate; (ii) venues for meetings and conferences are not allowed to operate; (iii) personal care services are allowed to operate at 50% as long as they are not requiring mask removal, but if the establishment has a Safety Seal, it may operate an additional 10% capacity; (iv) indoor dining in restaurants are allowed up 30% capacity but if the establishment has a Safety Seal, it may operate an additional 10% capacity; (v) strict stay at home orders for persons below 18 years old and above 65 years old but fully-vaccinated seniors can freely move around as long as they have their vaccination cards.

NCR Plus continued to be under GCQ with heightened restrictions until June 15. From June 16 to 30, Metro Manila and Bulacan were placed under GCQ “with some restrictions”, while the rest of NCR Plus continued to be under GCQ with heightened restrictions. Under GCQ with some restrictions, the following measures are in place: (i) indoor gyms are allowed to operate at up to 20% capacity, but if the establishment has a Safety Seal, it may operate an additional 10% capacity; (ii) venues for meetings and conferences are allowed to operate at up to 30% capacity, but if the establishment has a Safety Seal, it may operate an additional 10% capacity; (iii) personal care services are allowed to operate at 30% as long as they are not requiring mask removal, but if the establishment has a Safety Seal, it may operate an additional 10% capacity; (iv) indoor dining in restaurants are allowed up 40% capacity but if the establishment has a Safety Seal, it may operate an additional 10% capacity; (v) strict stay at home orders for persons below 18 years old and above 65 years old but fully-vaccinated seniors can freely move around as long as they have their vaccination cards.

On June 28, 2021, the President announced that Metro Manila and Bulacan will stay under GCQ with some restrictions until July 15, 2021 along with the province of Rizal, while the remaining two areas part of the NCR Plus bubble, will remain under GCQ with heightened restrictions until July 15, 2021. On July 15, 2021, this quarantine mode was extended until July 31, 2021. However, it was announced on July 23, 2021 that Metro Manila will revert back to GCQ with heightened restrictions from July 23 to 31 in light of the local transmission of the highly contagious COVID-19 Delta variant which was first detected in India.

With the looming threat of further spread of the COVID-19 Delta variant, the President placed Metro Manila under ECQ from August 6, 2021 to August 20, 2021, while certain other provinces and cities, including Bulacan, Cavite, Naga City and Bacolod City, remained under GCQ with heightened restrictions from August 1, 2021 to August 15, 2021. The GCQ classification without restrictions was imposed in several provinces and cities that included the City of Santiago in Isabela and Batangas from August 1, 2021 to August 31, 2021.

On September 13, 2021, the IATF issued guidelines for the pilot implementation of an alert level system in certain cities and municipalities. There will be five alert levels under the new system:

- Alert Level 1: Areas where case transmission is low and decreasing, total bed utilization rate, and intensive care unit utilization rate is low;
- Alert Level 2: Areas where case transmission is low and decreasing, healthcare utilization is low, or case counts are low but increasing, or case counts are low and decreasing but total bed utilization rate and intensive care unit utilization rate is increasing;
- Alert Level 3: Areas where case counts are high and/or increasing, with total bed utilization rate and intensive care unit utilization rate at increasing utilization;
- Alert Level 4: Areas where case counts are high and/or increasing, with total bed utilization rate and intensive care unit utilization rate at high utilization; and
- Alert Level 5: Areas where case counts are alarming, with total bed utilization rate and intensive care unit utilization rate at critical utilization.

FINANCIAL INFORMATION

The following pages set forth Converge's reviewed condensed consolidated interim financial statements as at September 30, 2021 and for the nine (9) months ended September 30, 2021 and 2020; and audited consolidated financial statements as at December 31, 2020, 2019, 2018 and 2017, and for each of the four (4) years in the period ended December 31, 2020, 2019, 2018 and 2017.

ISSUER

Converge Information and Communications Technology Solutions, Inc.

New Street Building, McArthur Highway,
Balibago, Angeles City,
Pampanga, Philippines

TRUSTEE

BDO Unibank, Inc. – Trust Banking Group
16th Floor, BDO Corporate Center, South Tower,
7899 Makati Avenue, Makati City

REGISTRAR AND PAYING AGENT

Philippine Depository & Trust Corp.
29th Floor, BDO Equitable Tower
8751 Paseo de Roxas
Makati City, 1226, Philippines

INDEPENDENT AUDITORS OF THE ISSUER

PwC Philippines – Isla Lipana & Co.
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8767 Paseo de Roxas, Makati City, 1227, Philippines

ISSUE MANAGER, JOINT LEAD UNDERWRITER AND BOOKRUNNER

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JOINT LEAD UNDERWRITER AND BOOKRUNNER

BPI Capital Corporation
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6796 Ayala Avenue corner Salcedo Street, Makati City, 1229, Philippines

SELLING AGENTS

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Land Bank Plaza, 1598 M.H. del Pilar
cor. Dr. J. Quintos Streets, Malate, Manila

RCBC Capital Corporation
21st Floor RCBC Plaza Tower 2,
0727, 6819 Ayala Ave, Makati, 1227 Metro Manila

LEGAL ADVISER
To the Issuer

Picazo Buyco Tan Fider & Santos
Liberty Center – Picazo Law,
104 HV Dela Costa Street, Salcedo Village
Makati City, 1227, Philippines

LEGAL ADVISER
To the Joint Lead Underwriters and Bookrunners

Angara Abello Concepcion Regala and Cruz
22nd Floor, ACCRALAW Tower,
2nd Avenue cor. 30th Street, Crescent Park West,
Bonifacio Global City, 1635 Taguig, Philippines

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 0 7 1 6 0 9 4

Company Name

C O N V E R G E I N F O R M A T I O N A N D
C O M M U N I C A T I O N S T E C H N O L O G Y
S O L U T I O N S , I N C .

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

N E W S T R E E T B U I L D I N G
M C A R T H U R H I G H W A Y
B A L I B A G O , A N G E L E S C I T Y
P A M P A N G A

Form Type

A A F S

Department requiring the report

C R M D

Secondary License Type, if applicable

N / A

COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number/s

(02)8-667-0888

Mobile Number

N/A

No. of Stockholders

16

Annual Meeting
Month/Day

Last Friday of December

Fiscal Year
Month/Day

12/31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Maria Grace Y. Uy

Email Address

Grace@convergeict.com

Telephone Number/s

(02)8-667-0888

Mobile Number

N/A

Contact Person's Address

Saver's Mall, Balibago, Angeles City, Pampanga

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.

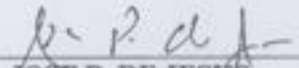
2: All boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The management of **CONVERGE INFORMATION & COMMUNICATIONS TECHNOLOGY SOLUTIONS, INC.** (the "Company") is responsible for all information and representations contained in the Income Tax Return for the period ended December 31, 2020. Management is likewise responsible for all information and representations contained in the financial statements accompanying the (Income Tax Return) covering the same reporting period. Furthermore, the management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the management affirms that the attached audited financial statements for the period ended December 31, 2020 and the accompanying Income Tax Return are in accordance with the books and records of the Company, complete and correct in all material respects. Management likewise affirms that:

- (a) the Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (c) the Company has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.


JOSE P. DE JESUS
 Chairman of the Board


DENNIS ANTHONY H. UY
 Chief Executive Officer


CHRISTINE RENEE R. BLABAGNO
 Deputy Chief Financial Officer

Signed this 9th day of March 2021

SUBSCRIBED AND SWORN to before me this **APR 13 2021** at **QUEZON CITY**, by affiants who are personally known to me or identified through competent evidence of identity, to wit:

Name	Passport or ID No.	Date of Issue	Expiry Date
Jose P. De Jesus	PO425365A	9/28/2016	9/27/2021
Dennis Anthony H. Uy	PO373454B	1/23/2019	1/22/2029
Christine Renee R. Blabagno	NO1-00-255912	10/17/2019	10/17/2023

NOTARY PUBLIC

Doc No. 418
 Page No. 85
 Book No. 1
 Series of 2021.


ATTY. GREG MARI M. AGA
 Notary Public for Quezon City
 Until June 30, 2021
 Adm. Matter No. NP-332 (2019-2020)
 Roll No. 70106
 IBP Lifetime Membership No. 015023, QC
 PTR No. 0632236, 1-5-2021
 MCLE Compliance No. VI-0022783
 29-D Seminary Rd., Proj. 8, QC

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

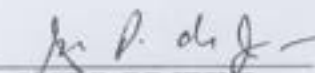
The management of **CONVERGE INFORMATION & COMMUNICATIONS TECHNOLOGY SOLUTIONS, INC.** (the "Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the stockholders or members.

Isla Lipana & Co., the independent auditor, appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.


JOSE P. DE JESUS
 Chairman of the Board


DENNIS ANTHONY H. UY
 Chief Executive Officer


CHRISTINE RENEE R. BLABAGNO
 Deputy Chief Financial Officer

Signed this 9th day of March 2021

SUBSCRIBED AND SWORN to before me this APR 13 2021 at QUEZON CITY by affiants who are personally known to me or identified through competent evidence of identity, to wit:

Name	Passport or ID No.	Date of Issue	Expiry Date
Jose P. De Jesus	PO425365A	9/28/2016	9/27/2021
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 MCLE Compliance No. VI-0022783
 29-D Seminary Rd., Proj. 3, QC

Independent Auditor's Report

To the Board of Directors and Shareholders of
Converge Information and Communications Technology Solutions, Inc.
New Street Bldg., Mc Arthur Highway,
Balibago, Angeles City, Pampanga

Report on the Audits of the Separate Financial Statements***Our Opinion***

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of Converge Information and Communications Technology Solutions, Inc. (the "Company") as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

What we have audited

The separate financial statements of the Company comprise:

- the statements of financial position as at December 31, 2020 and 2019;
- the statements of total comprehensive income for the years ended December 31, 2020 and 2019;
- the statements of changes in equity for the years ended December 31, 2020 and 2019;
- the statements of cash flows for the years ended December 31, 2020 and 2019; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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Independent Auditor's Report
To the Board of Directors and Shareholders of
Converge Information and Communications Technology Solutions, Inc.
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Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
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Page 3

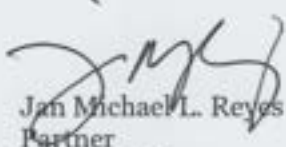
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The supplementary information in Note 26 to the separate financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic separate financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic separate financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic separate financial statements taken as a whole.

Isla Lipana & Co.


Jan Michael L. Reyes
Partner

CPA Cert. No. 104972

PTR No. 0011393, issued on January 5, 2021, Makati City

SEC A.N. (individual) as general auditors 1484-AR-1, Category A; effective until July 4, 2021

SEC A.N. (firm) as general auditors 0142-SEC, Category A;

valid to audit 2020 to 2024 financial statements

TIN 215-692-059

BIR A.N. 08-000745-122-2019, issued on September 18, 2019; effective until September 17, 2022

BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
March 9, 2021





Isla Lipana & Co.

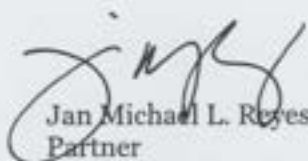
Statement Required by Section 8-A, Revenue Regulations No. V-1

To the Board of Directors and Shareholders of
Converge Information and Communications Technology Solutions, Inc.
New Street Bldg., Mc Arthur Highway,
Balibago, Angeles City, Pampanga

None of the partners of the firm has any financial interest in Converge Information and Communications Technology Solutions, Inc. or any family relationships with its officers or shareholders.

The supplementary information on taxes and licenses for the year ended December 31, 2020 is presented in Note 26 of the separate financial statements.

Isla Lipana & Co.



Jan Michael L. Reyes
Partner

CPA Cert. No. 104972

PTR No. 0011393, issued on January 5, 2021, Makati City

SEC A.N. (individual) as general auditors 1484-AR-1, Category A; effective until July 4, 2021

SEC A.N. (firm) as general auditors 0142-SEC, Category A;

valid to audit 2020 to 2024 financial statements

TIN 215-692-059

BIR A.N. 08-000745-122-2019, issued on September 18, 2019; effective until September 17, 2022

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Converge Information and Communications Technology Solutions, Inc.

Statements of Financial Position
As at December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	December 31, 2020	December 31, 2019	January 1, 2019
ASSETS				
Current assets				
Cash and cash equivalents	2	11,126,173,151	5,656,393,947	434,767,213
Trade and other receivables, net	3	2,251,446,814	2,100,686,122	1,142,403,469
Due from related parties, current portion	18	2,205,123,399	1,420,203,459	602,368,532
Network materials and supplies, net	4	1,458,870,181	470,011,190	1,157,192,291
Deferred contract costs, current portion	13	1,109,716,644	489,441,350	176,729,004
Other current assets	5	1,582,434,044	376,000,085	99,053,203
Total current assets		19,733,764,233	10,512,736,133	3,612,513,712
Non-current assets				
Property, plant and equipment, net	6	30,246,899,362	17,204,605,271	8,072,601,503
Right-of-use assets, net	19	1,597,404,676	1,434,964,843	191,796,785
Intangible assets, net	7	1,154,646,550	669,869,002	537,258,359
Due from related parties, net of current portion	18	163,422,374	-	-
Advances to fixed assets suppliers	5	1,723,819,491	977,867,099	153,301,080
Investment in subsidiaries	8	123,815,489	123,750,000	-
Deferred contract costs, net of current portion	13	543,161,211	229,286,221	80,311,626
Deferred input value-added tax, net of current portion	5	111,107,189	75,484,851	104,881,765
Deferred income tax assets, net	17	85,547,605	109,608,688	-
Financial asset at fair value through profit or loss (FVTPL)	23.1	71,904,900	-	18,749,900
Other non-current assets	5	86,623,893	-	-
Total non-current assets		35,908,352,740	20,825,435,975	9,158,901,018
Total assets		55,642,116,973	31,338,172,108	12,771,414,730
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other current liabilities	9	11,044,324,720	7,364,649,682	4,474,974,382
Due to related parties	18	235,494,711	213,058,639	416,667,193
Deferred revenue, current portion	13	463,619,256	199,477,561	105,226,019
Loans payable, current portion	10	731,214,286	1,098,250,000	1,521,464,954
Lease liabilities, current portion	19	299,388,644	332,936,563	84,443,057
Income tax payable		375,839,155	187,127,464	108,554,916
Dividends payable	12	-	617,651,604	-
Total current liabilities		13,149,880,772	10,013,151,513	6,711,330,521
Non-current liabilities				
Deferred revenue, net of current portion	13	205,105,237	81,955,912	47,067,265
Loans payable, net of current portion	10	10,582,607,143	6,851,625,000	1,203,208,333
Lease liabilities, net of current portion	19	1,282,848,140	1,194,899,950	70,927,569
Retirement benefit obligation	11	112,939,074	26,903,012	62,472,656
Subscribers' deposits, net of current portion	9	1,132,965,276	491,831,373	94,604,975
Deferred income tax liabilities, net	17	-	-	9,412,784
Total non-current liabilities		13,316,464,870	8,647,215,247	1,487,693,582
Total liabilities		26,466,345,642	18,660,366,760	8,199,024,103
Equity				
Share capital	12			
Common shares		1,881,573,615	1,250,000,000	1,250,000,000
Convertible preferred shares		-	306,818,180	-
Additional paid-in capital	12	18,746,088,245	6,541,191,820	-
Retained earnings	12			
Unappropriated		8,540,111,373	2,327,752,470	2,200,000,000
Appropriated		-	2,200,000,000	1,113,626,127
Reserve for remeasurements of retirement benefit obligation, net of tax	11	7,998,098	52,042,878	8,764,500
Total equity		29,175,771,331	12,677,805,348	4,572,390,627
Total liabilities and equity		55,642,116,973	31,338,172,108	12,771,414,730

(The notes on pages 1 to 68 are integral part of these financial statements)



Converge Information and Communications Technology Solutions, Inc.

Statements of Changes in Equity
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Share capital (Note 12)				Retained earnings (Note 12)		Reserve for remeasurements of retirement benefit obligation, net of tax (Note 11)	Total
	Common shares	Convertible preferred shares	Additional paid-in capital	Appropriated	Unappropriated			
Balances at January 1, 2019	1,250,000,000	-	-	2,200,000,000	1,113,626,127	8,764,500	4,572,390,627	
Transactions with owners								
Issuance of shares (Note 12)	-	306,818,180	6,541,191,820	-	-	-	6,848,010,000	
Declaration of dividends (Note 12)	-	-	-	-	(770,210,453)	-	(770,210,453)	
Total transactions with owners for the year	-	306,818,180	6,541,191,820	-	(770,210,453)	-	6,077,799,547	
Comprehensive income								
Profit for the year	-	-	-	-	1,984,336,796	-	1,984,336,796	
Other comprehensive income for the year	-	-	-	-	-	43,278,378	43,278,378	
Total comprehensive income for the year	-	-	-	-	1,984,336,796	43,278,378	2,027,615,174	
Balances at December 31, 2019	1,250,000,000	306,818,180	6,541,191,820	2,200,000,000	2,327,752,470	52,042,878	12,677,805,348	
Transactions with owners								
Issuance of shares (Note 12)	120,209,985	204,545,450	12,204,896,425	-	-	-	12,529,651,860	
Conversion of preferred shares (Note 12)	511,363,630	(511,363,630)	-	-	-	-	-	
Total transactions with owners for the year	631,573,615	(306,818,180)	12,204,896,425	-	-	-	12,529,651,860	
Comprehensive income								
Profit for the year	-	-	-	-	4,012,358,903	-	4,012,358,903	
Other comprehensive loss for the year	-	-	-	-	-	(44,044,780)	(44,044,780)	
Total comprehensive income for the year	-	-	-	-	4,012,358,903	(44,044,780)	3,968,314,123	
Release of appropriated retained earnings (Note 12)	-	-	-	(2,200,000,000)	2,200,000,000	-	-	
Balances at December 31, 2020	1,881,573,615	-	18,746,088,245	-	8,540,111,373	7,998,098	29,175,771,331	

(The notes on pages 1 to 68 are integral part of these financial statements)

Converge Information and Communications Technology Solutions, Inc.

Statements of Cash Flows For the years ended December 31, 2020 and 2019 (All amounts in Philippine Peso)

	Notes	2020	2019
Cash flows from operating activities			
Profit before income tax		5,494,599,483	2,666,170,660
Adjustments for:			
Depreciation and amortization	14,15	2,506,787,806	1,689,765,506
Provision for impairment of trade and other receivables	3	720,474,218	529,944,733
Amortization of deferred contract costs	13	826,710,561	355,363,899
Finance costs	10,19	531,342,360	259,233,603
Provision for contingencies	15	110,925,384	-
Loss on disposal of property, plant and equipment	16	50,887,121	-
Unrealized loss on financial asset at FVTPL	23.1	26,489,855	-
Retirement benefit expense	14,15	23,113,325	23,205,512
Provision for inventory obsolescence	14	2,049,102	27,716,510
Dividend income	16	(600,000,000)	-
Unrealized foreign exchange (gain) loss, net	21	(229,427,384)	2,905,841
Interest income on cash in banks and cash equivalents	16	(34,204,825)	(4,136,147)
Interest income on finance lease receivable	16	(10,414,835)	-
Interest income on financial asset at FVTPL	16	(2,034,258)	-
Loss on disposal of financial asset at FVTPL	16	-	18,749,900
Operating income before changes in assets and liabilities		9,417,297,913	5,568,920,017
(Increase) decrease in assets:			
Trade and other receivables		(871,234,910)	(1,488,578,725)
Due from related parties		(169,789,284)	(804,482,787)
Network materials and supplies		(1,615,041,428)	(121,532,878)
Deferred contract costs		(1,760,860,845)	(817,050,840)
Other current and non-current assets		(1,287,557,872)	(286,170,631)
Deferred input valued-added tax		(35,622,338)	29,396,914
Increase in liabilities:			
Trade and other current liabilities		2,500,557,610	675,047,840
Subscribers' deposits		641,133,903	477,035,507
Due to related parties		22,370,583	38,761,539
Deferred revenue		387,291,020	129,140,189
Cash from operations		7,228,544,352	3,400,486,145
Interest received		34,204,825	4,136,147
Income taxes paid		(1,250,591,473)	(733,439,196)
Retirement benefits paid		-	(269,800)
Net cash from operating activities		6,012,157,704	2,670,913,296
Cash flows from investing activities			
Acquisitions of property, plant, and equipment	6	(14,077,996,881)	(8,345,957,471)
Acquisitions of intangible assets	7	(672,925,662)	(510,833,564)
Acquisition of right-of-use assets	19	(126,991,800)	-
Acquisition of investment in financial asset at FVTPL	23.1	(104,510,000)	-
Acquisition of investment in short-term government securities	5	(5,500,000)	-
Acquisition of investment in a subsidiary	8	-	(83,000,000)
Net cash used in investing activities		(14,987,924,343)	(8,939,791,035)
Cash flows from financing activities			
Proceeds from initial public offering	12	8,078,111,008	-
Proceeds from issuance of convertible preferred shares	12	4,567,949,670	7,056,450,000
Payment of share issuance costs	12	(116,408,818)	(208,440,000)
Proceeds from loans payable	10	5,462,196,429	6,788,971,272
Payments of loans payable	10	(2,098,250,000)	(1,563,769,559)
Interest paid on loans payable	10	(568,800,064)	(272,564,640)
Payment of dividends	12	(635,313,051)	(134,897,402)
Payments of lease liabilities	19	(203,141,626)	(131,846,263)
Interest paid on lease liabilities	19	(102,204,948)	(21,260,867)
Net cash from financing activities		14,384,138,600	11,512,642,541
Net increase in cash and cash equivalents		5,408,371,961	5,243,764,802
Cash and cash equivalents, beginning		5,656,393,947	434,767,213
Effects of exchange rate changes in cash and cash equivalents		61,407,243	(22,138,068)
Cash and cash equivalents, ending	2	11,126,173,151	5,656,393,947

(The notes on pages 1 to 68 are integral part of these financial statements)

Converge Information and Communications Technology Solutions, Inc.

Notes to the Separate Financial Statements

As at and for the years ended December 31, 2020 and 2019

(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 "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 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 Company's application for its initial public offering. The 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 December 31, 2020, there has been no follow-on offering after the initial public offering.

Subsequent to the listing, the Company eventually became 63.74% owned by Comclark Network and Technology Corp. (the "immediate parent company"), a company organized and existing under the laws of the Philippines. Its ultimate parent company is Pentastar Holding Co. Inc, 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.

The total shares outstanding are held by the following shareholders as at December 31:

	2020	2019
Comclark Network and Technology Corp.	63.74%	80.30%
Coherent Cloud Investments B.V.	15.83%	19.70%
Publicly held	20.43%	-
	100.00%	100.00%

Refer to Note 12 for details of changes in shares outstanding as at December 31, 2020 and 2019.

Amendments to the Articles of Incorporation

On June 10, 2020, the Company's Board of Directors (BOD) and stockholders approved, among others, the following amendments to the Articles of Incorporation:

- a. The purpose for which the Company is formed includes, in relation to the existing primary purpose, to act as guarantor and/or surety for the obligation, indebtedness, assumption of obligation or recognizance of another party in which the Company has an interest in;
- b. The Company shall have perpetual existence consistent with Section 11 of the Revised Corporation Code of the Philippines (Republic Act No. 11232);
- c. The authorized capital stock of the Company is P5,000,000,000, divided into:
(i) 16,900,000,000 common shares with a par value of P0.25 per share; (ii) 3,060,000,000 preferred shares with a par value of P0.25 per share; and (iii) 4,000,000,000 preferred B shares with a par value of P0.0025 per share;
- d. The preferred shares and preferred B shares of each and any series may, or may not be convertible, and may or may not be redeemable, as well as may or may not be entitled to any other participation or share in the retained earnings after dividend payments shall have been made on the preferred shares and preferred B shares; and
- e. The stockholders of the Company shall have no pre-emptive right to subscribe to any issue or disposition of shares of any class of the Corporation.

The amended Articles of Incorporation was approved by the SEC on September 28, 2020.

The Company's registered office address, which is also its principal place of business, is located at New Street Bldg., Mc Arthur Highway, Balibago, Angeles City, Pampanga. The Company has 2,205 employees as at December 31, 2020 (2019 - 2,004).

1.2 Impact of COVID-19 pandemic

In response to the corona virus ("COVID-19") pandemic, the Philippine Government implemented measures and regulations to mitigate the transmission of the disease. Metro Manila and other regions in the Philippines were placed under enhanced community quarantine ("ECQ") which imposed strict stay-at-home measures with exceptions only for essential activities, such as access to necessities, food and health services. The ECQ in Metro Manila was in effect from March 17, 2020 until May 15, 2020, and was later adjusted to the modified enhanced community quarantine ("MECQ") from May 16, 2020 to May 31, 2020 where certain industries were allowed to operate under strict compliance with minimum safety standards and protocols. On June 1, 2020, Metro Manila was placed under general community quarantine ("GCQ"), allowing for the partial reopening of certain businesses and public transportation while continuing to limit general movements. On August 2, 2020, Metro Manila and certain provinces were placed under MECQ from August 4, 2020 until August 18, 2020. Beginning August 19, 2020 and as at December 31, 2020, community quarantine in Metro Manila and certain provinces were downgraded to GCQ.

Measures are implemented to protect the health and safety of company employees, support business continuity, and manage financial impact to a minimum.

Financial position and results as at and for the year ended December 31, 2020

Management has assessed that the pandemic did not have a significant impact to the Company's financial position and results as at and for the year ended December 31, 2020 and that the carrying amounts of assets are recoverable at reporting date. Specifically, management performed a detailed review of its receivables provisioning as at and for the year ended December 31, 2020.

Following the onset of COVID-19, new social norms of social distancing and working from home arrangements have amplified the need for fixed broadband across both residential and enterprise markets in the Philippines. Further, given the Company's status as an essential service provider, the Company was able to resume operations quickly and made necessary adjustments in the conduct of its field work. Management will continue to monitor the business developments amidst the pandemic and update the assessments made. Any medium to long-term impact of the pandemic on the Company's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related restrictions, and the overall impact of COVID-19 on the Philippine economy and demand for its products and services, all of which are highly uncertain and cannot be predicted.

1.3 Segment reporting

Operating segments, and the amounts of each segment item reported in the separate financial statements, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company'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 Company's management assesses the performance and allocates the resources of the Company as a whole, as all of the Company'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.

1.4 Approval of the separate financial statements

These separate financial statements have been approved and authorized for issuance by the Company's Board of Directors (BOD) on March 9, 2021.

Note 2 - Cash and cash equivalents

Cash and cash equivalents as at December 31 consist of:

	2020	2019
Cash in banks	3,138,513,136	2,653,542,347
Short-term placements	7,984,829,867	3,000,000,000
Cash on hand	2,830,148	2,851,600
	11,126,173,151	5,656,393,947

Cash in banks earn interest at the respective bank deposit rates. Short-term placements have terms of 30 days and earn at annual interest rate of 1.75% in 2020 (2019 - 2%).

Interest income earned from cash in banks and short-term placements for the year ended December 31, 2020 amounted to P34,204,825 (2019 - P4,136,147) (Note 16).

Note 3 - Trade and other receivables, net

Trade and other receivables, net as at December 31 consist of:

	Note	2020	2019
Trade receivables		2,970,802,980	2,433,208,851
Less: Allowance for impairment		(887,892,506)	(655,859,676)
Trade receivables, net		2,082,910,474	1,777,349,175
Advances to employees		35,234,851	24,359,760
Receivables from employees		7,795,696	17,457,643
Receivable from a supplier	18	-	210,000,000
Others		125,505,793	71,519,544
Total trade and other receivables, net		2,251,446,814	2,100,686,122

Trade receivables consists of amounts due from residential and corporate subscribers, payment channels and credit card companies. These are short-term, unguaranteed, unsecured, non-interest bearing and collectible in cash with usual credit terms of 30 to 90 days.

Advances to employees pertain to advances used in operations which are subject to liquidation within 30 to 60 days.

Receivables from employees represent advances to employees for car and emergency loans which are subject to salary deductions.

Other receivables mainly consist of construction bonds, utilities and rental deposits expected to be recovered in the form of cash within one year.

The movements in allowance for impairment of trade and other receivables for the years ended December 31 are as follows:

	2020	2019
Beginning of the year	655,859,676	126,017,085
Provision for trade receivables	720,474,218	529,944,733
Write-off	(488,441,388)	(102,142)
End of the year	887,892,506	655,859,676

Receivables written-off amounting to P488,441,388 for the year ended December 31, 2020 (2019 - P102,142) pertains to unrecoverable accounts previously provided with allowance.

Critical accounting estimates, assumptions and judgment: Recoverability of trade and other receivables and due from related parties

Allowance for impairment of trade and other receivables and amounts due from related parties (Note 18) is calculated using expected credit losses (ECL). ECL are unbiased probability-weighted estimates of credit losses which are determined by evaluating a range of possible outcomes and taking into account past events, current conditions and assessment of future economic conditions.

The Company has used relevant historical information and loss experience to determine the probability of default of the trade and other receivables and amounts due from related parties and incorporated forward-looking information, which involved significant estimates and judgements.

The ECL on trade receivables where simplified approach was used are estimated based on the characteristics of the product and payment behavior of the subscriber at the reporting date adjusted based on certain macroeconomic factors such as gross domestic products and inflation rate to reflect the current and forward-looking information.

Any change in the Company's assessment of the collectability of trade and other receivables and amounts due from related parties could impact the recorded carrying amounts of trade and other receivables, due from related parties and related allowance for impairment.

Note 4 - Network materials and supplies, net

Network materials and supplies, net as at Decembers 31 consist of:

	2020	2019
Installation materials	1,315,103,093	480,839,935
Cable wires	173,532,700	16,887,765
	1,488,635,793	497,727,700
Less: Allowance for inventory obsolescence	(29,765,612)	(27,716,510)
Network materials and supplies, net	1,458,870,181	470,011,190

The cost of network materials and supplies capitalized as part of property, plant and equipment and recognized in profit or loss within cost of services for the years ended December 31 are as follows:

	Notes	2020	2019
Capitalized as part of property, plant and equipment	6	624,133,335	783,850,642
Cost of services	14	1,370,257,838	796,323,113

No network materials and supplies are pledged as collateral for the Company's liabilities as at December 31, 2020 and 2019.

Provision for inventory obsolescence recognized for the year ended December 31, 2020 amounted to P2,049,102 (2019 - P27,716,510) (Note 14).

Critical accounting judgment: Recoverability of network materials and supplies

Provision for network materials and supplies obsolescence is maintained at a level considered adequate to provide for potential loss on network materials and supplies. The level of provision is based on past experience and other factors affecting the recoverability and obsolescence of network materials and supplies.

An evaluation of network materials and supplies, designed to identify potential charges to the provision, is performed on a continuous basis throughout the period.

Management uses judgment based on the best available facts and circumstances, including but not limited to nature of network materials and supplies and technology trends which would affect the network materials and supplies' future recoverability and utilization. The amount and timing of recorded expenses for any period would therefore differ based on the judgments made. A change in provision for network materials and supplies obsolescence would impact the Company's recorded expenses and current assets.

Note 5 - Other current assets

Other current assets as at December 31 consist of:

	2020	2019
Input value-added tax (VAT), net	1,156,515,558	288,257,370
Advances to suppliers	333,210,960	75,688,979
Deferred input VAT - current	39,605,060	12,053,716
Prepaid maintenance costs	28,874,631	-
Investment in short-term government securities	5,500,000	-
Other prepayments	18,727,835	-
	1,582,434,044	376,000,065

Current portion of advances to suppliers represents advances to contractors that will be applied as payments for inventory purchases within the next twelve months.

As at December 31, 2020, advances to suppliers related to fixed asset projects amounting to P1,723,819,491 (2019 - P977,867,099) are presented as part of non-current assets in the statement of financial position.

Deferred input VAT relates to various purchases of goods and services which cannot be claimed yet as credits against output VAT liabilities, pursuant to existing VAT rules and regulations. Deferred input VAT as at December 31 can be applied against future output VAT liabilities as follows:

	2020	2019
Due for credit within 12 months	39,605,060	12,053,716
Due for credit beyond 12 months	111,107,189	75,484,851
	150,712,249	87,538,567

Deferred input VAT due for credit beyond 12 months are presented as part of non-current assets in the statements of financial position as at December 31, 2020 and 2019.

Prepaid maintenance costs amounting to P28,874,631 represents current portion of upfront fee paid in relation to a long-term software maintenance and support contract. As at December 31, 2020, non-current portion of prepaid maintenance costs amounting to P86,623,893 is presented as other non-current assets in the statement of financial position.

Note 6 - Property, plant and equipment, net

Details and movements of property and equipment, net as at and for the years ended December 31 are as follows:

	Land	Outside plant	Inside plant and facilities	Customer premises equipment	Transportation equipment	Office equipment and furniture	Leasehold improvements	Assets under construction	Total
At January 1, 2019									
Cost	-	4,392,174,317	2,005,405,237	610,583,632	244,983,877	96,101,561	5,498,542	2,520,293,957	9,875,041,123
Accumulated depreciation	-	(969,267,064)	(672,171,132)	(194,429,919)	(90,257,294)	(32,702,192)	(530,915)	-	(1,859,378,536)
Net carrying amount	-	3,422,887,233	1,333,234,105	416,153,713	154,726,583	63,399,369	4,967,627	2,520,293,957	7,915,662,587
Reclassification of unused customer premises equipment (Note 25)									
Cost	-	-	-	284,378,053	-	-	-	-	284,378,053
Adoption of PFRS 16 (Note 19)									
Cost	-	-	-	-	(141,120,400)	-	-	-	(141,120,400)
Accumulated depreciation	-	-	-	-	13,681,263	-	-	-	13,681,263
At January 1, 2019, as adjusted									
Cost	-	4,392,174,317	2,005,405,237	894,961,685	103,863,477	96,101,561	5,498,542	2,520,293,957	10,018,298,776
Accumulated depreciation	-	(969,267,064)	(672,171,132)	(194,429,919)	(76,576,031)	(32,702,192)	(530,915)	-	(1,945,697,273)
Net carrying amount	-	3,422,887,233	1,333,234,105	700,531,766	27,287,446	63,399,369	4,967,627	2,520,293,957	8,072,601,503
For the year ended December 31, 2019									
Opening net carrying amount	-	3,422,887,233	1,333,234,105	700,531,766	27,287,446	63,399,369	4,967,627	2,520,293,957	8,072,601,503
Additions	-	-	1,626,402,818	638,453,131	19,624,590	59,261,742	12,842,923	7,777,258,302	10,549,355,023
Transfers	-	7,078,907,565	-	-	-	-	-	(7,078,907,565)	-
Disposals	-	-	-	-	-	-	-	-	-
Cost	-	-	-	(3,505,137)	(8,601,786)	-	-	-	(12,106,923)
Accumulated depreciation	-	-	-	651,964	1,392,058	-	-	-	2,044,022
Depreciation	-	(616,577,970)	(469,520,624)	(275,985,316)	(15,180,736)	(25,789,797)	(4,234,911)	-	(1,407,286,354)
Closing net carrying amount	-	9,885,216,828	2,690,116,299	1,060,146,408	24,521,572	96,872,314	13,575,639	3,218,644,694	17,204,605,271
At December 31, 2019									
Cost	215,511,517	11,471,081,862	3,831,808,055	1,529,909,679	114,886,281	155,363,303	18,341,465	3,218,644,694	20,555,546,876
Accumulated depreciation	-	(1,585,865,054)	(1,141,691,756)	(469,763,271)	(90,384,709)	(58,490,989)	(4,765,826)	-	(3,350,941,605)
Net carrying amount	215,511,517	9,885,216,828	2,690,116,299	1,060,146,408	24,521,572	96,872,314	13,575,639	3,218,644,694	17,204,605,271

	Land	Outside plant	Inside plant and facilities	Customer premises equipment	Transportation equipment	Office equipment and furniture	Leasehold improvements	Assets under construction	Total
At January 1, 2020									
Cost	215,511,517	11,471,081,882	3,831,808,055	1,528,909,679	114,886,281	155,363,303	18,341,465	3,218,644,694	20,555,546,876
Accumulated depreciation	-	(1,585,885,054)	(1,141,691,766)	(469,763,271)	(90,364,709)	(58,490,889)	(4,785,826)	-	(3,350,941,605)
Net carrying amount	215,511,517	9,885,216,828	2,690,116,299	1,060,146,408	24,521,572	96,872,314	13,575,639	3,218,644,694	17,204,605,271
For the year ended December 31, 2020									
Opening net carrying amount	215,511,517	9,885,216,828	2,690,116,299	1,060,146,408	24,521,572	96,872,314	13,575,639	3,218,644,694	17,204,605,271
Additions	143,082,734	219,735,341	2,928,454,412	1,510,074,176	191,489,485	90,330,284	7,502,602	10,260,474,463	15,369,123,497
Transfers	-	9,562,801,500	-	-	-	-	-	(9,562,801,500)	-
Disposals	-	-	-	-	-	-	-	-	-
Cost	-	(199,060,462)	(24,376,668)	(1,529,116)	-	(22,139,563)	-	-	(247,105,809)
Accumulated depreciation	-	-	15,662,982	441,488	-	13,769,618	-	-	29,874,098
Depreciation	-	(611,482,690)	(912,458,938)	(537,321,875)	(8,594,266)	(35,678,639)	(4,161,297)	-	(2,109,597,695)
Closing net carrying amount	358,574,251	18,857,210,527	4,695,398,097	2,031,811,081	207,416,791	143,254,014	16,916,944	3,926,317,657	30,246,899,362
At December 31, 2020									
Cost	358,574,251	21,054,558,261	6,733,885,799	3,038,454,739	306,375,786	223,554,024	25,844,067	3,926,317,657	35,677,564,564
Accumulated depreciation	-	(2,197,347,734)	(2,038,487,702)	(1,006,643,658)	(98,956,975)	(80,300,010)	(6,927,123)	-	(5,430,665,202)
Net carrying amount	358,574,251	18,857,210,527	4,695,398,097	2,031,811,081	207,416,791	143,254,014	16,916,944	3,926,317,657	30,246,899,362

None of these properties are used as collateral for the Company's liabilities as at December 31, 2020 and 2019.

Assets under construction includes the Company's network equipment, fiber optic cabling projects, and ongoing network upgrade which are reclassified to depreciable outside plant when the assets become available for use.

During the year ended December 31, 2020, the Company entered into an agreement with entities under common control for the purchase of outside plant assets for a total consideration of P199,060,462. The same assets were subsequently leased back to the related parties for an indefinite period which the Company can unilaterally terminate. At the inception of the lease, the Company derecognized the carrying amount of assets directly related to the lease amounting to P199,060,462 and recognized a loss amounting to P32,715,872 (Note 16). Refer to Note 19 for further details.

As at December 31, 2020, the Company's unpaid property and equipment amounted to P5,998,273,796 (2019 - P4,709,288,143). These are presented within trade payables under trade and other current liabilities (Note 9) in the statement of financial position.

Acquisitions of property and equipment as shown in the statements of cash flows for the years ended December 31 were determined as follows:

	Notes	2020	2019
Acquisitions of property, plant and equipment		15,369,123,497	10,549,355,023
Inventories capitalized as part of property, plant and equipment	4	(624,133,335)	(783,850,642)
Movement in unpaid portion of property, plant and equipment		(1,288,985,653)	(2,112,815,971)
Movement in advances to fixed asset suppliers		745,952,392	824,566,019
Capitalized borrowing costs	10	(123,960,020)	(131,296,958)
Acquisitions of property, plant and equipment per statement of cash flows		14,077,996,881	8,345,957,471

Capitalized borrowing costs are presented as part of financing activities in the statements of cash flows for the years ended December 31, 2020 and 2019. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Company's general borrowings during the year ended December 31, 2020 of 5.28% (2019 - 6.50%).

Inventories capitalized as part of property, plant and equipment are considered as non-cash movements for operating and investing activities in the statements of cash flows for the years ended December 31, 2020 and 2019.

Depreciation expense for the years ended December 31 are recorded in profit or loss as follows:

	Notes	2020	2019
Cost of services	14	2,066,160,554	1,376,704,432
General and administrative expenses	15	43,437,141	30,583,922
		2,109,597,695	1,407,288,354

Critical accounting estimates and assumptions: Estimated useful lives of property, plant equipment intangible assets and right-of-use assets

The useful life of each of the Company's property, plant and equipment, intangible assets (Note 7) and right-of-use assets (Note 19) are estimated based on the period over which these assets are expected to be available for use. Such estimation is based on a collective assessment of internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property, plant equipment, intangible assets and right-of-use assets would increase the recorded expenses and decrease non-current assets.

On January 1, 2020, management has assessed, based on internal technical evaluation, that they will be able to utilize outside plant assets for up to 25 years which is also aligned with industry practice. As such, management has approved the change in estimated useful life of outside plant from 15 to 25 years. The change in estimated useful life is considered a change in accounting estimate accounted for prospectively by recognizing the effect of the change in the period of change and future periods until the end of the useful life. The effect of this change on depreciation expense in current and future periods on assets currently held are as follows:

	Year ended December 31, 2020	Year ending December 31, 2021	January 1, 2022 - December 31, 2024	January 1, 2025 - December 31, 2034	January 1, 2035 - Onwards
(Decrease) increase in depreciation expense	(325,307,923)	(325,304,573)	(969,547,754)	(2,227,622,915)	3,847,783,165

Critical accounting judgment: Recoverability of property, plant equipment, intangible assets and right-of-use assets

Property, plant and equipment, intangible assets (Note 7) and right-of-use assets (Note 19) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable.

Management believes that there are no events or changes in circumstances that indicate that the carrying amount of its property, plant and equipment, intangible assets and right-of use assets maybe impaired as at December 31, 2020 and 2019.

Note 7 - Intangible assets, net

Intangible assets, net as at December 31 consist of:

	Customer list (Note 18)	Telecommunication franchise	Software and licenses	Total
At January 1, 2019				
Cost	311,387,871	50,152,368	218,193,785	579,734,024
Accumulated amortization	(7,784,697)	(14,042,664)	(20,648,304)	(42,475,665)
Net carrying amount	303,603,174	36,109,704	197,545,481	537,258,359
For the year ended December 31, 2019				
Opening net carrying amount	303,603,174	36,109,704	197,545,481	537,258,359
Additions	-	-	226,724,257	226,724,257
Amortization	(31,138,787)	(2,006,095)	(60,968,732)	(94,113,614)
Closing net carrying amount	272,464,387	34,103,609	363,301,006	669,869,002
At December 31, 2019				
Cost	311,387,871	50,152,368	444,918,042	806,458,281
Accumulated amortization	(38,923,484)	(16,048,759)	(81,617,036)	(136,589,279)
Net carrying amount	272,464,387	34,103,609	363,301,006	669,869,002
For the year ended December 31, 2020				
Opening net carrying amount	272,464,387	34,103,609	363,301,006	669,869,002
Additions	-	-	656,644,168	656,644,168
Amortization	(31,138,787)	(2,006,094)	(138,721,739)	(171,866,620)
Closing net carrying amount	241,325,600	32,097,515	881,223,435	1,154,646,550
At December 31, 2020				
Cost	311,387,871	50,152,368	1,101,562,210	1,463,102,449
Accumulated amortization	(70,062,271)	(18,054,853)	(220,338,775)	(308,455,899)
Net carrying amount	241,325,600	32,097,515	881,223,435	1,154,646,550

Customer list represents a list of known, identifiable subscribers that contains information about these subscribers, such as name and contact information (Note 18).

Telecommunication franchise represents costs to obtain its franchise to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines, which includes direct lawyers' fees, registration fees, application fees and other direct costs incurred by the Company.

As at December 31, 2020, the Company's unpaid software and licenses amounting to P10,997,070 is presented as part of trade and other current liabilities (Note 9) (2019 - P27,278,564) in the statement of financial position.

Acquisitions of intangible assets as shown in the statements of cash flows for the years ended December 31 were determined as follows:

	2020	2019
Acquisitions of intangible assets	656,644,168	226,724,257
Movement in unpaid portion of intangible assets	16,281,494	284,109,307
Acquisitions of intangible assets per statements of cash flows	672,925,662	510,833,564

Amortization expense for the years ended December 31 recognized in profit or loss are as follows:

	Notes	2020	2019
Cost of services	14	109,177,606	45,391,355
General and administrative expenses	15	62,689,014	48,722,259
		171,866,620	94,113,614

Note 8 - Investment in subsidiaries

On August 23, 2019, the Company has acquired 99% shareholdings in Pentagon Holding Co. (Pentagon) from its ultimate parent company for a total consideration of P123,750,000. As at December 31, 2020 and 2019, the related unpaid subscription amounting to P40,750,000 is presented as part of due to related parties in the statements of financial position.

Pentagon is a holding company organized and existing under the Philippine laws and with principal office address and place of business at New Street Business Center, Balibago, Angeles City, Pampanga.

On March 3, 2020, the Company incorporated Converge ICT Solutions (Global) Limited (Converge Global) in Hong Kong for a consideration amounting to P65,489. Converge Global was organized primarily to provide internet and investor relations services for customers outside the Philippines. As at December 31, 2020, Converge Global is still at pre-operating stage. Converge Global's registered office address and place of business is at 27/f Alexandra HSE 18 Charter Road Central, Hong Kong.

The investments are accounted for under the cost method in these separate financial statements.

Note 9 - Trade and other current liabilities

Trade and other current liabilities as at December 31 consist of:

	Notes	2020	2019
Trade payables			
Third parties		5,865,553,453	1,374,895,514
Related parties	18	2,413,147,895	3,770,075,220
Subscribers' deposits		910,216,574	581,062,832
Accruals for:			
Service fees	18	271,820,628	540,769,253
Bandwidth and leased line	18	258,080,687	377,120,735
Payroll and employee benefits		75,575,698	16,750,714
Leases		26,674,391	6,441,218
Interest payable	10	15,819,807	28,292,812
Others		357,724,004	126,748,618
Deferred output VAT		407,250,911	441,801,540
Payable to government agencies		171,679,333	63,906,413
Provision for employee benefits		159,855,955	36,784,813
Provision for contingencies		110,925,384	-
		11,044,324,720	7,364,649,682

Trade payables are non-interest bearing and are normally settled within 30 days to 90 days.

Subscribers' deposits pertain to cash bonds paid by the subscribers as deposits to cover for any loss or damage to certain network assets (e.g. customer premise materials) and other accessories installed in their premises, as well as to cover anticipated losses on default payments. Non-current portion of subscribers' deposits amounting to P1,132,965,276 as at December 31, 2020 (2019 - P491,831,373) are presented as part of non-current liabilities in the statement of financial position.

Accruals for leases represents accruals for short-term leases. Other accrued expenses mainly pertain to accruals for outside services, professional fees and utilities.

Deferred output VAT represents the VAT portion of the uncollected invoices.

Provision for employee benefits pertains to estimated amounts of bonuses and other incentives for employees, the final amount of which, including specific qualified employees will be determined in the following year. The movements in provision for employee benefits are as follows:

	Notes	2020	2019
Beginning		36,784,813	-
Provision	14, 15	167,008,350	36,784,813
Payout		(43,937,208)	-
Ending		159,855,955	36,784,813

Provision for employee benefits are recognized in profit or loss as part of personnel costs under cost of services and general and administrative expenses.

During the year ended December 31, 2020, the Company recognized provision for contingencies amounting to P110,925,384. Provision for contingencies represents the Company's best estimate of the probable cost that may arise from certain ongoing operational contingencies in the ordinary course of business.

The carrying amounts of trade and other current liabilities as at December 31, 2020 and 2019 approximate its fair values due to its short-term maturities.

Commitments

The Company has entered into agreements with various suppliers for the construction, delivery and installation of property and equipment. As at December 31, 2020, the Company has commitments amounting to P14,671,435,607 (2019 - P12,331,842,772) related to future capital expenditures.

Note 10 - Loans payable

Bank 1 - Credit Facility A

On March 5, 2015, the Company, its immediate parent company and entities under common control (collectively, the "Borrowers"), entered into a long-term and revolving credit facilities agreement of P1.6 billion in aggregate with a local bank (Bank 1). The facilities agreement was initially secured by real estate mortgages owned by the immediate parent company and other related parties, joint and solidarity suretyship of some shareholders, cross default/surety arrangement among the Borrowers and corporate suretyship of a third-party mortgagor. On November 28, 2018, the related long-term loan facility agreement was amended to remove the security provisions over the payment of the loan principal and interests thereon and make the facility on a clean line basis. The long-term loan of P500 million is available via staggered releases with drawdown period of five (5) years valid from the initial drawdown while the revolving credit facilities amounting to P1.1 billion are valid until January 31, 2017 and are available via 360-day promissory note. The long-term loan has a maximum term of up to five (5) years from the initial drawdown and payable in equal monthly/quarterly installments commencing after the allowable grace period from drawdown. Drawdowns from the facilities are subject to interest at prevailing market rate and subject to repricing.

In 2015 and 2017, the Company availed P420 million and P80 million long-term loans, respectively. As at December 31, 2017, the Company have fully exhausted the credit facility. As at December 31, 2020, the Company is in repayment period with outstanding balance amounting to P31.63 million (2019 - P94.88 million). Interest rate for the year ended December 31, 2020 is 5.25% per annum (2019 - 6.13% per annum).

Bank 1 - Credit Facility B

On June 1, 2017, the Borrowers entered into a new revolving and long-term credit facility agreement of P1.5 billion and P2.0 billion, respectively, with Bank 1. The revolving credit facilities are valid until June 30, 2018 and are available via 360-day promissory notes. The long-term loan is available via staggered releases with a drawdown period of one (1) year from the date of initial availment, provided, the initial availment should be made not later than November 28, 2017. The long-term loan shall be for a maximum term of up to seven (7) years inclusive of one (1) year grace period on principal payment from and after the date of drawdown. Proceeds from the long-term loan agreement are to be used exclusively to finance the Company's various operational capital expenditure requirements.

The long-term loan was secured by real estate mortgages owned by the immediate parent company and other related parties, joint and solidarity suretyship of some shareholders, cross default/surety arrangement among the Borrowers and corporate suretyship of a third-party mortgagor. Drawdowns from the facilities are subject to interest at prevailing market rate and are reprisable every 30-90 days.

In 2017 and 2018, the Company availed P190 million and P1.14 billion long-term loans, respectively, payable in equal quarterly installments starting February 4, 2019.

On January 18, 2019, the above long-term loan facility agreement was amended to extend the availment period from one (1) year valid until November 24, 2018 to two (2) years valid until November 24, 2019 and to remove security provisions over the payment of the loan principal and interests thereon. On the same date, the Company availed an additional P500 million, payable in equal quarterly installments starting February 4, 2019. Unused credit facility amounting to P170 million as of November 24, 2019 was permanently expired. As at December 31, 2020, the Company is in repayment period with outstanding loans amounting to P1.22 billion (2019 - P1.53 billion). For the year ended December 31, 2020, the weighted average interest rate from outstanding loan were 5.36% per annum (2019 - 5.87% per annum).

Bank 1 - Credit Facility C

In 2018, the Company availed of unsecured short-term loans with an aggregate amount of P516.82 million payable upon maturity within 12 months from drawdown date. The unsecured short-term loans bear interest rates ranging from 3.25% - 5.30% per annum, reprisable at the discretion of the bank. In 2019, the loan was repaid in full and the credit facility has expired.

Bank 1 - Credit Facility D

On June 4 and June 17, 2019, the Company entered in trust receipt agreements amounting to P67.15 million and P191.83 million, payable in lump sum on September 2 and September 13, 2019, respectively, both with fixed interest rate of 6.13% per annum. In 2019, the loan was repaid in full and the credit facility has expired.

Bank 1 - Credit Facility E

On December 23, 2019, the Company entered into a new unsecured long-term credit facility agreement with Bank 1 amounting to P5.0 billion to finance its on-going network rollout. The facility is available via staggered releases with drawdown period valid until two (2) years from the initial borrowing date or until the facility is fully drawn, whichever comes earlier. The long-term loan has a maximum term of seven (7) years from the initial drawdown.

On December 26, 2019 and on January 17, 2020, the Company availed P3.0 billion and P2.0 billion long-term loans with fixed interest rates of 4.92% and 5.25%, respectively and payable in equal quarterly payments starting March 2022. As at December 31, 2020, the Company have fully exhausted the credit facility (2019 - P2.0 billion available credit facility).

Bank 1 - Credit Facility F

On May 11, 2020, the Company entered into a new unsecured long-term credit facility agreement with Bank 1 amounting to P15.0 billion to partially finance its on-going nationwide network roll-out. The facility shall be available via multiple borrowings which can be availed until June 5, 2024. Each loan borrowing shall be for a maximum term of seven (7) years from the date of initial drawdown of the same calendar year and payable in equal quarterly installments commencing at the end of the allowed grace period.

On November 27, 2020, the Company availed P2.0 billion long-term loan with fixed interest rate of 4.75% and payable in equal quarterly payments starting February 2023. As at December 31, 2020, the Company has available P13.0 billion credit facility.

Bank 2 - Credit Facility A

On June 27, 2018, the Company entered into an Omnibus loan line agreement with Bank 2 amounting to P1.5 billion. Drawdowns from the facility are subject to interest at prevailing market rate, repriced quarterly. The principal shall be payable on a lump sum basis on its maturity date.

On August 6 and August 15, 2018, the Company availed P150 million and P200 million short-term loans payable in lump sum on August 1 and August 9, 2019, respectively, both with interest rates of 4.25% per annum, subject to repricing as determined by the bank. On September 19, 2018, additional short-term loan was availed amounting to P400 million with interest rate of 4.75% per annum, payable in lump sum on September 13, 2019. These short-term loans were fully paid by the Company at maturity date.

On December 6, 2018, the Company availed P300 million loan payable in lump sum on March 27, 2020 with an interest rates of 5.25% - 6% per annum for the year ended December 31, 2020 (2019 - 6% - 6.75%). On June 13, 2019, an additional loan was availed amounting to P430 million payable in lump sum on June 5, 2020 with an interest rate of 6.75% per annum. These short-term loans were fully paid by the Company at the maturity date.

On December 10, 2019, the facility agreement was updated to extend the availability of the credit line to December 30, 2020. On December 14, 2020, the facility agreement was updated to extend the availability of the Omnibus loan line to June 30, 2021. Drawdowns from the facility are subject to interest at prevailing market rate, repriced monthly. As at December 31, 2020, the Company has no outstanding balance from this facility (2019 - P730 million). As at December 31, 2020, the Company has available credit line of P1.5 billion (2019 - P770 million).

Bank 2 - Credit Facility B

On October 23, 2018, the Company entered into a new unsecured long-term credit facility agreement amounting to P2 billion to finance its on-going network rollout. The facility is available until September 30, 2019. The long-term loan has a maximum term of five (5) years from the release of the loan proceeds and payable in equal quarterly installments commencing after the allowable grace period from drawdown.

On March 7, April 4, and June 18, 2019, the Company availed P500 million, P900 million and P200 million, all with interest rate of 5.25% per annum and payable in 12 equal quarterly payments starting June 7, 2021. On December 10, 2019, this credit facility was updated extending the availability period of the remaining available credit facility until December 30, 2020. On December 14, 2020, the facility agreement was updated to extend the availability of the long-term credit facility to June 30, 2021. As at December 31, 2020 and 2019, outstanding balance from this facility amounted to P1.6 billion. As at December 31, 2020 and 2019, the available credit line of the credit facility is P400 million.

Bank 3 - Credit Facility A

On July 3, 2019, the Company entered into an unsecured long-term credit facility agreement with another local bank (Bank 3) amounting to P5.0 billion to be used exclusively for capital expenditures. The facility is available for a period of 24 months from execution of the agreement. The long-term loan has a maximum term of ten (10) years from the date of the initial drawdown and payable in equal quarterly installments commencing after the allowable grace period from drawdown.

On July 12, 2019 and January 24, 2020, the Company availed P1.0 billion and P1.5 billion long-term loans, respectively, both payable at 32 equal monthly payments starting October 12, 2021. Interest rates are 5.98% and 5.55% per annum, respectively, subject to repricing as determined by the bank. On July 13, 2020, the Company made a prepayment of the loan balances amounting to P1.0 billion applied proportionately to the loans availed. As at December 31, 2020, outstanding balance from this credit facility amounted to P1.5 billion (2019 - P1.0 billion). The Company has an available credit facility of P2.5 billion as at December 31, 2020 (2019 - P4.0 billion).

Bank 3 - Credit Facility B

On February 20, 2020, the Company entered into a new unsecured revolving credit line agreement with Bank 3 for a total of P2.0 billion which can be drawn until March 31, 2021. The loan is available up to 180 days from the date of promissory notes and renewable by up to 180 days but not exceeding 360 days. Drawdowns from the facility are subject to interest at prevailing market rate as determined by the bank. As at December 31, 2020, the Company have not drawn down any amounts from this credit line.

As at December 31, the Company has the following unused credit lines from the local banks:

	2020	2019
Bank 1	13,000,000,000	2,000,000,000
Bank 2	1,900,000,000	1,170,000,000
Bank 3	4,500,000,000	4,000,000,000
	19,400,000,000	7,170,000,000

The current and non-current portion of the loans payable as at December 31 are as follows:

	2020	2019
Current	731,214,286	1,098,250,000
Non-current	10,582,607,143	6,851,625,000
	11,313,821,429	7,949,875,000

The movements in loans presented in the statements of financial position and statements of cash flows for the years ended December 31 are as follows:

	2020	2019
Beginning of the year	7,949,875,000	2,724,673,287
Availments	5,462,196,429	6,788,971,272
Payments	(2,098,250,000)	(1,563,769,559)
End of the year	11,313,821,429	7,949,875,000

The movements in interest payable presented under trade and other current liabilities in the statements of financial position and statements of cash flows for the years ended December 31 are as follows:

	Notes	2020	2019
Beginning of the year		28,292,812	4,368,312
Finance costs recognized in profit or loss		432,367,039	165,192,182
Capitalized borrowing costs	6	123,960,020	131,296,958
Payments		(568,800,064)	(272,564,640)
End of the year	9	15,819,807	28,292,812

The loan agreements with banks provide for certain restrictions and requirements. The more significant covenants are as follows:

- prohibition on the payment of dividends or distribution of any other income or capital to its shareholders at any time, without prior consent of the bank, when its financial covenants under the agreement are not complied with;
- prohibition on the payment of any discretionary management bonuses or profit sharing at any time, without prior consent of the bank, when any amount due and payable by the Company under the agreement is in arrears;
- prohibition to materially change its ownership structure, control and management whether direct or indirect, without prior consent of the bank;
- prohibition of selling, transfer or disposal of all or substantially of assets outside the ordinary course of business, without prior consent of the bank; and
- requirement to maintain a specific level of debt service coverage ratio.

The Company is in full compliance with its loan covenants as at and for the years ended December 31, 2020 and 2019.

During the year ended December 31, 2020, the Company entered into term sheets with two local banks for two long-term credit facilities with an aggregate amount of up to P10.0 billion. Each credit facility is for an unsecured, 7-year term loan of P5 billion. Each loan will be available for drawdown for at least 12 months following the signing of the definitive facility agreement and will have a term of seven years from the first drawdown date.

Interest would be payable quarterly in arrears and the principal would be payable in equal quarterly installments commencing after a grace period of two years from drawdown. Each loan bears interest equivalent to the BVAL benchmark rate prevailing at drawdown plus a spread.

Subsequent event

The definitive facility agreements with both banks were finalized and signed subsequently in January and February 2021.

In February 2021, the Company further received the approval of another local bank for a new short-term facility with an aggregate amount of up to P1.0 billion.

Note 11 - Retirement benefit obligation

The Company recognized the amount of unfunded retirement benefits for its qualified employees following the minimum requirement benefit required by Republic Act 7641 - Retirement Pay Law. An independent actuary conducts a periodic actuarial valuation of the defined benefit plan using the projected unit credit method.

The retirement benefit obligation recognized in the statement of financial position as at December 31, 2020 amounted to P112,939,074 (2019 - P26,903,012).

The movements in the present value of the defined benefit obligation for the years ended December 31 are as follows:

	2020	2019
Beginning of the year	26,903,012	62,472,656
Current service cost	21,622,329	18,301,946
Interest cost	1,490,996	4,903,566
Benefits paid	-	(269,800)
Remeasurement loss (gain):		
Experience adjustments	24,154,787	(6,320,625)
Effect of changes in demographic assumptions	20,486,953	(65,528,278)
Effect of changes in financial assumptions	18,279,374	8,190,349
Net transferred liability	1,623	5,153,198
End of the year	112,939,074	26,903,012

The components of retirement benefit expense for the years ended December 31 are as follows:

	2020	2019
Current service cost	21,622,329	18,301,946
Interest cost	1,490,996	4,903,566
Retirement benefit expense	23,113,325	23,205,512

The retirement benefit expense for the years ended December 31 are allocated as follows:

	Notes	2020	2019
Cost of services	14	5,752,238	12,728,353
General and administrative expenses	15	17,361,087	10,477,159
		23,113,325	23,205,512

Movements in the reserve for remeasurements of retirement benefit obligation for the years ended December 31 are as follow:

	Note	2020	2019
Beginning of the year		52,042,878	8,764,500
Remeasurement (loss) gain for the year		(62,921,114)	63,658,554
Deferred income tax effect	17	18,876,334	(20,380,176)
End of the year		7,998,098	52,042,878

The principal actuarial assumptions used for the years ended December 31 were as follows:

	2020	2019
Discount rate	3.89%	5.54%
Salary increase rate	8.00%	8.00%

Discount rate

The discount rate is determined by reference to yields on long-term Philippine treasury bonds and adjusted to reflect the term similar to the estimated term of the benefit obligation as determined by the actuary as at the end of the reporting period as there is no deep market in high quality corporate bonds in the Philippines.

Salary increase rate

Salary increase rate is the expected long-term average rate of salary increase taking into account general inflationary measure plus a factor increase for individual productivity, merit and promotion. The salary increase rate is set by management over the period which benefits are expected to be paid.

Demographic assumptions

Assumptions regarding future mortality and disability are set based on published statistics and experience in the Philippines.

Other key assumptions for retirement benefit obligation are based in part of current market conditions.

Expected maturity analysis of undiscounted retirement benefits as at December 31 is as follows:

	2020	2019
One year to five years	24,987,960	10,280,195
More than five years to ten years	124,553,148	22,542,345
Total expected payments	149,541,108	32,822,540

The weighted average duration of the defined benefit obligation as at December 31, 2020 is 11.3 years (2019 - 12.5 years).

Critical accounting estimates and assumptions: Principal assumptions for estimation of retirement benefit obligation

The determination of the Company's retirement benefit obligation is dependent on the selection of certain assumptions used by the actuary in calculating such amount. Those assumptions include among others, discount rate and salary increase rate. Actual results that differ from the Company's assumptions generally affect the recognized expense and recorded obligation in such future periods. One or more of the actuarial assumptions may differ significantly and as a result, the actuarial present value of the defined benefit obligation estimated at the reporting dates may differ significantly from the amounts reported.

The sensitivity of the retirement benefit obligation as at December 31 to changes in the principal actuarial assumptions are as follows:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
<u>2020</u>			
Discount rate	+/-100 bps	(11,677,165)	13,923,789
Salary increase rate	+/-100 bps	13,212,962	(11,365,034)
<u>2019</u>			
Discount rate	+/-100 bps	(3,069,473)	3,661,942
Salary increase rate	+/-100 bps	3,535,261	(3,031,074)

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognized within the statements of financial position.

The method and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Note 12 - Equity*Share capital*

Details of share capital as at December 31 are as follows:

	Number of shares	Amount
2020		
Authorized shares		
Common shares at P0.25 par value per share	16,900,000,000	4,225,000,000
Preferred shares at P0.25 par value per share	3,060,000,000	765,000,000
Preferred B shares at P0.0025 par value per share	4,000,000,000	10,000,000
Total	23,960,000,000	5,000,000,000
Issued and outstanding		
Common shares		
Beginning, prior to stock split	125,000,000	1,250,000,000
Effect of stock split	4,875,000,000	-
As adjusted after stock split	5,000,000,000	1,250,000,000
Conversion of preferred shares	2,045,454,520	511,363,630
Initial public offering (IPO)	480,839,941	120,209,985
Ending	7,526,294,461	1,881,573,615
Preferred shares		
Beginning, prior to stock split	30,681,818	306,818,180
Issuance	20,454,545	204,545,450
Effect of stock split	1,994,318,157	-
As adjusted after stock split	2,045,454,520	511,363,630
Conversion of preferred shares	(2,045,454,520)	(511,363,630)
Ending	-	-
Total	7,526,294,461	1,881,573,615
2019		
Authorized shares		
Common shares at P10 par value per share	435,000,000	4,350,000,000
Preferred shares at P10 par value per share	65,000,000	650,000,000
Total	500,000,000	5,000,000,000
Issued and outstanding		
Common shares		
Beginning	125,000,000	1,250,000,000
Issuance	-	-
Ending	125,000,000	1,250,000,000
Preferred shares		
Beginning	-	-
Issuance	30,681,818	306,818,180
Ending	30,681,818	306,818,180
Total	155,681,818	1,556,818,180

Additional paid-in capital

Details of additional paid-in capital as at December 31 are as follows:

	2020	2019
Beginning of the year	6,541,191,820	-
Additions		
Issuance of convertible preferred shares	4,363,404,220	6,749,631,820
Issuance of common shares during IPO	7,957,901,023	-
Share issuance costs		
Issuance of convertible preferred shares	(2,045,456)	(208,440,000)
Issuance of common shares during IPO	(114,363,362)	-
End of the year	18,746,088,245	6,541,191,820

On December 28, 2018, the Company's BOD and stockholders approved to amend the Articles of Incorporation to change the Company's authorized capital stock from 500 million common shares with P10 par value to 435 million common shares and 65 million convertible preferred shares, all with P10 par value per share. On April 29, 2019, the SEC has approved the amendments to the Articles of Incorporation.

Each convertible preferred share confers upon a shareholder: a) the right to vote at any shareholders' meeting or on any resolution of the shareholders; and b) the right to distribution of income on a *pari passu* basis with all other shareholders based on actual shareholding percentage. Each convertible preferred share shall be convertible into a fully paid common share on a one-to-one basis.

In the event of an exit, liquidation, dissolution or winding-up of the Company, each convertible preferred shareholders, in respect of each convertible preferred shares, shall have the right to: a) issue a conversion notice and share in the proceeds *pari passu* with all other shareholders based on its actual shareholding percentage; or b) receive, out of the liquidation or sale proceeds from the liquidation event, prior to any payments to the holders of common shares, an amount equal to the relevant subscription amount in respect of the convertible preferred shares.

On August 23, 2019, the Company issued 30,681,818 convertible preferred shares with a total par value of P306,818,180 for a total consideration of US\$135 million or P7,056,450,000. The issuance of the shares resulted in the recognition of P6,541,191,820 additional paid-in capital, net of P208,440,000 transaction costs, in the statement of financial position.

On February 7, 2020, the Company has issued additional 20,454,545 convertible preferred shares with a total par value of P204,545,450 for a total consideration of US\$90 million or P4,567,949,670, resulting to additional paid-in capital of P4,361,358,764, net of P2,045,456 transactions costs, in the statement of financial position.

On June 10, 2020, the Company's Board of Directors (BOD) and stockholders approved, among others, the following amendments to the Articles of Incorporation:

- a. The authorized capital stock of the Company is P5,000,000,000, divided into:
 - (i) 16,900,000,000 common shares with a par value of P0.25 per share; (ii) 3,060,000,000 preferred shares with a par value of P0.25 per share; and (iii) 4,000,000,000 preferred B shares with a par value of P0.0025 per share;
- b. The preferred shares and preferred B shares of each and any series may, or may not be convertible, and may or may not be redeemable, as well as may or may not be entitled to any other participation or share in the retained earnings after dividend payments shall have been made on the preferred shares and preferred B shares; and
- c. The stockholders of the Company shall have no pre-emptive right to subscribe to any issue or disposition of shares of any class of the Company.

Each preferred B share confers upon a holder thereof: a) the right to vote at any shareholders' meeting or on any resolution of the shareholders other than with respect to matters requiring the vote of a particular class of shares in accordance with applicable law and b) if dividends are declared by the BOD, dividends on the preferred B shares shall be at the fixed rate of 0.01% per annum. Further, holders of the preferred B shares shall: (a) not be entitled to participate in any other or future dividends beyond the dividends specifically payable on the preferred B shares and (b) have no right to convert the preferred B shares to any other preferred shares or common shares of the Company.

In the event of a return of capital in respect of the Company's winding up or otherwise (whether voluntarily or involuntarily) but not on a redemption or purchase by the Company of any of its share capital, the holders of the preferred B shares at the time outstanding will be entitled to receive, in Philippine Pesos out of the assets of the Company available for distribution to shareholders, together with the holders of any other securities of the Company ranking, as regards repayment of capital, in pari passu with the preferred B shares; and, before any distribution of assets is made to holders of any class of the securities of the Company ranking after the preferred B shares as regards repayment of capital, liquidating distributions in of the preferred B shares plus an amount equal to any dividends declared but unpaid in respect of the previous dividend period. If, upon any return of capital in the winding up of the Company, the amount payable with respect to the preferred B shares and any other securities of the Company ranking as to any such distribution in pari passu with the preferred B shares is not paid in full, the holders of the preferred B shares and of such other securities will share ratably in any such distribution of the assets of the Company in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the preferred B shares will have no right or claim to any of the remaining assets of the Company and will not be entitled to any further participation or return of capital in a winding up.

The amendments to the Articles of Incorporation including the stock split was approved by the SEC on September 28, 2020. As a result of the stock split, the Company's 125,000,000 and 51,136,363 issued and outstanding common and preferred shares, respectively, each with a par value of P10 per share, were exchanged for 5,000,000,000 and 2,045,454,520 newly issued common and preferred shares, respectively, each with a par value of P0.25 per share. Earnings per share information have been retroactively adjusted to reflect the stock split (Note 20).

On October 8, 2020, Coherent Cloud Investments B.V. exercised its conversion right to convert all 2,045,454,520 issued and outstanding preferred shares held in its name to common shares and the Company has issued 2,045,454,520 common shares to Coherent Cloud on the same date at a conversion ratio of one preferred shares to one common share. Consequently, preferred share capital amounting to P511,363,630 has been recognized as part of common share capital.

On October 26, 2020, the Company undertook a public offering of its common shares in which the Company offered and issued by way of primary offer 480,839,941 unissued common shares with a total par value of P120,209,985 for a total consideration of P8,078,111,008. As a result of the public offering, additional paid-in capital amounting to P7,843,537,661, net of share issuance costs of P114,363,362, has been recognized in the statement of financial position.

The Company's record of registration of its securities follows:

Number of shares registered	7,526,294,461
Issue/offer price	P16.80
Date of approval	September 24, 2020
Number of shareholders as at December 31, 2020	16

Retained earnings

a. Appropriation

On June 11, 2018, the Company's BOD approved the expansion of the Company's outside plant in South Luzon and the acquisition of equipment related to technology in the next one to five years. On the same date, the Company's BOD approved the appropriation of retained earnings amounting to P1.0 billion to fund the planned infrastructure expansion projects.

On December 27, 2018, the Company's BOD also approved the appropriation of additional P1.2 billion retained earnings to fund the Company's planned infrastructure expansion projects discussed above.

On June 8, 2020, the Company's BOD approved to release the appropriation of retained earnings amounting to P2.2 billion as a result of the completion of the planned infrastructure expansion in Luzon and acquisitions of equipment.

b. Dividend declarations

On August 15, 2019, the Company's BOD authorized and approved the declaration of the following cash dividends to its common shareholders of record as of August 22, 2019, out of the unappropriated retained earnings as at December 31, 2018:

Currency	Rate per share	Payment date	In original currency	In PHP
PHP	1.08	August 27, 2019	134,897,402	134,897,402
USD	0.10	March and June 2020	12,171,914	635,313,051
				770,210,453

As at December 31, 2019, outstanding dividends payable amounting to P617,651,604 (after foreign currency exchange revaluation) is presented as part of current liabilities in the statement of financial position.

Note 13 - Revenue from contracts with customers

Disaggregation of revenue

Below is the disaggregation of the Company's revenue from contracts with customers recognized over time:

	2020	2019
Residential	12,628,296,463	6,353,891,691
Corporate	3,024,035,868	2,785,596,880
	15,652,332,331	9,139,488,571

Deferred contract costs

Deferred contract costs pertain to incremental costs incurred to obtain and fulfill the contract with subscribers. These are capitalized and subsequently amortized on a straight-line basis over the term of the subscription contract. Details as at December 31 are as follows:

	2020	2019
<i>Costs to obtain contracts with customers:</i>		
Subscribers acquisition costs, net of amortization	587,256,222	288,560,337
<i>Costs to fulfill contracts with customers:</i>		
Installation costs, net of amortization	1,065,621,633	430,167,234
	1,652,877,855	718,727,571

These are presented as deferred contract costs in the statements of financial position as at December 31 as follows:

	2020	2019
Current	1,109,716,644	489,441,350
Non-current	543,161,211	229,286,221
	1,652,877,855	718,727,571

Movements in the deferred contract costs for the years ended December 31 are as follows:

	Note	2020	2019
At January 1		718,727,571	257,040,630
Amounts capitalized during the year		1,760,860,845	817,050,840
Amortization	14	(826,710,561)	(355,363,899)
At December 31		1,652,877,855	718,727,571

Amortization of deferred contract costs are recorded as part of cost of services (Note 14) in profit or loss.

Contract liabilities

Contract liabilities, recorded as deferred revenues in the statement of financial position, amounting to P668,724,493 as at December 31, 2020 (2019 - P281,433,473) represent outright payments of installation service fees which are recognized as revenue on a straight-line basis over the term of the subscription contract. These are presented in the statements of financial position as at December 31 as follows:

	2020	2019
Current	463,619,256	199,477,561
Non-current	205,105,237	81,955,912
	668,724,493	281,433,473

The increase in deferred revenues as at December 31, 2020 was due to the overall increase in subscriber acquisitions.

The following table shows the rollforward analysis of contract liabilities for the years ended December 31:

	2020	2019
At January 1	281,433,473	152,293,284
Additions during the year	763,326,688	304,820,593
Recognized as revenue	(376,035,668)	(175,680,404)
At December 31	668,724,493	281,433,473

Note 14 - Cost of services

The components of cost of services for the years ended December 31 are as follows:

	Notes	2020	2019
Depreciation and amortization	6,7,19	2,363,397,873	1,573,782,694
Network materials and supplies used	4	1,370,257,838	796,323,113
Bandwidth and leased line costs		945,604,580	828,994,744
Amortization of deferred contract cost	13	826,710,561	355,363,899
Service fees	18	617,761,069	344,246,710
Personnel costs		398,475,773	229,103,670
Repairs and maintenance		347,186,090	42,041,792
Rent	19	197,261,259	112,137,307
Utilities		75,933,567	92,571,405
Provision for inventory obsolescence	4	2,049,102	27,716,510
Retirement benefit expense	11	5,752,238	12,728,353
Others		38,778,225	67,668,985
		7,189,168,175	4,482,679,182

Bandwidth and leased line costs mainly pertain to the costs for transmitting data through signals from both local and foreign suppliers.

Rent consists of costs incurred in relation to short-term leases and other agreements for the use of third-party structures necessary in providing services to subscribers that did not qualify as leases under PFRS 16, Leases.

Note 15 - General and administrative expenses

The components of general and administrative expenses for the years ended December 31 are as follows:

	Notes	2020	2019
Personnel costs		991,516,104	441,534,548
Commission expense		263,546,109	81,746,461
Professional fees		190,388,101	87,103,297
Outside services		149,680,254	106,626,309
Repairs and maintenance		144,428,941	75,190,948
Depreciation and amortization	6,7,19	143,389,933	115,982,812
Provision for contingencies	9	110,925,384	-
Utilities		104,557,250	62,895,028
Taxes and licenses		98,873,688	63,225,644
Operational bank charges and fees		84,421,916	8,358,875
Promotions		74,948,896	50,954,778
Meals and transportation		41,782,733	66,968,177
Office supplies		25,267,228	18,090,756
Penalties and surcharges		21,951,573	2,329,678
Insurance		17,877,629	22,209,320
Retirement benefit expense	11	17,361,087	10,477,159
Permits		10,615,712	6,084,023
Rent	19	3,132,658	8,842,197
Representation		2,844,098	7,942,630
Membership dues		1,894,390	1,710,960
Trainings and seminars		794,166	2,799,129
Others		120,044,237	26,729,637
		2,620,242,087	1,267,802,366

Rent represents costs incurred in relation to short-term leases.

Others include postage, penalties, operational bank charges, delivery expense and other removal costs of fiber optic cables.

Note 16 - Other income, net

The components of other income, net for the years ended December 31 are as follows:

	Notes	2020	2019
Dividend income	18	600,000,000	-
Net foreign exchange gain	21	264,134,743	16,191,054
Gain on transfer of network materials to related parties	18	49,992,540	56,299,945
Interest income on cash in banks and cash equivalents	2	34,204,825	4,136,147
Interest income on finance lease receivable	19	10,414,835	-
Interest income on financial asset at FVTPL	23.1	2,034,258	-
Management fees	18	1,680,000	7,337,959
Loss on sale of property, plant and equipment		(50,887,121)	-
Loss on disposal of financial asset at FVTPL		-	(18,749,900)
Miscellaneous		18,409,767	1,126,768
		929,983,847	66,341,973

Loss on disposal of financial asset at FVTPL for the year ended December 31, 2019 represents loss on sale of investment in unlisted ordinary shares of a local company acquired in 2018. No fair value gain or loss was recognized for the year ended December 31, 2019 arising from this investment in unlisted ordinary shares.

Miscellaneous income mainly relates to prescribed long outstanding payables of the Company.

Note 17 - Income taxes

Deferred income tax (DIT)

DIT assets, net as at December 31 represent the tax effects of the following temporary differences:

	2020	2019
<i>Expected to be realized (settled) within 12 months</i>		
Allowance for impairment of trade and other receivables	266,367,752	196,757,903
Deferred revenue	139,085,777	59,843,268
Provision for employee benefits	47,956,787	11,035,443
Provision for contingencies	33,277,615	-
Allowance for inventory obsolescence	8,929,684	8,314,953
Unrealized foreign exchange gain, net	(69,771,958)	(943,743)
Deferred contract costs	(332,914,993)	(146,832,405)
	92,930,664	128,175,419
<i>Expected to be realized (settled) after 12 months</i>		
Deferred revenue	61,531,571	24,586,774
Leases	54,048,265	19,404,181
Retirement benefit obligation	32,038,512	6,228,180
Unrealized fair value loss on financial asset at FVTPL	7,946,956	-
Deferred contract costs	(162,948,363)	(68,785,866)
	(7,383,059)	(18,566,731)
	85,547,605	109,608,688

The movement in DIT assets, net for the years ended December 31 are as follows:

	Note	2020	2019
Beginning of the year		109,608,688	(9,412,784)
Amount (charged) credited to:			
Profit for the year		(42,937,417)	139,401,648
Other comprehensive income for the year	11	18,876,334	(20,380,176)
End of the year		85,547,605	109,608,688

Income tax expense

The components of income tax expense as shown in the statements of total comprehensive income for the years ended December 31 are as follows:

	2020	2019
Current	1,439,303,163	821,235,512
Deferred	42,937,417	(139,401,648)
	1,482,240,580	681,833,864

The Company opted for the itemized deduction to be deducted from the gross income in arriving at the taxable income for the year ended December 31, 2020 (2019 - optional standard deduction or OSD).

The reconciliation of income tax expense computed at the statutory income tax rate to the income tax expense as reflected in the statements of total comprehensive income for the years ended December 31 are as follows:

	2020	2019
Income tax at statutory income tax rate of 30%	1,648,379,844	799,851,198
Adjustments for:		
Non-deductible expenses	24,122,184	21,702,402
Interest income subjected to final tax	(10,261,448)	(1,240,844)
Non-taxable dividend income	(180,000,000)	
Availment of OSD	-	79,912,001
Effect of change in effective tax rates	-	(218,390,893)
	1,482,240,580	681,833,864

Critical accounting judgment: Income taxes

Significant judgment is required in determining the income tax expense recognized in profit or loss. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business. The Company recognizes liabilities for anticipated tax assessment issues when it is probable. The liabilities are based on assessment and judgment of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Company's income tax and related liability in the period in which such determination is made.

The recognition of DIT assets depends on management's assessment of the probability and available future taxable income against which the temporary difference can be applied. The Company reviews the carrying amount of its DIT assets at the end of each reporting period and reduces the amounts to the extent it is no longer probable that sufficient taxable profit will allow all or part of its DIT assets to be utilized. Management has assessed during the reporting periods that the Company will be able to generate sufficient future taxable income against which the temporary differences can be applied.

Subsequent event: Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

The Bicameral Conference Committee, under the 18th Congress of the Philippines, approved the reconciled version of the House Bill No. 4157 and Senate Bill No.1357 or the Corporate Recovery and Tax Incentives for Enterprises Act ("CREATE"). The Committee Report on CREATE was ratified by the Senate and the House of Representatives on February 3, 2021. The enrolled bill has been submitted to the President on February 24, 2021, for approval. If passed into law, CREATE would amend several provisions of the National Internal Revenue Code of 1997 ("Tax Code") on corporate income taxation, passive income, and fiscal incentives, among others.

The salient provisions of CREATE include changes to the Corporate Income Tax (CIT) as follows:

1. Reduction in CIT rate effective July 1, 2020 as follows:
 - a. Domestic corporations will be subject to the following reduced CIT rates depending on their assets and taxable income:
 - i. Those with assets amounting to P100,000,000 and below, and with taxable income equivalent to P5,000,000 and below will be subjected to a 20% tax rate; and
 - ii. Those with assets above P100,000,000 or those with taxable income amounting to more than P5,000,000 will be subjected to a 25% tax rate.
 - b. Foreign corporations (resident and nonresident foreign corporations) will have a fixed reduced tax rate of 25%.
2. Proprietary educational institutions and hospitals which are non-profit previously subject to a tax of 10% on their taxable income, shall be imposed a tax rate of 1% beginning July 1, 2020 until June 30, 2023.
3. Regional Operating Headquarters of multinational companies previously subject to a tax of 10% on their taxable income shall be subject to the regular corporate income tax effective January 1, 2022.
4. Effective July 1, 2020 until June 30, 2023, the minimum corporate income tax rate shall be 1%.

Under CREATE, corporate taxpayers shall prepare their annual income tax return for the calendar year 2020 (CY 2020) using the pro-rated CIT rate for CY 2020 reckoned from July 1, 2020 (retrospective effect).

As of December 31, 2020, the CREATE bill is still pending ratification by both the Philippine Congress and Senate, and consequently pending approval of the President of the Republic of the Philippines. As such, the Company has assessed that the proposed tax law is not enacted or substantively enacted as of December 31, 2020.

For financial reporting purposes, the enactment of CREATE after the reporting date is deemed a non-adjusting subsequent event. Had the new CIT rates been applied on the December 31, 2020 financial statements of the Company, the financial impacts would have been as follows:

	Increase (decrease)
Deferred income tax assets	(14,257,934)
Total non-current assets	(14,257,934)
Total assets	(14,257,934)
Income tax payable	(119,941,930)
Total current liabilities	(119,941,930)
Total liabilities	(119,941,930)
Reserve for remeasurements on retirement benefit obligation, net of tax	571,150
Retained earnings	105,112,846
Total equity	105,683,996
Total liabilities and equity	(14,257,934)
Income tax expense	(105,112,846)
Profit for the year	105,112,846
Remeasurement loss on retirement benefits, net of tax	(571,150)
Total comprehensive income for the year	105,683,996

Note 18 - Related party transactions and balance

The table below summarizes the Company's transactions and balances with its related parties as at and for the years ended December 31:

	Transactions		Outstanding balances		Terms and conditions
	2020	2019	2020	2019	
Due from related parties					
Collections made on behalf of the Company					
Immediate parent company	209,341,979	81,519,125	290,861,104	81,519,125	These are collections made on behalf of the Company by related parties for certain collections from the same subscribers. These are generally collectible within 1 year, unsecured, unguaranteed and non-interest bearing.
Entities under common control	291,107,079	118,334,772	520,607,369	299,655,569	
	500,449,058	199,853,897	811,468,473	381,174,694	
Reimbursements of expenses from related parties					
Ultimate parent	152,320	-	152,320	-	In the ordinary course of business, the Company pays certain expenses on behalf of its related parties. Such expenses are accordingly reimbursed at cost from related parties. All outstanding balances are short-term, unguaranteed, unsecured, non-interest bearing and collectible in cash at given amount upon demand, but not later than 12 months from reporting date.
Immediate parent company	24,091,054	22,471	76,488,081	51,070,785	
Shareholder	91,713,617	-	91,713,617	-	
Subsidiaries	26,951,737	36,018,966	27,014,237	80,479,762	
Entities under common control	31,924,521	8,731,599	60,333,077	60,281,841	
	174,833,249	44,773,036	255,701,332	191,832,368	
Sale of property, plant and equipment					
Subsidiary	-	-	95,985,897	95,985,897	The Company has sold property, plant and equipment to related parties. These are collectible based on a credit term of 30 to 90 days, unsecured, unguaranteed and non-interest bearing. No gain or loss recognized on the aforementioned sale of property, plant and equipment.
Entity under common control	5,600,000	10,379,744	5,600,000	6,451,497	
	5,600,000	10,379,744	101,585,897	102,437,394	
Transfer of retirement obligation from related parties (Note 11)					
Entities under common control	1,623	6,142,412	990,070	6,142,412	In 2020 and 2019, the Company's related parties have transferred employees to the Company, including the retirement obligation initially accrued for these employees. These are billed at cost and are collectible based on a credit term of 30 days, unsecured, unguaranteed and non-interest bearing.
Transfer of network materials and supplies (Note 16)					
Immediate parent company	83,045	-	8,359,270	8,276,225	The Company has transferred network materials and supplies to related parties at an agreed mark-up. Gross amounts are collectible based on a credit term of 30 to 90 days, unsecured, unguaranteed and non-interest bearing. Net gain or loss on the aforementioned transfer of network materials and supplies are recognized as part of other income in profit or loss (Note 16).
Subsidiary	22,452,412	654,724,626	105,651,476	660,981,796	
Entities under common control	116,971,595	41,945,053	117,242,830	39,719,845	
	139,507,052	696,669,679	231,253,576	708,977,866	

	Transactions		Outstanding balances		Terms and conditions
	2020	2019	2020	2019	
Due from related parties, continued					
Management service fees (Note 16)					
Immediate parent company	-	1,161,687	-	79,097	In the ordinary course of business, the Company incurs certain general, administrative and support cost and expenses that also benefit the related parties. These are billed at agreed fixed monthly rates and are collectible in cash based on credit term of 30 days, unsecured, unguaranteed and non-interest bearing.
Subsidiary	-	5,376,826	-	27,879,606	
Entities under common control	1,680,000	799,444	3,207,000	1,680,002	
	1,680,000	7,337,959	3,207,000	29,638,705	
Advances to related parties					
Immediate parent company	168,800,000	-	168,800,000	-	The Company has made advances to its related parties for use in normal operations. These are generally short-term, non-interest bearing and are collectible in cash upon demand.
Entities under common control	22,000,000	-	18,780,000	-	
	190,800,000	-	187,580,000	-	
Finance lease receivable					
Entities under common control	166,344,590	-	166,344,590	-	During the year ended December 31, 2020, the Company entered into an agreement with entities under common control for the purchase of outside plant assets for a total consideration of P199,060,462. The same assets were subsequently leased back to the related parties for an indefinite period which the Company can unilaterally terminate. Portion of finance lease receivable amounting to P163,422,374 is presented as non-current portion of amounts due from related parties in the statement of financial position as at December 31, 2020. Refer to Note 19 for further details.
Interest income from finance lease receivable					
Entities under common control	10,414,835	-	10,414,835	-	Refer to finance lease receivable above for details.
Dividend income					
Subsidiary	600,000,000	-	600,000,000	-	During the year ended December 31, 2020, the Company earned dividends from Pentagon amounting to P600,000,000. Dividend receivable is expected to be collected in 2021.
		2,368,545,773	1,420,203,459		
Due from related parties, current		2,205,123,399	1,420,203,459		
Due from related parties, non-current		163,422,374	-		
Trade and other receivables					
Interest income from financial asset at FVTPL					
Ultimate parent	2,034,258	-	1,791,982	-	Refer to financial asset at FVTPL below for further details.
Receivable from a supplier	-	-	-	210,000,000	In 2018, the Company made advances to a related party that were supposed to be applied as payment for construction of assets. The advances remained unutilized and were subsequently collected in 2020.
Entity under common control	-	-	1,791,982	210,000,000	

	Transactions		Outstanding balances		Terms and conditions
	2020	2019	2020	2019	
Advances to fixed assets suppliers					
Subsidiary	-	356,683,928	-	356,683,928	The Company makes advance payments to a related party that will be applied as payments for construction of property, plant and equipment. These are presented as part of non-current assets until applied against the billings of the related party.
Financial asset at FVTPL					
Ultimate parent company	104,510,000	-	71,904,900	-	On May 18, 2020, the Company has purchased 10 exchangeable bonds from its ultimate parent for USD2,000,000 (P104,510,000). The exchangeable bonds have an aggregate face value of USD2,000,000, a term of 30 years and with interest rate of 3% per annum. Each exchangeable bond note confers the right to purchase 5,000 common shares of certain entities under common control. The investment earned interest income amounting to P2,004,258 for the year ended December 31, 2020. Related interest receivable is presented as part of other receivables within trade and other receivables. Refer to Note 23.1 for further details.
Trade payables					
Subcontractor costs	7,632,604,439	5,248,538,262	2,413,147,895	3,770,075,220	The Company has contracted the services of a related party for capital assets expansion. Services includes overseeing projects from planning awarding to subcontractors and inspection of project managers for availability for use. These are billed and settled in cash, payable on demand but not later than 12 months from reporting dates.
Subsidiary					
Accruals					
Service fees	617,761,069	344,246,710	271,820,628	540,769,253	The Company pays a fixed fee to related parties for providing services to common subscribers. These accrued expenses are payable upon demand, unguaranteed and non-interest bearing.
Entities under common control					
Bandwidth cost	83,479,479	154,051,649	54,798,546	156,954,602	Reimbursements of bandwidth costs are based on actual expenses incurred plus margin. Payables included under accrued expenses are settled in cash on demand and are non-interest bearing.
Immediate parent company	-	30,067,314	-	30,067,314	
Entity under common control	83,479,479	184,118,963	54,798,546	187,021,916	
Rental expenses					
Immediate parent company	-	-	-	4,879,893	Rental rates are based on contracts agreed with related parties in lease agreements as discussed in Note 19. These are billed and settled in cash, payable on demand but not later than 12 months from reporting dates.
			326,619,174	732,671,062	

	Transactions		Balances		Terms and conditions
	2020	2019	2020	2019	
Due to related parties					
Reimbursements of expenses to related parties					Reimbursements of expenses are determined based on actual expenses incurred by the Company, such as personnel costs (salaries and benefits and travel expenses), operating expenses, professional fees, technical support and IT-related expenses, which are paid in advance by the related parties. These are recorded as part of the related expenses in the statements of total comprehensive income. Due to related parties are settled in cash, billed and payable based on credit term of 30 days, unsecured, unguaranteed and non-interest bearing.
Immediate parent company	15,323,371	45,592,564	4,976,754	54,182,819	
Subsidiary	-	1,420,252	-	-	
Entities under common control	106,279,418	89,504,261	115,837,219	66,848,173	
Purchase of network materials and supplies	121,602,789	146,517,077	120,813,973	121,030,992	
Subsidiary	-	19,098,698	-	19,098,698	The Company purchased network materials and supplies from a related party. These are payable based on a credit term of 30 days, unsecured, unguaranteed and non-interest bearing.
Entity under common control	-	15,426,132	5,874,135	12,438,835	
	-	34,524,830	5,874,135	31,538,533	
Advances from a related party					
Shareholder	48,252,000	-	67,001,900	18,749,900	The Company received advances from a shareholder. The advances are unsecured, non-interest bearing and payable on demand.
Transfer of retirement obligation to related parties (Note 11)					
Subsidiary	-	989,214	989,214	989,214	In 2019, the company has transferred employees to a related party, including the retirement obligation initially accrued for these employees. These are settled in cash, billed and payable based on credit term of 30 days, unsecured, unguaranteed and non-interest bearing.
Subscription payable (Note 8)					
Subsidiaries	65,489	40,750,000	40,815,489	40,750,000	On August 23, 2019, the Company has acquired 99% shareholdings in Penlagon from its ultimate parent company at a total consideration of P123,750,000. On March 3, 2020, the Company incorporated Converge Global in Hong Kong for a consideration amounting to P65,489. As at December 31, 2020, the related unpaid subscriptions amounted to P48,815,489 (2019 - P40,750,000).
			235,494,711	213,058,639	
Lease liabilities					
Immediate parent company	164,792,213	125,323,092	1,091,247,214	1,152,970,407	Rental rates are based on contracts agreed with related parties in lease agreements as discussed in Note 19. These are billed and settled in cash, payable on demand but not later than 12 months from reporting dates.
Entity under common control	10,802,293	13,139,472	93,961,370	102,608,174	
	175,594,506	138,462,564	1,185,208,584	1,255,578,581	

Key management compensation

Key management compensation covering salaries and wages and other short-term benefits are determined based on contract of employment and payable in accordance with the Company's payroll process. These were fully paid by the reporting dates. The Company has not provided share-based payments, termination benefits and other long-term benefits for its key management personnel other than retirement benefits which are determined and recorded as part of the retirement liability in accordance with policies disclosed in Note 11 for the years ended December 31, 2020 and 2019.

	Transactions		Balances	
	2020	2019	2020	2019
Salaries and other short - term benefits	320,660,081	54,782,823	-	-
Retirement benefits	5,332,061	1,988,265	47,064,755	2,305,069
	325,992,142	56,771,088	47,064,755	2,305,069

Due from related parties are short-term in nature, unguaranteed and unsecured, non-interest bearing and collected in cash on a gross basis.

No allowance for impairment from related parties was recognized as these are determined to be fully collectible as at December 31, 2020, and 2019.

Due to related parties are short-term in nature, unguaranteed and unsecured, non-interest bearing and payable in cash on a gross basis.

Loan guarantee

As discussed in Note 10, the Company, the immediate parent company and entities under common control, agreed to provide joint and solidarity suretyship, cross default/surety arrangement and real estate mortgage for the obligations and indebtedness incurred or may be incurred by the Company from the loan facility extended by Bank 1.

On November 28, 2018 and January 18, 2019, the related long-term loan facility agreements of the Company were amended to remove security provisions over the payment of the loan principal and interests thereon.

The Company has not incurred obligation or indebtedness arising from default on the loans payable covered by the loan guarantee

Material related party transactions policy

The Company has an approved material related party transactions policy that sets forth the required thresholds for approval for related party transactions as part of the Company's corporate governance policy.

Note 19 - Lease agreements and commitments

• As lessee

The Company leases various network assets and co-located sites, office and buildings, and transportation equipment. Network assets include investments in bandwidth capacity. Lease terms are negotiated either on a collective or individual basis and contain a wide range of different terms and conditions. Lease agreements include rent escalation clauses ranging from 3% to 10% beginning on specified periods in the agreements. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Impact of adoption of PFRS 16 at January 1, 2019

The Company has adopted PFRS 16 retrospectively from January 1, 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on January 1, 2019.

On adoption of PFRS 16, the Company recognized lease liabilities and right-of-use assets in relation to leases which had previously been classified as 'operating leases' under the principles of PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019.

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018.

For leases previously classified as finance leases the entity recognised the carrying amount of the leased assets immediately before transition as the carrying amount of the right-of-use assets at the date of initial application. Further, current and non-current portion of finance lease liabilities were reclassified to current and non-current portion of lease liabilities in the statement of financial position as at January 1, 2019.

The effects of adoption of PFRS 16 on the Company's separate financial statements as at January 1, 2019 are as follows:

	Increase (decrease)
Right-of-use assets	191,796,785
Property, plant and equipment	(127,439,137)
Trade and other receivables	(343,733)
Lease liabilities	155,370,626
Finance lease liabilities	(91,356,711)

Critical accounting judgement: Determining whether or not a contract contains a lease

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. Management considers the following evaluations, all of which must be met in order to conclude that a contract is or contains a lease:

- Whether there is an identified asset - An identified asset is an asset that is either explicitly identified in the contract or is implicitly specified by being identified at the time that the asset is made available for use by the Company. Even if an asset is explicitly specified, the Company does not have the right to use an identified asset if the supplier has a substantive substitution right throughout the period of use.
- Whether the Company have the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use - When making this evaluation, the Company considers its rights within the defined scope of the contract.
- Whether the Company have the right to direct the use of the identified asset throughout the period of use - In making this evaluation, the Company considers the decisions that most directly impact the economic benefits to be derived from the use of the asset, including: (i) rights to decide the type of output to be produced by the assets (ii) rights to decide when the output is produced (iii) rights to decide where the output is produced, and (iii) rights to decide whether the output is produced and the quantity thereof.

Based on the factors discussed above, the Company has identified leases of network assets, including agreements where the Company has the right to use specified wavelengths, co-located sites, office and buildings, and transportation equipment and concluded that certain data capacity contracts and joint pole arrangements (Notes 14 and 15) do not qualify as leases under PFRS 16.

In August 2020, the Company has entered into an agreement for the use of major international connectivity networks for a period of 15 years where the Company has the right to use specified wavelengths. The Company is entitled to transmit traffic over a specific wavelength within the networks. The right to use of specified wavelengths meets the definition of an intangible asset. As allowed by PFRS 16, the Company has treated the arrangement as containing a lease of an intangible asset and recognized fees paid on the agreement start date as part of right-of-use assets (within network assets and co-located sites) in the statement of financial position.

The Company reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed. Any change in the Company's assessment of whether a contract contains a lease or not, could impact the recorded carrying amount of right-of-use asset and lease liability.

(i) Amounts recognized in the statements of financial position

Leased assets are presented as a separate line item in the statement of financial position. The statements of financial position show the following amounts relating to leases as at December 31:

	2020	2019
<i>Right-of-use assets</i>		
Network assets and co-located sites	662,920,755	404,394,739
Office space and warehouse	759,399,888	857,741,939
Transportation equipment	175,084,033	172,828,165
	1,597,404,676	1,434,964,843
<i>Lease liabilities</i>		
Current	299,388,644	332,936,563
Non-current	1,282,848,140	1,194,899,950
	1,582,236,784	1,527,836,513

Movements in right-of-use assets for the years ended December 31 are as follows:

	Network assets and co-located sites	Office space and warehouse	Transportation equipment	Total
At January 1, 2019				
<i>Impact of adoption of PFRS 16</i>				
Cost	35,641,449	28,716,199	127,439,137	191,796,785
Accumulated amortization	-	-	-	-
Net carrying amount	35,641,449	28,716,199	127,439,137	191,796,785
For the year ended December 31, 2019				
Opening net carrying amount	35,641,449	28,716,199	127,439,137	191,796,785
Additions	425,417,364	927,492,802	78,621,430	1,431,531,596
Amortization	(56,664,074)	(98,467,062)	(33,232,402)	(188,363,538)
Closing net carrying amount	404,394,739	857,741,939	172,828,165	1,434,964,843
At December 31, 2019				
Cost	461,058,813	956,209,001	206,060,567	1,623,328,381
Accumulated amortization	(56,664,074)	(98,467,062)	(33,232,402)	(188,363,538)
Net carrying amount	404,394,739	857,741,939	172,828,165	1,434,964,843

	Network assets and co-located sites	Office space and warehouse	Transportation equipment	Total
At January 1, 2020				
Cost	461,058,813	956,209,001	206,060,567	1,623,328,381
Accumulated amortization	(56,664,074)	(98,467,062)	(33,232,402)	(188,363,538)
Net carrying amount	404,394,739	857,741,939	172,828,165	1,434,964,843
For the year ended December 31, 2020				
Opening net carrying amount	404,394,739	857,741,939	172,828,165	1,434,964,843
Additions	330,627,442	6,779,418	50,356,464	387,763,324
Amortization	(72,101,426)	(105,121,469)	(48,100,596)	(225,323,491)
Closing net carrying amount	662,920,755	759,399,888	175,084,033	1,597,404,676
At December 31, 2020				
Cost	791,686,255	962,988,419	256,417,031	2,011,091,705
Accumulated amortization	(128,765,500)	(203,588,531)	(81,332,998)	(413,687,029)
Net carrying amount	662,920,755	759,399,888	175,084,033	1,597,404,676

Movements in lease liabilities for the years ended December 31 are as follows:

	2020	2019
At January 1	1,527,836,513	-
Impact of adoption of PFRS 16	-	155,370,626
Increase in lease liabilities	260,771,524	1,431,531,596
Finance costs	98,975,321	94,041,421
Cash flows - payment of lease liabilities	(203,141,626)	(131,846,263)
Cash flows - interest paid on lease liabilities	(102,204,948)	(21,260,867)
At December 31	1,582,236,784	1,527,836,513

(ii) *Amounts recognized in the statements of total comprehensive income*

The statements of total comprehensive income for the years ended December 31 show the following amounts relating to leases:

	2020	2019
Amortization expense	225,323,491	188,363,538
Finance costs	98,975,321	94,041,421
Expense relating to short-term leases (included in cost of services and general and administrative expenses)	200,393,917	120,979,504
	524,692,729	403,384,463

Amortization expense for the years ended December 31 recognized in profit or loss are as follows:

	Note	2020	2019
Cost of services	14	188,059,713	151,686,907
General and administrative expenses	15	37,263,778	36,676,631
		225,323,491	188,363,538

The total cash outflows for lease liabilities and short-term leases for the year ended December 31, 2020 amounted to P485,507,318 (2019 - P382,518,595).

(iii) *Discount rate*

The lease payments for lease of transportation equipment are discounted using the interest rate implicit in the lease. Payments for leases of network assets and co-located sites, office space and warehouse are discounted using the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Critical accounting estimates and assumptions: Determining the incremental borrowing rate

To determine the incremental borrowing rate, the Company uses the government bond yield, adjusted for the (1) credit spread specific to the Company and (2) security using the right-of-use asset. The discount rates applied by the Company ranges from 4% to 8% for the year ended December 31, 2020 (2019 - 7% to 8%).

(iv) *Extension and termination options*

Extension and termination options are included in several property and equipment leases of the Company. These are used to maximize operational flexibility in terms of managing the assets used in the Company's operations. The extension and termination options held are exercisable by both the Company and the respective lessor.

Critical accounting judgment: Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended. The Company considers the factors below as the most relevant in assessing the options:

- If there are significant penalties to terminate, the Company is reasonably certain to extend.
- If any leasehold improvements are expected to have a significant remaining value, the Company is reasonably certain to extend.
- The Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in leases have not been included in the lease liabilities because the Company could replace the assets without significant cost or business disruption. Potential future cash outflows of P219,198,721 at December 31, 2020 (2019 - P152,630,890) have not been included in the lease liabilities because it is not reasonably certain that the leases will be extended. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. At December 31, 2020, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognized lease liabilities and right-of-use assets of P109,772,315 (2019 - P49,777,948).

• *As lessor*

During the year ended December 31, 2020, the Company entered into an agreement with certain related parties for the purchase of outside plant assets for a total consideration of P199,060,462 fully paid as at December 31, 2020 (Note 18).

The same assets were subsequently leasedback to the related parties at an agreed rate for an indefinite period which the Company can unilaterally terminate. The lease was accounted as finance lease where substantially all of the risk and rewards of the ownership were transferred to the seller-lessees.

At the inception of the lease, the Company derecognized the carrying amount of assets directly related to the lease amounting to P199,060,462 and recognized a loss amounting to P32,715,872 (Note 16).

Finance lease receivables presented as part of due from related parties in the statement of financial position as at December 31, 2020 are as follows:

Gross investment	333,426,274
Unearned interest income	(156,666,849)
Net investment	176,759,425
Current	13,337,051
Non-current	163,422,374
	176,759,425

Interest income from the finance lease recognized in profit or loss for the year ended December 31, 2020 amounted to P10,414,835 (Note 16).

Expected maturity analysis of the undiscounted finance lease receivables as at December 31, 2020 are as follows:

	Gross investment	Unearned interest	Net investment
Not later than one year	13,337,051	-	13,337,051
Later than 1 year not later than 5 years	53,348,204	(39,711,557)	13,636,647
Later than 5 years	266,741,019	(116,955,292)	149,785,727
	333,426,274	(156,666,849)	176,759,425

Note 20 - Earnings per share

The following tables present basic and diluted earnings per share (EPS) calculations for the years ended December 31:

Basic earnings per share

	Note	2020	2019
Consolidated net income attributable to equity holders of the Company		3,387,828,500	1,960,019,346
Dividends on convertible preferred shares		-	(386,123,811)
Consolidated net income attributable to common equity holders of the Company		3,387,828,500	1,573,895,535
Issued common shares at January 1		125,000,000	125,000,000
Retrospective effect stock split	12	4,875,000,000	4,875,000,000
Weighted average number of converted preferred shares	12	511,363,630	-
Weighted average number of issued common shares during IPO	12	80,139,990	-
Weighted average number of common shares for basic EPS		5,591,503,620	5,000,000,000
Basic EPS attributable to common equity holders of the Company		0.61	0.31

Diluted earnings per share

	2020
Consolidated net income attributable to common equity holders of the Company	3,387,828,500
Weighted average number of common shares for basic EPS	5,591,503,620
Impact of dilutive shares arising from convertible preferred shares	1,465,909,073
Weighted average number of common shares	7,057,412,693
Diluted EPS attributable to common equity holders of the Company	0.48

The Company has issued convertible preferred shares for the years ended December 31, 2020 and 2019 (Note 12) which were considered in the diluted EPS calculation. The effect of the assumed conversion of the preferred shares has anti-dilutive effect for the year ended December 31, 2019. As such, basic and diluted EPS are stated at the same amount for the year ended December 31, 2019.

Note 21 - Foreign currency denominated monetary assets and liabilities

The Company's US Dollar denominated monetary assets and liabilities as at December 31 are as follows:

	2020	2019
Cash and cash equivalents	173,841,135	18,390,128
Financial asset at FVTPL	1,497,301	-
Trade and other receivables, net	-	5,323,318
Total current assets	175,338,436	23,713,446
Trade and other current liabilities	(90,829,098)	(29,123,033)
Dividends payable	-	(12,171,914)
Total current liabilities	(90,829,098)	(41,294,947)
Net US Dollar denominated monetary assets (liabilities)	84,509,338	(17,581,501)
Exchange rate at year end	48.02	50.74
Philippine Peso equivalent	4,058,138,411	(892,085,361)

Details of net foreign exchange gain presented as part of other income, net in the statements of total comprehensive income for the years ended December are as follows:

	Note	2020	2019
Realized foreign exchange gain, net		34,707,359	19,096,895
Unrealized foreign exchange gain (loss), net		229,427,384	(2,905,841)
	16	264,134,743	16,191,054

Note 22 - Critical accounting estimates, assumptions and judgments

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are enumerated below:

(a) Critical accounting estimates and assumptions

- Recoverability of trade and other receivables and due from related parties (Notes 3 and 18)
- Estimated useful lives of property, plant and equipment, intangible assets and right-of-use assets (Notes 6, 7 and 19)
- Principal assumptions for estimation of retirement benefit obligation (Note 11)
- Determining the incremental borrowing rate (Note 19)

(b) *Critical accounting judgments*

- Recoverability of trade and other receivables and due from related parties (Notes 3 and 18)
- Recoverability of network materials and supplies (Note 4)
- Recoverability of property, plant and equipment, intangible assets and right-of use assets (Notes 6, 7 and 19)
- Income taxes (Note 17)
- Determining the lease term (Note 19)
- Determining whether or not a contract contains a lease (Note 19)

Note 23 - Financial risk and capital management

23.1 Components of financial assets and financial liabilities

Financial assets

Details of the Company's financial assets as at December 31, categorized as financial assets at amortized cost and financial asset at fair value through profit or loss (FVTPL) are as follows:

	Notes	2020	2019
Financial assets at amortized cost			
Cash and cash equivalents	2	11,126,173,151	5,656,393,947
Trade and other receivables	3	3,104,104,469	2,732,186,038
Due from related parties	18	2,368,545,773	1,420,203,459
Investment in short-term government securities	5	5,500,000	-
		16,604,323,393	9,808,783,444
Financial asset at FVTPL		71,904,900	-
		16,676,228,293	9,808,783,444

Trade and other receivables above exclude advances to employees which are subject to liquidation as at December 31, 2020 amounting to P35,234,851 (2019 - P24,359,760) and are presented gross of allowance for impairment amounting to P887,892,506 (2019 - P655,859,676) (Note 3).

As at December 31, 2020 financial asset at FVTPL pertains to the Company's investment in exchangeable bonds issued by its Ultimate Parent (Note 18). On August 23, 2019, the Company entered into an exchangeable bond agreement with the Ultimate Parent Company. The exchangeable bonds have an aggregate face value of USD 2,000,000, a term of 30 years and with interest rate of 3% per annum. Each exchangeable bond confers the right to purchase 5,000 common shares of a certain entity under common control. On May 18, 2020, the Company was issued 10 exchangeable bonds for USD2,000,000 (P104,510,000). The Company 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.

Movement in financial asset at FVTPL during the year ended December 31, 2020 are as follows:

Beginning of the year	-
Purchase	104,510,000
Amortization	242,276
Unrealized foreign exchange loss	(6,357,521)
Unrealized fair value loss	(26,489,855)
End of the year	71,904,900

Amounts recognized in profit or loss from financial asset at FVTPL for the year ended December 31, 2020 consists of:

	Note	
Interest income	16	2,034,258
Unrealized foreign exchange loss		(6,357,521)
Unrealized fair value loss		(26,489,855)
		(30,813,118)

Financial liabilities

The Company's financial liabilities, categorized as liabilities at amortized cost, at December 31 are as follows:

	Notes	2020	2019
Trade and other liabilities	9	11,487,434,368	7,350,773,102
Loans payable	10	11,313,821,429	7,949,875,000
Lease liabilities	19	1,582,236,784	1,527,836,513
Due to related parties	18	235,494,711	213,058,639
Dividends payable	12	-	617,651,604
		24,618,987,292	17,659,194,858

Trade and other liabilities presented above include non-current portion of subscribers' deposits as at December 31, 2020 amounting to P1,132,965,276 (2019 - P491,831,373) and exclude the following non-financial liabilities as at December 31:

	2020	2019
Deferred output VAT payable	407,250,911	441,801,540
Payable to government agencies	171,679,333	63,906,413
Provision for contingencies	110,925,384	-
	689,855,628	505,707,953

23.2 Financial risk factor

The Company'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 Company'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 Company's financial performance.

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

23.2.1 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 Company has the following financial assets as at December 31 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
2020					
Cash and cash equivalents	11,123,343,003	-	11,123,343,003	Performing	12-month ECL
Trade receivables					
Residential - Group 2	1,094,997,067	(360,188,527)	734,808,540	Collective assessment	Lifetime ECL
Residential - Group 3	144,670,942	(144,147,521)	523,421	Credit impaired	Lifetime ECL
Corporate - Group 1	297,180,728	-	297,180,728	Collective assessment	Lifetime ECL
Corporate - Group 2	1,282,889,637	(232,491,852)	1,050,397,785	Collective assessment	Lifetime ECL
Corporate - Group 3	151,064,606	(151,064,606)	-	Credit impaired	Lifetime ECL
Other receivables - Group 1	133,301,489	-	133,301,489	Performing	12-month ECL
Due from related parties	2,368,545,773	-	2,368,545,773	Performing	12-month ECL
	16,595,993,245	(887,892,506)	15,708,100,739		
2019					
Cash and cash equivalents	5,653,542,347	-	5,653,542,347	Performing	12-month ECL
Trade receivables					
Residential - Group 2	460,862,045	(221,666,815)	239,195,230	Collective assessment	Lifetime ECL
Residential - Group 3	343,079,250	(270,208,177)	72,871,073	Credit impaired	Lifetime ECL
Corporate - Group 1	745,561,079	-	745,561,079	Collective assessment	Lifetime ECL
Corporate - Group 2	883,706,477	(163,984,684)	719,721,793	Collective assessment	Lifetime ECL
Other receivables - Group 1	298,977,187	-	298,977,187	Performing	12-month ECL
Due from related parties	1,420,203,459	-	1,420,203,459	Performing	12-month ECL
	9,805,931,844	(655,859,676)	9,150,072,168		

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 Company no longer expects to recover the balance despite its collection efforts.

Cash and cash equivalents exclude cash on hand as at December 31, 2020 amounting to P2,830,148 (2019 - P2,851,600) (Note 2) which is not subject to credit risk.

As at December 31, 2020, 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 government securities. The maximum exposure at December 31, 2020 is the carrying amount of the investments aggregating to P77,404,900. The Company's investments in exchangeable bonds and 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 Company does not hold any collateral as security for the rest of the financial assets.

None of the fully performing financial assets have been renegotiated in 2020 and 2019.

Cash and cash equivalents

To minimize credit risk exposure from cash, the Company deposits its cash in banks with good credit ratings. Amounts deposited in these banks as at December 31 are as follows:

	2020	2019
Universal banks	11,123,343,003	5,634,760,778
Rural banks	-	18,781,569
	11,123,343,003	5,653,542,347

Trade receivables

Residential subscribers

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 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 allowance as at December 31 were determined as follows:

	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
2020						
Carrying amount, gross	463,484,075	102,603,694	93,129,020	43,090,107	392,690,171	1,094,997,067
Loss allowance	29,126,111	11,535,881	17,638,622	25,794,329	276,093,584	360,188,527
2019						
Carrying amount, gross	167,345,503	55,189,596	23,220,724	51,928,421	163,177,801	460,862,045
Loss allowance	3,227,606	3,441,789	2,732,318	49,458,257	162,806,845	221,666,815

As a result of management's review of receivables provisioning in light of the on-going pandemic (Note 1.2), 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 December 31, 2020, credit impaired receivables from certain residential subscribers amounting P144,147,521 (2019 - P270,208,177) which are deemed uncollectible despite collection efforts have been fully provided with an allowance for impairment. In calculating the allowance, subscribers' deposits as at December 31, 2020 amounting to P523,421 (2019 - P72,871,073) which will be applied against any outstanding balance from defaulted residential subscribers were considered.

Corporate subscribers

In relation to corporate subscription receivables, the Company'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 allowance as at December 31 were determined as follows:

	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
2020						
Carrying amount, gross	198,973,284	161,568,544	146,981,125	122,506,512	652,860,172	1,282,889,637
Loss allowance	34,929,226	29,322,367	26,843,109	22,536,658	118,860,492	232,491,852
2019						
Carrying amount, gross	205,597,270	121,752,216	18,317,432	78,977,162	459,062,397	883,706,477
Loss allowance	2,302,211	5,368,288	917,248	17,226,186	138,170,751	163,984,684

As at December 31, 2020, credit impaired receivables from certain corporate subscribers (Group 3) amounting P151,064,606 which are deemed uncollectible despite collection efforts have been fully provided with an allowance for impairment.

Other receivables

The Company'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 Company has assessed that the outstanding balances are exposed to low credit risk. ECL on these balances have therefore been assessed to be insignificant.

23.2.2 Market risks

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 Company's functional currency.

The Company 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 December 31, 2020 and 2019 (Note 21).

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

At December 31, 2020, if the US Dollar had weakened or strengthened by 0.12% (2019 - 0.17%) against the Philippine Peso, with all other variables held constant, pre-tax profit for the year and equity would have been P4,869,766 lower or higher (2019 - P1,516,545 higher or lower), mainly as a result of foreign exchange losses or gains on translation of net US Dollar denominated monetary assets (2019 - 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 Company'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 Company'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 Company's practice is to manage its interest cost by reference to current market rates in borrowings.

As at December 31, 2020, if interest rates increased/decreased by 7 basis points, with all other variables held constant, profit for the year ended December 31, 2020 would have been P3,874,096 (2019 - 7 basis points; P3,200,145) lower/higher, mainly as a result of higher/lower interest expense based on variable rates.

Changes in the market interest rates of the Company's borrowing with fixed interest rates only affect income if these are measured at their fair value. As such, the Company'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

As at December 31, 2020, the Company is exposed to price risk in relation to its investment in financial asset carried at fair value through profit or loss amounting to P71,904,900. 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 4.57%. This financial asset is managed on an individual basis thereby reducing the Company's exposure to equity price risk at an acceptably low level.

The sensitivity of the financial asset at FVTPL to changes in the principal assumptions as at December 31, 2020 follows:

	Impact on financial asset at FVTPL		
	Change in assumption	Increase in assumption	Decrease in assumption
Adjusted BVAL rate	+/- 1.00%	(11,175,931)	14,246,573

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 statement of financial position.

As at December 31, 2019, the Company 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 Company is not exposed to significant price risk.

23.2.3 Liquidity risk

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

The Company 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 Company'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 Company is also able to defer payments of some of its due to related party balances.

The table below presents the Company's financial liabilities as at December 31:

	Within 12 Months	More than 12 months	Total
2020			
Trade and other liabilities	10,354,469,092	1,132,965,276	11,487,434,368
Due to related parties	235,494,711	-	235,494,711
Loans payable	731,214,286	10,582,607,143	11,313,821,429
Lease liabilities, gross of discount	387,803,300	1,661,695,432	2,049,498,732
Future interest payable	558,213,532	2,188,524,637	2,746,738,169
	12,267,194,921	15,565,792,488	27,832,987,409
2019			
Trade and other liabilities	6,858,941,729	491,831,373	7,350,773,102
Dividends payable	617,651,604	-	617,651,604
Due to related parties	213,058,639	-	213,058,639
Loans payable	1,098,250,000	6,851,625,000	7,949,875,000
Lease liabilities, gross of discount	470,434,408	1,521,546,473	1,991,980,881
Future interest payable	468,208,529	1,514,959,765	1,983,168,294
	9,726,544,909	10,379,962,611	20,106,507,520

Lease liabilities disclosed above represents the contractual undiscounted cash flows.

The Company expects to settle the above financial obligations due within 12 months in accordance with their contractual maturity of 30 to 60 days.

23.2.3 Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company 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 Company manages is the total equity less reserve for remeasurements of retirement benefit obligation as shown in the statements of financial position.

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

The Company's loan agreements include compliance with certain ratios (Note 10).

Note 24 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below. The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

24.1 Basis of preparation

The separate financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These separate financial statements have been prepared under the historical cost convention except for financial asset at FVTPL.

The preparation of separate financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 22.

The Company has also prepared consolidated financial statements in accordance with PFRS. In the consolidated financial statements, undertakings of Converge Global and Pentagon and its subsidiary have been fully consolidated. The consolidated financial statements can be obtained from the Company's business address in Angeles City, Pampanga or from the SEC.

Users of these separate financial statements should read these together with the Group's consolidated financial statements as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

24.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Company

The Company has adopted the following relevant and applicable new standards for the first time for the financial year beginning January 1, 2020:

- *Amendments to PFRS 3, Business combination - Definition of business*

The amendments to PFRS 3 clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Additional guidance provided helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

These amendments had no impact on the separate financial statements of the Company but may impact future periods should the Company enter into any business combination.

- *Amendments to PAS 1, Presentation of financial statements and PAS 8, Accounting policies, changes in accounting estimates and errors - Definition of material*

The amendments clarify the definition of material and how it should be applied by including the concept of 'obscuring information' in the new definition and replaced the threshold 'could influence' with 'could reasonably be expected to influence' in the definition of 'material'. These amendments had no impact on the separate financial statements of the Company.

- *Amendments to the Conceptual Framework for financial reporting*

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the separate financial statements of the Company.

- *Amendments to PFRS 16, Leases - Covid-19 related rent concessions*

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the Covid-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- a. The rent concession is a direct consequence of Covid-19;
- b. The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- c. Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- d. There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the Covid-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The new amendment did not have any significant impact on the Company's separate financial statements during and at the end of the reporting period, since there have been no lease modifications granted by the Company's lessors.

(b) New and amended standards not yet adopted by the Company

A number of new standards and amendments are effective for annual periods beginning after January 1, 2020, and have not been applied in preparing these separate financial statements. None of these standards are expected to be relevant or have significant effect on the separate financial statements of the Company.

24.3 Financial assets

Classification

The Company classifies its financial assets in the following measurement categories: (a) those to be measured subsequently at fair value (either through OCI or through profit or loss), and (b) those to be measured at amortized cost. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

The Company did not hold financial assets at fair value through OCI during and at the end of December 31, 2020 and 2019.

Financial assets at amortized cost are assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. The Company's financial assets at amortized cost category include cash and cash equivalents, trade and other receivables, due from related parties and investment in short-term government securities.

The Company classifies the following investments as financial assets at FVTPL:

- investments in equity securities unless irrevocably elected at initial recognition to be measured at fair value through OCI;
- investments in debt instruments held within a business model whose objective is to sell prior to maturity or has contractual terms that does not give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, unless designated as effective hedging instruments under a cash flow hedge;
- investments that contain embedded derivatives; and
- investments in debt instruments designated as financial assets at FVTPL at initial recognition.

During and as at December 31, 2020, financial asset at FVTPL consists of debt instruments in the form of exchangeable bonds for which the SPPI test was not met (2019 - equity security which is not held for trading and for which the Company has irrevocably elected at initial recognition to be recognized in this category).

The Company's financial assets are detailed in Note 23.1.

Recognition and subsequent measurement

The Company recognizes a financial asset in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Subsequently, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is recognized using the effective interest rate method.

Changes in the fair value of financial assets at FVTPL are recognized in profit or loss.

Impairment

The Company assesses on a forward-looking basis the expected credit losses (ECL) associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment losses are presented separately in the statement of total comprehensive income.

Loss allowances of the Company are measured on either of the following bases:

- 12-month ECL: these are ECL that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECL: these are ECL that result from all possible default events over the expected life of a financial instrument or contract asset.

Simplified approach

The Company applies the simplified approach to provide for ECL for all trade receivables. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECL. 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.

General approach

Under the general approach, the loss allowance is measured at an amount equal to 12-month ECL at initial recognition.

At each reporting date, the Company assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held).

The maximum period considered when estimating ECL is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECL

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the counterparty;
- a breach of contract such as a default; or
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Any gain or loss arising on derecognition is recognized directly in the statement of total comprehensive income and presented in other gains/(losses).

24.4 Financial liabilities

Classification

The Company classifies its financial liabilities as: (i) financial liabilities at fair value through profit or loss, and (ii) other financial liabilities measured at amortized cost. Financial liabilities under category (i) comprise of two sub-categories: financial liabilities classified as held for trading and financial liabilities designated by the Company as at fair value through profit or loss upon initial recognition. Management determines the classification of its financial liabilities at initial recognition.

The Company did not hold financial liabilities under category (i) during and at the end of each reporting period.

Other financial liabilities at amortized cost are contractual obligations which are either those to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company. These are included in current liabilities, except for maturities greater than 12 months after the reporting period which are classified as non-current liabilities.

The Company's other financial liabilities at amortized cost consist of trade and other liabilities (excluding deferred output VAT, amounts payable to government agencies and provision for contingencies), due to related parties, loans payable, lease liabilities and dividends payable.

Recognition and measurement

The Company recognizes a financial liability in the statement of financial position when, and only when, the Company becomes a party to the contractual provision of the instrument.

Other financial liabilities at amortized cost are initially measured at fair value plus transaction costs. Subsequently, these are measured at amortized cost using the effective interest rate method.

Derecognition

Other financial liabilities at amortized cost are derecognized when the obligation is paid, settled, discharged, cancelled or has expired.

24.5 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the most representative price within the bid-ask spread. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

The Company'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 are disclosed in Note 23.2.2 (c) price risk.

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.

24.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

The Company does not have financial assets and liabilities that are covered by enforceable master netting arrangements and other similar agreements.

24.7 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less and earn interest at the prevailing bank deposit rates. Cash and cash equivalents are recognized at face value or nominal amount.

24.8 Trade and other receivables, net

Trade receivables are amounts due from subscribers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), these are classified as current assets. If not, these are presented as non-current assets.

Trade receivables with an average credit term of 30 days are measured at the original invoice amount (as the effect of discounting is immaterial), less any provision for impairment.

Refer to Note 24.3 for the relevant policies on financial assets.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less any provision for impairment.

24.9 Network materials and supplies

Network materials and supplies which include installation materials and cable wires are measured initially at cost. Cost is determined using the weighted average method.

Provision for obsolescence is provided for damaged, obsolete and slow-moving network materials and supplies based on physical inspection and management evaluation. Network materials and supplies and the related allowance for obsolescence are written-off when the Company has determined that the network materials and supplies is damaged, obsolete or has become slow-moving for a specified period of time. Write-offs represent the release of previously recorded provision using the allowance account and credited to the related inventory account following the disposal of network materials and supplies. Reversals of previously recorded provision are charged to profit or loss as credit to cost of services based on the result of management's update assessment, considering the available facts and circumstances, including but not limited to net realizable value at the time of disposal.

Network materials and supplies are derecognized when these are sold, issued for installation at subscriber's premises or used in construction of certain property and equipment. The carrying amount of those network materials and supplies sold or issued for installation at subscriber's premises is recognized as part of cost of services (reported as materials used) in profit or loss. Upon issuance for construction of certain property, plant and equipment, assets are also derecognized and transferred as part of assets under construction.

24.10 Other current and non-current assets

Other current assets consist of input value-added tax (VAT) and prepaid expenses. Input VAT and prepaid and non-current expenses are stated at face value less provision for impairment, if any. Provision for unrecoverable input VAT, if any, is maintained by the Company at a level considered adequate to provide for potentially uncollectible portion of the claim. The Company, on a continuing basis, reviews the status of the claim designed to identify those that may require provision for impairment losses.

A provision for unrecoverable input VAT and prepaid taxes is established when there is objective evidence that the Company will not be able to recover the claims. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss within general and administrative expenses.

Prepayments in the form of unused tax credits are derecognized when there is a legally enforceable right to apply the recognized amounts against the related liability within the period prescribed by the relevant tax laws.

Input VAT are derecognized when actually collected or disallowed by tax authority or applied/utilized. These are also classified as non-current assets when related to goods or services that are expected to be received and rendered more than 12 months after the end of the reporting date.

Prepayments and other assets are recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services and measured at nominal amounts. These are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve (12) months after the reporting period which are classified in non-current assets.

Advances to contractors that will be applied as payments for construction of assets to be classified as property, plant and equipment are classified as non-current assets.

These are derecognized in the statement of financial position either with the passage of time or through use or consumption.

24.11 Intangible assets, net

Intangible assets consist of customer list, telecommunications franchise and telecommunications equipment software licenses, corporate application software and licenses that do not form integral part of hardware or equipment.

Intangible assets acquired separately are initially recognized at cost.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Intangible assets are amortized using the straight-line method over the following estimated useful lives:

	In years
Customer list	10
Telecommunication franchise	25
Software and licenses	5

The assets' residual values and estimated useful lives are reviewed periodically, and adjusted as appropriate, at each reporting date. Intangible assets are assessed for impairment whenever there is an indication that the asset may be impaired.

Intangible assets are derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and their related accumulated amortization are removed from the accounts. Any gains and losses on disposals are recognized in profit or loss during the period of disposal.

24.12 Property, plant and equipment, net

Property, plant and equipment, except for land, is stated at historical cost less accumulated depreciation and impairment in value, if any. Land is stated at cost less any impairment in value. The initial cost of property, plant and equipment comprise its purchase price, including import duties and non-refundable purchase taxes and any directly attributable cost of bringing the property, plant and equipment to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner. Repairs and maintenance are charged to profit or loss during the financial period in which these are incurred.

Depreciation and amortization are computed on the straight-line method over the following estimated useful lives of the property, plant and equipment:

	In years
Outside plant	25
Inside plant and facilities	5
Customer premise equipment	3
Transportation equipment	5
Office equipment and furniture	5
Leasehold improvements	Lease term or 5 (whichever is shorter)

Prior to January 1, 2019, outside plant was depreciated over 15 years. Refer to Note 6 for further details on the impact of the change in the estimated useful life of outside plant.

Assets under construction are stated at cost and are not depreciated until such time as the relevant assets are completed and ready for operational use. Upon completion, these properties are reclassified to their relevant property, plant and equipment account.

Fully depreciated property, plant and equipment are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

The assets' residual values and estimated useful lives are reviewed periodically, and adjusted as appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The Company derecognizes the carrying amount of its property, plant and equipment upon disposal and when no future economic benefits are expected from its use or disposal at which time the cost and related accumulated depreciation and amortization are removed from the accounts. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in profit or loss.

24.13 Impairment of non-financial assets

Non-financial assets that have definite useful lives, such as property, plant and equipment, intangible assets and right-of-use assets are subject to depreciation or amortization and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Value in use requires the Company to make estimates of future cash flows to be derived from the particular asset and discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risks specific to the asset.

Impairment losses, if any, are recognized in profit or loss within other expenses in the statement of total comprehensive income. Non-financial assets that have been impaired are reviewed for possible reversal of the impairment at each reporting period. When impairment loss subsequently reverses, the carrying amount of the assets or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss has been recognized for the asset or cash-generating unit in prior years. Reversals of previously recorded impairment provisions are credited against provision account in profit and loss.

24.14 Investment in subsidiaries

Investment in subsidiaries are accounted for using the cost method in the separate financial statements. Under this method, investments are initially measured at cost which is the fair value of the consideration paid by the Company (as investor) and include transaction costs directly attributable to the acquisition. Subsequently, investment in subsidiaries are measured at cost and are not subsequently remeasured, less any impairment. Income from investments (i.e. dividend declared by the subsidiary) are recognized in the profit or loss only to the extent that the Company (as investor) receives distribution from accumulated profits of the investees arising after the acquisition date. Distributions received in excess of such accumulated profits are regarded as a recovery of investments and are recognized as a reduction of the cost of the investments.

The Company determines at each reporting date, and whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, whether there is any objective evidence that the investment in subsidiaries are impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amounts of the subsidiaries and its carrying values and allowance is set up for any substantial or permanent decline in the carrying values of investment in subsidiaries.

Investment in subsidiaries are derecognized when the Company ceases to have control or shareholding over the entities or when the risks and rewards of ownership have been transferred or extinguished.

24.15 Trade and other liabilities

Trade and other liabilities are obligations to pay for related money received, goods or services that have been acquired in the ordinary course of business from purchase of goods or services or transactions with customers (subscriber's deposits and deferred output VAT).

Trade and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established or when the corresponding assets or expenses are recognized. These are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Refer to Note 24.4 for the relevant policies on financial liabilities.

24.16 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred, whenever the amounts are considered significant or material. Borrowings are subsequently stated at amortized cost; any difference between the proceeds and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless (a) the terms of the agreement state that the maturity date is 12 months after the reporting date, or (b) the Company has an unconditional right to defer settlement of the liability for more than twelve (12) months after the reporting period. These are derecognized when paid and/or extinguished.

General and specific borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalized until the assets are substantially completed for their intended use or sale. Capitalized borrowing costs are subsequently charged to profit or loss through depreciation over the qualifying asset's useful life or when the qualifying asset is sold.

All other borrowing costs are charged as incurred to profit or loss within finance cost.

Refer to Note 24.4 for the relevant policies on financial liabilities.

24.17 Equity

Share capital and additional paid-in capital

The Company's share capital is composed of common and preferred shares with par or stated value. The amount of proceeds from the issuance or sale of shares representing the aggregate par or stated value is credited to share capital. Proceeds in excess of the aggregate par or stated value of shares, if any are credited to additional paid-in capital. Incremental cost directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds, net of tax.

Non-derivative instruments that are or might be settled in shares can be classified as equity only if there is no contractual obligation for the Company to deliver a variable number of its own equity instruments (and, additionally, the instrument contains no contractual obligation to deliver cash or another financial asset).

The Company's convertible preferred shares at December 31, 2019 are issued with various rights as described in Note 12. These are convertible to fixed number of shares and do not have redemption option. As such, these do not create a liability component. In accordance with the substance of the contractual arrangements and the intention of the parties involved, the Company classified its preferred shares as part of equity.

Retained earnings

Retained earnings pertain to the accumulated profit from the operations of the Company.

Earnings per share

Basic earnings per share (EPS) is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period.

Diluted EPS is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period, and adjusted for the effect of dilutive convertible preferred shares. If the required dividends to be declared on convertible preferred shares divided by the number of equivalent common shares, assuming such shares are converted, would decrease the basic EPS, then such convertible preferred shares would be deemed dilutive. Where the effect of the assumed conversion of the preferred shares have anti-dilutive effect, basic and diluted EPS are stated at the same amount.

24.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the separate financial statements in the period in which the dividends are approved by the Company's BOD.

24.19 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a product or service to a customer.

The following is a description of principal activities from which the Company generates its revenue.

Service revenues

Revenues are principally derived from providing the following telecommunications services: data services from internet and installation and corporate services including network service solutions. When determining the amount of revenue to be recognized in any period, the overriding principle followed is to match the revenue with the provision of service. Services may be rendered separately or together with goods or other services. The specific recognition criteria are as follows:

Subscribers

Postpaid service arrangements include fixed monthly charges generated from postpaid data services through postpaid plans primarily from data and other network services and leased line services. Services provided to postpaid subscribers are billed throughout the month according to the billing cycles of subscribers. Fees are recognized over time based on a straight-line or monthly basis as services are provided essentially on a pro-rata basis and the terms of the contract support monthly basis accounting.

Services availed by subscribers in addition to these fixed fee arrangements are charged separately and recognized as the additional service is provided or as availed by the subscribers.

Non-recurring upfront fees such as installation fees charged to subscribers for connection to the Company's network are deferred and recognized as revenue over the term of the subscription contract. The related incremental costs are similarly deferred and recognized over the same period in the Company's statement of total comprehensive income, if such costs are expected to be recovered.

Contract assets and liabilities

Subscription and other service fees are normally billed according to the bill cycle of a subscriber. The subscriber pays the fixed amount based on the bill cycle. If the performance obligations fulfilled by the Company exceed the total payments received to date, a contract asset is recognized. If the total payments received to date exceed the performance obligation fulfilled, a contract liability is recognized and is presented as deferred revenue. The contract assets are transferred to trade receivables when the Company's rights to the contract consideration become unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Deferred contract costs

Incremental costs to obtain a contract with customers such as subscriber acquisition costs and costs to fulfill the contract such as installation costs are capitalized as deferred contract costs if the Company expects to recover those costs. Deferred contract costs are stated at cost less accumulated amortisation and impairment losses. Deferred contract costs are amortized on a straight-line basis over the term of the subscription period of up to two (2) years from the date of activation of the subscription. Amortization of deferred contract costs are presented as part of cost of services in profit or loss.

Impairment losses are recognised to the extent that the carrying amount of the deferred contract costs exceed the net of (i) remaining amount of consideration that the Company expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

Multiple-deliverable arrangements

In revenue arrangements, which involve bundled sales of materials (non-service component) and telecommunication services (service component), the total arrangement consideration is allocated based on the relative stand-alone selling prices of each distinct performance obligation. Stand-alone selling price is the price at which the Company sells the goods or services separately to a customer. However, if goods or services are not currently offered separately, the Company uses the cost-plus margin method to determine the stand-alone selling price to be used in the revenue allocation.

Non-service revenues

Revenues from sale of materials, accessories and other peripherals are recognized at the point in time when the goods are delivered. The related cost or net realizable value of these materials, sold to subscribers are presented as part of cost of services in the statement of total comprehensive income.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. Interest income from bank deposits is presented net of applicable tax withheld by the banks.

Other income

Other income is recognized when earned.

24.20 Costs and expenses recognition

Costs and expenses are recognized in the statement of total comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Costs and expenses are recognized in the statement of total comprehensive income:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Costs and expenses in the statement of total comprehensive income are presented using the function of expense method.

24.21 Employee benefits

(a) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(b) Retirement benefit obligation

The Company has yet to adopt a formal retirement plan for the benefit of its qualified employees. Under RA No. 7641, in the absence of a retirement plan or agreement providing for retirement benefits of employees in the private sector, an employee upon reaching the age of 60 years or more, but not beyond 65 years, who has served at least 5 years in a private company, may retire and shall be entitled to retirement pay equivalent to at least one-half month salary plus one twelfth of the 13th month pay and cash equivalent of not more than 5 days of service incentive leaves for every year of service (or 100% of monthly salary), a fraction of at least 6 months being considered as one whole year.

The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in Philippine Peso, the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement obligation.

Remeasurements arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in profit or loss.

The net interest cost is calculated by applying the discount rate to the balance of the defined benefit obligation. This cost is included in employee benefit expense in profit or loss.

(c) *Termination benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

24.22 Leases

Where the Company is the lessee

Assets and liabilities arising from a lease are initially measured on a present value basis. The interest expense is recognized in the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

(i) *Measurement of lease liabilities*

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Company's leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third-party financing, and
- makes adjustments specific to the lease (i.e. term, currency and security).

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(ii) Measurement of right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

(iii) Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

(iv) Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment.

(v) Agreements for the use of connectivity networks

Agreements for the use of connectivity networks where the Company has the right to use specified wavelengths meet the definition of an intangible asset. As allowed by PFRS 16, the Company treats such arrangements as containing lease of intangible assets and are recognized as part of right-of-use assets (within network assets and co-located sites) in the statement of financial position.

Agreements where the Company uses only a portion of capacity of the cable which is not physically distinct from the remaining capacity of the cable, does not represent substantially all of the capacity of the cable and where the Company has no right to use a specific wavelength are treated as arrangements for the delivery of a service.

Where the Company is the lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments received are recognized as an income on a straight-line basis over the lease term.

Leases in which substantially all the risks and rewards of ownership are transferred to the lessee are classified as finance leases. When assets are leased out under a finance lease, the net investment in the lease is recognized as a finance lease receivable. Net investment in the lease is equal to the minimum lease payments receivable by the lessor discounted at the interest rate implicit in the lease at the inception date plus any unguaranteed residual value accruing to the lessor. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

Finance lease income is recognized over the term of the lease using the effective interest method, which reflects a constant periodic rate of return.

Sale and leaseback transactions where the Company is the buyer-lessor

A sale and leaseback transaction involves the transfer of an asset by an entity (the seller-lessee) to another entity (the buyer-lessor) and the leaseback of the same asset by the seller-lessee. When a seller-lessee has undertaken a sale and lease back transaction with a buyer-lessor, both the seller-lessee and the buyer-lessor must first determine whether the transfer qualifies as a sale. This determination is based on the requirements for satisfying a performance obligation in PFRS 15 'Revenue from contracts with customers'. If the transfer qualifies as a sale and the transaction is on market terms, the buyer-lessor accounts for the purchase in accordance with the applicable standards (e.g. PAS 16 'Property, plant and equipment' if the asset is property, plant or equipment or PAS 40 'Investment property' if the property is investment property). The lease is then accounted for as either a finance lease or an operating lease using PFRS 16's lessor accounting requirements. Adjustments are required if consideration for the sale is not at fair value and/or payments for the lease are not at market rates. These adjustments result in recognition of:

- a prepayment to reflect below-market terms
- additional financing provided by the buyer-lessor to the seller-lessee to reflect above-market terms.

If the transfer does not qualify as a sale the parties account for it as a financing transaction. This means that the buyer-lessor has not purchased the underlying asset and therefore does not recognise the transferred asset on the statement of financial position. Instead, the buyer-lessor accounts for the amounts paid to the seller-lessee as a financial asset in accordance with PFRS 9. From the perspective of the buyer-lessor, this arrangement is a financing transaction.

24.23 Provisions and contingencies

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized in profit or loss.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and derecognized in the statement of financial position.

Provisions are derecognized when the related legal or contractual obligation is discharged, cancelled or expired.

24.24 Current and deferred income tax

Income tax expense recognized in profit or loss during the period comprises of current and deferred income tax (DIT), except to the extent that it relates to items recognized in other comprehensive income.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. DIT is recognized on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. DIT is determined using tax rates and laws that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related DIT asset is realized or the deferred income tax liability is settled.

DIT assets are the amounts of income taxes recoverable in future periods in respect of all deductible temporary differences. DIT assets are recognized to the extent it is probable that future taxable profit will be available against which the temporary differences can be utilized. DIT liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

DIT assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the DIT assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

24.25 Related party relationships and transactions

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

24.26 Foreign currency transactions and translations

Functional and presentation currency

Items included in the separate financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The separate financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

24.27 Subsequent events

Subsequent events that provide additional information about the Company's position at the financial reporting date (adjusting events) are reflected in the separate financial statements. Subsequent events that are not adjusting events are disclosed in the notes to separate financial statements when material.

Note 25 - Reclassifications

During the year ended December 31, 2020, the Company has changed its presentation of certain network materials and supplies to property, plant and equipment, net following management's identification of specific items to be used in rendering broadband services. The Company has reclassified unissued customer premise equipment as at December 31, 2019 and 2018 amounting to P350,591,695 and P284,378,053, respectively, which were previously presented as part of network materials and supplies, to property, plant and equipment, net to conform to the current year presentation.

Such reclassifications did not impact the previously reported total assets and total liabilities and equity in the statements of financial position as at December 31, 2019 and 2018. There is also no impact on the amounts presented as total comprehensive income.

In relation to the statement of cash flows, the reclassification has increased net cash from operating activities and net cash used in investing activities. The reclassifications did not impact cash flows from financing activities.

The following tables show the adjustments recognized for each individual line items as a result of the reclassifications along with the impact of adoption of PFRS 16 as at January 1, 2019 (Note 19). Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Statement of financial position - As at December 31, 2019

	December 31, 2019 As previously reported	Reclassification	December 31, 2019 As adjusted
Current assets			
Network materials and supplies, net	820,602,885	(350,591,695)	470,011,190
Total current assets	10,863,327,828	(350,591,695)	10,512,736,133
Non-current assets			
Property, plant and equipment, net	16,854,013,576	350,591,695	17,204,605,271
Total non-current assets	20,474,844,280	350,591,695	20,825,435,975
Total assets	31,338,172,108	-	31,338,172,108
Total liabilities and equity	31,338,172,108	-	31,338,172,108

Converge Information and Communications Technology Solutions, Inc.

Statements of Total Comprehensive Income
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
Revenues	13	15,652,332,331	9,139,488,571
Cost of services	14	(7,189,168,175)	(4,482,679,182)
Gross profit		8,463,164,156	4,656,809,389
General and administrative expenses	15	(2,620,242,087)	(1,267,802,366)
Provision for impairment of trade and other receivables	3	(720,474,218)	(529,944,733)
Unrealized fair value loss on financial asset at FVTPL	23.1	(26,489,855)	-
Other income, net	16	929,983,847	66,341,973
Profit from operations		6,025,941,843	2,925,404,263
Finance costs	10,19	(531,342,360)	(259,233,603)
Profit before income tax		5,494,599,483	2,666,170,660
Income tax expense	17	(1,482,240,580)	(681,833,864)
Profit for the year		4,012,358,903	1,984,336,796
Other comprehensive income			
<i>Item that will not be reclassified to profit or loss</i>			
Remeasurement (loss) gain on retirement benefit obligation, net of tax	11	(44,044,780)	43,278,378
Total comprehensive income for the year		3,968,314,123	2,027,615,174
Earnings per share	20		
Basic		0.61	0.31
Diluted		0.48	0.31

(The notes on pages 1 to 68 are integral part of these financial statements)



Statement of financial position - As at December 31, 2018

	December 31, 2018 As previously reported	Adoption of PFRS 16	Reclassification	January 1, 2019 As adjusted
Current assets				
Trade and other receivables, net	1,142,747,202	(343,733)	-	1,142,403,469
Network materials and supplies, net	1,441,570,344	-	(284,378,053)	1,157,192,291
Total current assets	3,897,235,498	(343,733)	(284,378,053)	3,612,513,712
Non-current assets				
Property, plant and equipment, net	7,915,662,587	(127,439,137)	284,378,053	8,072,601,503
Right-of-use assets, net	-	191,796,785	-	191,796,785
Total non-current assets	8,810,165,317	64,357,648	284,378,053	9,158,901,018
Total assets	12,707,400,815	64,013,915	-	12,771,414,730
Current liabilities				
Lease liabilities, current portion	-	84,443,057	-	84,443,057
Finance lease obligations, current portion	62,018,101	(62,018,101)	-	-
Total current liabilities	6,688,905,565	22,424,956	-	6,711,330,521
Non-current liabilities				
Lease liabilities, net of current portion	-	70,927,569	-	70,927,569
Finance lease obligations, net of current portion	29,338,610	(29,338,610)	-	-
Total non-current liabilities	1,446,104,623	41,588,959	-	1,487,693,582
Total liabilities and equity	12,707,400,815	64,013,915	-	12,771,414,730

Statement of cash flows - For the year ended December 31, 2019

	December 31, 2019 As previously reported	Reclassification	December 31, 2018 As adjusted
Cash flows from operating activities			
Increase in network materials and supplies	(759,986,009)	638,453,131	(121,532,878)
Cash from operations	2,762,033,014	638,453,131	3,400,486,145
Net cash from operating activities	2,032,460,165	638,453,131	2,670,913,296
Cash flows from investing activities			
Acquisitions of property plant, and equipment	(7,707,504,340)	(638,453,131)	(8,345,957,471)
Net cash used in investing activities	(8,301,337,904)	(638,453,131)	(8,939,791,035)
Net increase in cash and cash equivalent	5,243,764,802	-	5,243,764,802

Note 26 - Supplementary information required by the Bureau of Internal Revenue (BIR)

The following information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

On December 28, 2010, Revenue Regulations (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the notes to financial statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below is the additional information required by RR No. 15-2010.

(i) *Output value-added tax (VAT)*

Output VAT declared for the year ended December 31, 2020 and the revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Sale of services		
Vatable sales	15,135,522,945	1,816,262,754
Sales to government	103,251,077	12,390,129
Zero-rated	255,318,400	-
Total	15,494,092,422	1,828,652,883

Zero-rated sales are sales of services to Philippine Economic Zone Authority (PEZA) registered entities, which are subject to zero-rated VAT pursuant to RR No. 2-2005 under Section 3 National Tax Exemption and Incentive to Zone Registered Enterprises.

The gross amount of revenues from sale of services as shown above is based on gross receipts of the Company while the revenues shown in the statement of total comprehensive income is recognized and measured in accordance with the Company's accounting policy on revenue recognition (Note 24.19). The related output VAT on outstanding receivables from such sale of services amounting to P407,250,911 have been deferred for purposes of VAT computation and included in trade and other current liabilities in the statement of financial position.

There are no output VAT paid during the year ended December 31, 2020.

(ii) *Input VAT*

Movements in input VAT for the year ended December 31, 2020 follow:

	Amount
Input VAT at beginning of the year	288,257,370
Add: Input tax deferred on capital goods exceeding P1 million from previous year	58,781,817
Add: Current year's purchases/payments for:	
Capital goods exceeding P1 million	128,597,744
Goods other than capital goods	272,305,928
Importation of goods other than capital goods	588,414,508
Domestic purchase of services	1,817,934,470
Less: Adjustments on deductions from input VAT and claims for tax credit	
Input VAT on sale to government closed to expense	(20,734,151)
Tax credit on VAT withheld on sale to government	2,323,004
Less: Input tax deferred on capital goods exceeding P1 million during the current year	(150,712,249)
Total available input VAT	2,985,168,441
Application against output VAT	
Declared output VAT	(1,828,652,883)
Paid output VAT	-
Input VAT at the end of the year	1,156,515,558

(iii) *Importations*

The total amount of landed cost of imports for the period ended December 31, 2020 amounted to P4,894,580,846, inclusive of custom duties and tariff fees, amounting to P7,509,431.

(iv) *Excise tax*

The Company has no transactions subject to excise tax for the year ended December 31, 2020.

(v) *Documentary stamp tax*

The Company paid documentary stamp tax amounting to P21,028,463 related to loan availments and issuance of shares for the year ended December 31, 2020. This amount is included as part of taxes and licenses under general and administrative expenses in profit or loss.

(vi) *All other local and national taxes*

All other local and national taxes paid for the year ended December 31, 2020 consist of:

Local business tax	21,082,590
Capital gains tax	15,649,090
Real property tax	557,910
Annual registration	41,000
Others	40,514,635
	<u>77,845,225</u>

(vii) *Withholding taxes*

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Withholding tax on compensation	90,425,615	91,812,425	182,238,040
Expanded withholding tax	320,336,229	64,278,751	384,614,980
	<u>410,761,844</u>	<u>156,091,176</u>	<u>566,853,020</u>

Accrued withholding taxes are included as part of payable to government agencies under trade and other current liabilities in the statement of financial position (Note 9).

(viii) *Tax assessments*

The Company did not receive any Final Assessment Notice for the year ended December 31, 2020.

(ix) *Tax cases*

The Company does not have any outstanding cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside of the BIR as at and for the year ended December 31, 2020.

Converge Information and Communications Technology Solutions, Inc. and Subsidiaries

**Condensed Consolidated Interim Financial Statements
As at September 30, 2021 and December 31, 2020 and for the
periods ended September 30, 2021 and 2020**



Report on Review of Condensed Consolidated Interim Financial Statements

To the Board of Directors and Shareholders of
Converge Information and Communications Technology Solutions, Inc.
New Street Bldg., Mc Arthur Highway,
Balibago, Angeles City, Pampanga

Introduction

We have reviewed the accompanying consolidated interim statement of financial position of Converge Information and Communications Technology Solutions, Inc. and Subsidiaries as at September 30, 2021 and the related consolidated interim statements of total comprehensive income for the three-month and nine-month periods ended September 30, 2021 and 2020, and consolidated interim statements of changes in equity and cash flows for the nine-month periods ended September 30, 2021 and 2020, and selected explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with Philippine Accounting Standard 34, *“Interim Financial Reporting”* as issued by the Financial Reporting Standards Council. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *“Review of Interim Financial Information Performed by the Independent Auditor of the Entity”*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Isla Lipana & Co.

Report on Review of Condensed Consolidated Interim Financial Statements
To the Board of Directors and Shareholders of
Converge Information and Communications Technology Solutions, Inc.
Page 2

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with Philippine Accounting Standard 34.

Isla Lipana & Co.

A handwritten signature in blue ink, appearing to read 'Jan Michael L. Reyes'.

Jan Michael L. Reyes
Partner

CPA Cert. No. 104972

PTR No. 0011393, issued on January 5, 2021, Makati City

SEC A.N. (individual) as general auditors 104972-SEC, Category A;
valid to audit 2020 to 2024 financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A;
valid to audit 2020 to 2024 financial statements

TIN 215-692-059

BIR A.N. 08-000745-122-2019, issued on September 18, 2019; effective until September 17, 2022

BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
December 16, 2021



Isla Lipana & Co.

Statement Required by Rule 68,
Securities Regulation Code (SRC)

To the Board of Directors and Shareholders of
Converge Information and Communications Technology Solutions, Inc.
New Street Bldg., Mc Arthur Highway,
Balibago, Angeles City, Pampanga

We have reviewed the accompanying condensed consolidated interim financial statements of Converge Information and Communications Technology Solutions, Inc. and Subsidiaries as at and for the nine-month period ended September 30, 2021, on which we have rendered the attached report dated December 16, 2021. The supplementary information shown in the *Schedules A, B, C, D, E, F and G*, as additional components required by the Revised Rule 68 of the SRC, are presented for purposes of filing with the Securities and Exchange Commission and are not required parts of the basic condensed consolidated interim financial statements. Such supplementary information is the responsibility of management and has been subjected to review procedures applied in the review of the basic condensed consolidated interim financial statements, in accordance with Philippine Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Based on our review, nothing has come to our attention that causes us to believe that the supplementary information are not prepared in accordance with Revised Rule 68 of the SRC.

Isla Lipana & Co.

Jan Michael L. Reyes
Partner

CPA Cert. No. 104972

PTR No. 0011393, issued on January 5, 2021, Makati City

SEC A.N. (individual) as general auditors 104972-SEC, Category A;

valid to audit 2020 to 2024 financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A;

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Makati City
December 16, 2021

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Statement Required by Rule 68,
Securities Regulation Code (SRC)

To the Board of Directors and Shareholders of
Converge Information and Communications Technology Solutions, Inc.
New Street Bldg., Mc Arthur Highway,
Balibago, Angeles City, Pampanga

We have reviewed in accordance with Philippine Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, the condensed consolidated interim financial statements of Converge Information and Communications Technology Solutions, Inc. and Subsidiaries as at and for the nine-month period ended September 30, 2021, and have issued our report thereon dated December 16, 2021. Our review was made for the purpose of forming a conclusion on the basic condensed consolidated interim financial statements taken as a whole. The *Supplementary Schedule on Financial Soundness Indicators*, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, is the responsibility of management. These financial soundness indicators are not measures of operating performance defined by Philippine Accounting Standard (PAS) 34, “Interim Financial Reporting” as issued by the Financial Reporting Standards Council, and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised SRC Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic condensed consolidated interim financial statements prepared in accordance with PAS 34. The components of these financial soundness indicators have been derived from the condensed consolidated interim financial statements as at and for the nine-month period ended September 30, 2021, and the consolidated financial statements as at and for the year ended December 31, 2020. Based on our review, nothing has come to our attention that causes us to believe that the supplementary information is not prepared in accordance with the Revised Rule 68 of the SRC.

Isla Lipana & Co.

Jan Michael L. Reyes
Partner

CPA Cert. No. 104972

PTR No. 0011393, issued on January 5, 2021, Makati City

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valid to audit 2020 to 2024 financial statements

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valid to audit 2020 to 2024 financial statements

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Makati City
December 16, 2021

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Converge Information and Communications Technology Solutions, Inc. and Subsidiaries

Consolidated Interim Statements of Financial Position

As at September 30, 2021 and December 31, 2020

(All amounts in Philippine Peso)

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	9,646,949,585	12,957,408,688
Trade and other receivables, net	3,079,947,401	2,172,669,790
Due from related parties, current portion	999,089,740	1,408,259,424
Network materials and supplies, net	3,392,425,852	2,031,358,171
Deferred contract costs, current portion	1,684,125,956	1,109,716,644
Other current assets	2,638,893,215	1,591,424,876
Total current assets	21,441,431,749	21,270,837,593
Non-current assets		
Property, plant and equipment, net	43,594,175,570	28,127,033,243
Advances to fixed assets suppliers	3,873,281,906	2,507,879,161
Right-of-use assets, net	1,912,416,930	1,859,298,827
Intangible assets, net	1,286,739,323	1,154,646,550
Deferred contract costs, net of current portion	652,094,262	543,161,211
Deferred input value-added tax, net of current portion	921,030,203	138,911,552
Deferred income tax assets, net	1,041,203,904	788,364,030
Due from related parties, net of current portion	163,422,374	163,422,374
Financial asset at fair value through profit or loss (FVTPL)	71,904,900	71,904,900
Investment in joint venture	389,462,272	-
Other non-current assets	86,623,893	86,623,893
Total non-current assets	53,992,355,537	35,441,245,741
Total assets	75,433,787,286	56,712,083,334
<u>LIABILITIES AND EQUITY</u>		
Current liabilities		
Trade and other current liabilities	19,838,264,466	13,252,779,907
Loans payable, current portion	3,061,031,385	731,214,286
Lease liabilities, current portion	230,406,171	325,737,209
Due to related parties	128,926,111	217,976,119
Deferred revenue, current portion	883,620,552	463,619,256
Income tax payable	814,084,717	393,924,516
Total current liabilities	24,956,333,402	15,385,251,293
Non-current liabilities		
Deferred revenue, net of current portion	285,426,679	205,105,237
Loans payable, net of current portion	15,036,868,100	10,582,607,143
Lease liabilities, net of current portion	1,536,594,645	1,507,853,434
Retirement benefit obligation	141,825,539	123,146,658
Subscribers' deposits, net of current portion	389,683,175	1,132,965,276
Total non-current liabilities	17,390,398,138	13,551,677,748
Total liabilities	42,346,731,540	28,936,929,041
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
Retained earnings	12,337,333,581	7,139,049,614
Reserve for remeasurements of retirement benefit obligation, net of tax	8,130,319	8,130,319
Reserve for share-based compensation	113,617,486	-
	33,086,743,246	27,774,841,793
Non-controlling interest	312,500	312,500
Total equity	33,087,055,746	27,775,154,293
Total liabilities and equity	75,433,787,286	56,712,083,334

(The notes on pages 1 to 14 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, 2021 and 2020, and of the three-month periods ended September 30, 2021 and 2020
(All amounts in Philippine Peso)

	Nine-month period ended September 30		Three-month period ended September 30	
	2021	2020	2021	2020
Revenues	18,830,930,985	10,677,289,360	7,049,582,250	4,187,346,180
Cost of services	(7,461,390,818)	(4,943,864,162)	(2,636,456,777)	(1,925,760,078)
Gross profit	11,369,540,167	5,733,425,198	4,413,125,473	2,261,586,102
General and administrative expenses	(3,272,083,155)	(1,771,383,167)	(1,147,517,057)	(694,715,510)
Provision for impairment of trade and other receivables	(777,876,916)	(490,787,888)	(253,635,487)	(166,468,258)
Unrealized fair value loss on financial asset at FVTPL	-	(40,615,039)	-	-
Equity in net profit of joint ventures	25,997,272	-	19,497,954	-
Other (expense) income, net	(157,658,146)	165,988,954	(329,026,410)	51,582,535
Profit from operations	7,187,919,222	3,596,628,058	2,702,444,473	1,451,984,869
Finance costs	(447,907,802)	(454,229,568)	(184,335,038)	(106,927,314)
Profit before income tax	6,740,011,420	3,142,398,490	2,518,109,435	1,345,057,555
Income tax expense	(1,541,727,453)	(952,228,521)	(571,868,116)	(413,588,986)
Profit for the period	5,198,283,967	2,190,169,969	1,946,241,319	931,468,569
Other comprehensive loss				
<i>Item that will not be reclassified to profit or loss</i>				
Remeasurement loss on retirement benefit obligation, net of tax	-	(19,443,562)	-	-
Total comprehensive income for the period	5,198,283,967	2,170,726,407	1,946,241,319	931,468,569
Profit attributable to:				
Owners of the Parent Company	5,198,283,967	2,190,169,969	1,946,241,319	931,468,569
Non-controlling interest	-	-	-	-
	5,198,283,967	2,190,169,969	1,946,241,319	931,468,569
Total comprehensive income attributable to:				
Owners of the Parent Company	5,198,283,967	2,170,726,407	1,946,241,319	931,468,569
Non-controlling interest	-	-	-	-
	5,198,283,967	2,170,726,407	1,946,241,319	931,468,569
Earnings per share				
Basic and diluted	0.69	0.31	0.26	0.13

(The notes on pages 1 to 14 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, 2021 and 2020
(All amounts in Philippine Peso)

	Share capital			Retained earnings		Reserve for remeasurements of retirement benefit obligation, net of tax	Reserve for share-based compensation	Non- controlling interest	Total
	Common shares	Convertible preferred shares	Additional paid-in capital	Appropriated	Unappropriated				
Balances at January 1, 2020	1,250,000,000	306,818,180	6,541,191,820	2,200,000,000	1,814,215,854	55,240,879	-	312,500	12,167,779,233
Transactions with owners									
Issuance of shares	-	204,545,450	4,361,358,764	-	-	-	-	-	4,565,904,214
Declaration of dividends by Pentagon	-	-	-	-	(263,000,000)	-	-	-	(263,000,000)
Total transactions with owners for the period	-	204,545,450	4,361,358,764	-	(263,000,000)	-	-	-	4,302,904,214
Comprehensive income									
Profit for the period	-	-	-	-	2,190,169,969	-	-	-	2,190,169,969
Other comprehensive loss for the period	-	-	-	-	-	(19,443,562)	-	-	(19,443,562)
Total comprehensive income for the period	-	-	-	-	2,190,169,969	(19,443,562)	-	-	2,170,726,407
Release of appropriation of retained earnings	-	-	-	(2,200,000,000)	2,200,000,000	-	-	-	-
Balances at September 30, 2020	1,250,000,000	511,363,630	10,902,550,584	-	5,941,385,823	35,797,317	-	312,500	18,641,409,854
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 year	-	-	-	-	5,198,283,967	-	-	-	5,198,283,967
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-
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

(The notes on pages 1 to 14 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, 2021 and 2020 (All amounts in Philippine Peso)

	Nine-month period ended September 30	
	2021	2020
Cash flows from operating activities		
Profit before income tax	6,740,011,420	3,142,398,490
Adjustments for:		
Depreciation and amortization	2,722,194,361	1,757,526,607
Amortization of deferred contract costs	1,220,424,361	533,322,783
Provision for impairment of trade and other receivables	777,876,916	490,787,888
Finance costs	447,907,802	454,229,568
Provision for contingencies	37,665,632	-
Loss on disposal of property, plant and equipment	173,961	56,998,307
Unrealized loss on FVTPL	-	40,615,039
Retirement benefit expense	17,469,383	6,297,839
Unrealized foreign exchange loss (gain), net	293,974,389	(143,513,533)
Interest income on cash and cash equivalents	(18,757,597)	(21,928,773)
Interest income on finance lease receivable	(11,526,256)	(7,030,013)
Interest income on financial asset at FVTPL	(2,034,258)	(413,383)
Share in net income of joint venture	(25,997,272)	-
Share-based compensation expense	113,617,486	-
Operating income before changes in assets and liabilities	12,313,000,328	6,309,290,819
(Increase) decrease in assets:		
Trade and other receivables	(1,685,154,527)	(1,533,427,225)
Due from related parties	410,281,105	(472,877,313)
Network materials and supplies	(2,289,271,176)	(1,977,683,903)
Deferred contract costs	(1,903,766,724)	(1,036,561,749)
Other current assets and non-current assets	(1,047,468,339)	(679,403,922)
Deferred input valued-added tax	(782,118,651)	(775,794,299)
Increase (decrease) in liabilities:		
Trade and other current liabilities	3,600,137,661	5,576,799,784
Subscribers deposits	(743,282,101)	893,447,006
Due to related parties	(89,050,008)	(111,517,049)
Deferred revenue	500,322,738	209,242,038
Cash from operations	8,283,630,306	6,401,514,187
Interest received	31,206,691	21,928,773
Income taxes paid	(1,372,818,166)	(1,411,793,620)
Net cash from operating activities	6,942,018,831	5,011,649,340
Cash flows from investing activities		
Acquisitions of property plant, and equipment	(15,565,350,117)	(8,525,835,780)
Acquisitions of intangible assets	(339,092,143)	(249,627,330)
Acquisition of joint venture	(363,465,000)	-
Acquisition of investment in financial asset at FVTPL	-	(104,510,000)
Net cash used in investing activities	(16,267,907,260)	(8,879,973,110)
Cash flows from financing activities		
Proceeds from loans payable	8,833,250,000	3,473,750,001
Payments of loans payable	(2,049,171,944)	(2,006,187,500)
Interest paid on loans payable	(322,147,683)	(418,169,990)
Payments on lease liabilities	(347,206,099)	(197,256,914)
Interest paid on lease liabilities	(87,197,483)	(85,834,905)
Proceeds from issuance of convertible preferred shares	-	4,567,949,670
Payment of share issuance costs	-	(2,045,456)
Payment of dividends	-	(898,313,051)
Net cash from financing activities	6,027,526,791	4,433,891,855
Net (decrease) increase in cash and cash equivalents	(3,298,361,638)	565,568,085
Cash and cash equivalents, beginning	12,957,408,688	6,233,043,005
Effects of exchange rate changes in cash and cash equivalents	(12,097,465)	(63,695,245)
Cash and cash equivalents, ending	9,646,949,585	6,734,915,845

(The notes on pages 1 to 14 are integral part of these condensed consolidated interim financial statements)

Converge Information and Communications Technology Solutions, Inc. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

As at September 30, 2021 and December 31, 2020 and

for the periods ended September 30, 2021 and 2020

(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, 2021, 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.

The total shares outstanding are held by the following shareholders as of September 30, 2021 and December 31, 2020:

Comclark Network and Technology Corp.	63.74%
Coherent Cloud Investments B.V.	15.83%
Publicly held	20.43%
	100.00%

Subsequent to September 30, 2021, Coherent Cloud Investments B.V., sold 420 million shares, decreasing its shareholdings from 15.83% to 10.25%, and increasing the publicly held shares from 20.43% to 26.0%.

1.2 The Group's plan of operations for 2021

As of September 30, 2021, the Group's backbone has now expanded to almost 90,000 kilometers. Its network has now passed through around 440 cities and municipalities nationwide, extending its services to new areas including Iloilo, Cagayan, and Cagayan de Oro. After September 30, 2021, the Group will also have its soft launch in Mindoro and Butuan City. The Group also completed its domestic submarine cable project that connects the country's major islands from Luzon to the Visayas and Mindanao to its national fiber backbone.

Beyond expanding its network to reach an increasing number of households in the Philippines, the Group is actively investing in network equipment upgrades and backbone network redundancies to ensure reliable services to its customers.

The Group gave free speed upgrades to all existing subscribers effective November 9, 2021, which are also extended to new subscribers. This is on top of the speed increase implemented last December 2020 for reaching its one million subscriber milestone. Also, three new FiberX plans are set to roll out - starting with Plan 1500 for 50 Mbps with an exclusive add-on for 10Mbps for only P99, Plan 2500 for 300 Mbps, and Plan 3500 for 800 Mbps, making Converge now unmatched in the Philippine telecommunications industry as the most affordable internet plan.

Impact of COVID-19 pandemic

Management has assessed that the pandemic did not have a significant impact to the Group's financial position and results as at and for the period ended September 30, 2021 and that the carrying amounts of assets are recoverable at reporting date. Specifically, management performed a detailed review of its receivables provisioning as at and for the period ended September 30, 2021.

Following the onset of COVID-19, new social norms of social distancing and working from home arrangements have amplified the need for fixed broadband across both residential and enterprise markets in the Philippines. Further, given the Group's status as an essential service provider, the Group was able to resume operations quickly and made necessary adjustments in the conduct of its field work. The Group has encouraged its employees to get vaccinated for safety of both its employees and its customers. As of September 30, 2021, almost 85% of employees have been inoculated with at least one dose of Covid-19 vaccine either through the government-sponsored program or company-sponsored vaccination drives.

Management will continue to monitor the business developments amidst the pandemic and update the assessments made. Any medium to long-term impact of the pandemic on the Group's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related restrictions, and the overall impact of COVID-19 on the Philippine economy and demand for its products and services, all of which are highly uncertain and cannot be predicted.

Impact of Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

The Group recorded lower income taxes due to the CREATE Act. The effective tax rate for the period ended September 30, 2021 is 23% (September 30, 2020 - 30%).

Under CREATE Act, corporate taxpayers shall prepare their annual income tax return for the calendar year 2020 (CY2020) using the pro-rated rate for CY2020 reckoned from July 1, 2020 (retrospective effect). Such retrospective effect resulted to the reduction of income tax payable amounting to P118,226,798 and decrease in deferred income tax assets amounting to P14,257,934. This has corresponding reduction to income tax expense and increase in profit for the nine-month period ended September 30, 2021 amounting to P103,968,864.

1.3 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 Group are presently solely derived from its activities in the Philippines.

1.4 Approval of the condensed consolidated interim financial statements

The condensed consolidated interim financial statements of the Group as at and for the periods ended September 30, 2021 have been approved and authorized for issuance by the Parent Company's Board of Directors (BOD) on December 16, 2021.

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 condensed consolidated interim financial statements consistent with those adopted for the Group's annual consolidated financial statements for the year ended December 31, 2020. In addition, the Group has adopted the following accounting policies:

Share-based compensation

The Group granted share options to its key management under a share-based compensation plan. A share-based compensation plan is considered equity-settled when the options are settled by the issue of equity instruments of the Group. They are considered cash-settled when they are settled in cash or any other asset.

For a share-based payment transaction in which the terms of the arrangement provide the Group with the choice of whether to settle in cash or by issuing equity instruments, the Group shall determine whether it has a present obligation to settle in cash and account for the share-based payment transaction accordingly. The Group has a present obligation to settle in cash if the choice of settlement in equity instruments has no commercial substance (e.g. because the entity is legally prohibited from issuing shares), or the entity has a past practice or a stated policy of settling in cash, or generally settles in cash whenever the counterparty asks for cash settlement.

If the Group has a present obligation to settle in cash, it shall account for the transaction in accordance with the requirements applying to cash-settled share-based payment transactions.

Where the Group settles its first award in cash, this is a strong indication (in the absence of other factors) that a constructive obligation to pay cash has been established through past practice for the remaining awards; and so, the outstanding awards should be reclassified as cash-settled on a prospective basis.

The Group recognizes a share-based compensation expenses in the statement of financial performance, representing the fair value of the share options granted. A corresponding credit to equity is raised for equity-settled plans, whereas a corresponding credit to liabilities is raised for cash-settled plans. The fair value of the share options at the date of grant under equity-settled plans is charged to profit or loss over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting. For cash-settled plans, the Group remeasures the fair value of the recognized liability at each reporting date and at the date of settlement, with any changes in fair value charged to profit or loss.

The liability arising from cash-settled plans is classified as current if payment is due within one year or less or if the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. If not, it is presented as non-current.

Investment in joint venture

Joint ventures are entities over which the Group has joint control or ownership. Investment in joint venture is accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets ('share of results') of the joint venture.

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 P17,952,158,826.

Significant acquisitions mainly pertain to investments in outside plant equipment amounting to P10,691,468,030, 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 P3,905,525,879, which primarily consists of active network equipment. Other acquisitions pertain to customer premise equipment amounting to P2,329,457,569, and other general IT related investments.

These additions are partially offset by the recognition of depreciation expense for the periods ended September 30, 2021.

During the nine-months ended September 30, 2021, the Group has fully utilized proceeds from the initial public offering amounting to P7,706,836,175 allocated for capital expenditures and general corporate purposes.

4. The Parent Company invested in Converge ICT Singapore Pte. Ltd. (Converge Singapore). Converge Singapore was incorporated in Singapore on August 23, 2021. Converge Singapore was organized primarily to provide telecommunications solutions, including reselling of capacity. As at September 30, 2021, Converge Singapore is still at pre-operating stage. Converge Singapore's registered office address and place of business is at 8 Marina Boulevard, #05-02 Marina Bay Financial Centre, Singapore.

Converge Singapore is a wholly-owned subsidiary. Total investment in the subsidiary amounted to P290,451,300 (SGD7,690,001).

5. On June 2, 2021, the Parent Company invested in joint ventures with Pacnet Network (Philippines) Inc. for a total consideration of P363,465,000.

Joint venture	Nature of operations	Percentage ownership by the Group	No. of shares	Amount
Telstra Converge Inc. (formerly Digitel Crossing, Inc.)	Incorporated in the Philippines and registered with the Philippine SEC on June 28, 2001 primarily to own, maintain, operate and manage or lease commercial telecommunications systems and equipment within and outside the Philippines.	52%	10,000,000	USD4,837,500
Asia Netcom Philippines Corporation	Incorporated in the Philippines and registered with the Philippine SEC on April 19, 2001 as Philippine Crossing Land Corporation primarily to invest, hold, purchase, acquire, lease, contract and generally engage in any commerce relating to any and all kinds and description of real and personal properties. On March 19, 2003, the corporate name was amended to Asia Netcom Philippines Corporation.	60%	300,000	USD2,662,500

The investments are recognized as investments in joint ventures in the consolidated interim statement of financial position and are accounted using the equity method.

The Group recognized equity in the net profit of the joint ventures amounting to P25,997,272 for the nine-months ended September 30, 2021.

6. During the period ended September 30, 2021, the Parent Company entered into an agreement with Keppel Midgard Holdings Pte. Ltd. for the granting of indefeasible right-of-use for one fiber pair on the main trunk of Bifrost Cable System, which directly connects Singapore to the west coast of North America. The advanced payments made amounting to P795,054,071 as of September 30, 2021 are presented as advances to fixed asset suppliers in the consolidated interim statement of financial position.
7. Related party transactions include collections, reimbursement of expenses, sale of property, plant and equipment, transfer and purchase of network materials and supplies, management service fees, advances to and from related parties, finance lease receivable, financial asset at fair value through profit or loss, interest income from finance lease receivable and financial asset at fair value through profit or loss, subcontractor costs, bandwidth costs, and leases with related parties.
8. Below is the disaggregation of the Group's revenue from contracts with customers recognized over time for the period ended September 30, 2021 and 2020:

	Nine months ended September 30		Three months ended September 30	
	2021	2020	2021	2020
Residential	16,374,326,769	8,413,198,870	6,162,084,354	3,435,495,705
Corporate	2,456,604,216	2,264,090,490	887,497,896	751,850,475
	18,830,930,985	10,677,289,360	7,049,582,250	4,187,346,180

9. 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.

10. 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.
11. As of September 30, 2021, the Group has entered into agreements with various suppliers for the construction, delivery and installation of property and equipment amounting to ₱16.7 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.
12. During the period ended September 30, 2021, the Parent Company entered into new unsecured credit facilities with the following banks:

Bank 4

On January 8, 2021, the Parent Company entered into a long-term credit facility agreement of P5 billion with Bank 4, the proceeds of which will be used to partially finance its on-going nationwide network roll-out. The facility shall be available via multiple borrowings which can be availed of until June 16, 2022.

Bank 5

On February 1, 2021, the Parent Company entered into a long-term credit facility agreement of P5 billion with Bank 5, the proceeds of which will be used to fund the capital expenditures of the Group. The facility shall be available via multiple borrowings which can be availed of until February 1, 2023.

Bank 6

On August 27, 2021, the Parent Company entered into a long-term loan amounting to P3 billion with Bank 6, the proceeds of which will be used to continue the terrestrial and subsea domestic network expansion and finance working capital requirements. The facility shall be available via multiple borrowings of up to a maximum of four (4) drawdowns which can be availed of until August 27, 2022.

Bank 7

In October 2021, the Parent Company entered into a long-term loan amounting to P2 billion with Bank 7, the proceeds of which will be used to finance its general corporate requirements. The facility shall be available via multiple borrowings which can be availed of until October 2024.

The Parent Company has pre-terminated its P1.5 billion loan with Bank 3 - Credit Facility A without any penalties incurred on January 18, 2021. The original maturity date was on July 12, 2029.

As of September 30, 2021, the Parent Company has unused credit lines from local banks amounting to ₱23.5 billion.

The Parent Company is compliant with its debt covenants as of September 30, 2021.

13. The Parent Company issued share options to its key management, in consideration of their continuous employment with the Group.

Plan	No. of options	Strike Price	Grant date	Vesting period	Exercise dates
A	18,750,000	10.65	Feb 28, 2021	3-5 years	After the 2 nd year of the grant date
B	18,750,000	15.975	Feb 28, 2021	3-5 years	
Total	37,500,000				

Based on the terms of the share-based compensation arrangement, the Group has classified the share-based payments as equity-settled. The Group recognized the value of the services received and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted using the Black-Scholes pricing model.

The Group recognized expense and the corresponding equity reserve amounting to P113,617,486 for the nine-months ended September 30, 2021.

The share options granted were considered in the diluted earnings per share calculation for the period ended September 30, 2021 using the treasury stock method. However, inclusion of the shares to be issued under the share-based compensation plan has an insignificant effect. As such, the basic and diluted EPS are stated at the same amount.

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 4 - Additional disclosures on risk management and financial instruments

4.1 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.

4.2 Components of financial assets and financial liabilities

4.2.1 Financial assets

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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
<i>At amortized cost</i>		
Cash and cash equivalents	9,646,949,585	12,957,408,688
Trade and other receivables, gross	4,737,748,614	3,021,659,077
Due from related parties	1,162,512,114	1,571,681,798
Investment in short-term government securities	5,500,000	5,500,000
	15,552,710,313	17,556,249,563
<i>At FVTPL</i>	71,904,900	71,904,900
	15,624,615,213	17,628,154,463

Trade and other receivables above exclude advances to employees which are subject to liquidation as at September 30, 2021 amounting to P7,968,209 (December 31, 2020 - P38,903,218) and are presented gross of allowance for impairment amounting to P1,665,769,422 (December 31, 2020 - P887,892,506).

As at September 30, 2021, 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.

4.2.2 Financial liabilities

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

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Trade and other liabilities	18,335,615,055	13,225,249,786
Due to related parties	128,926,111	217,976,119
Loans payable	18,097,899,485	11,313,821,429
Lease liabilities	1,767,000,816	1,833,590,643
	38,329,441,467	26,590,637,977

Trade and other liabilities presented above include non-current portion of subscribers' deposits as at September 30, 2021 amounting to P389,683,175 (December 31, 2020 - P1,132,965,276) and exclude the following non-financial liabilities:

	September 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Deferred output VAT	1,659,854,178	739,055,097
Payable to government agencies	84,058,898	310,514,916
Provision for contingencies	148,419,510	110,925,384
	1,892,332,586	1,160,495,397

4.3 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
<i><u>September 30, 2021</u></i>					
Cash and cash equivalents	9,640,337,921	-	9,640,337,921	Performing	12-month ECL
Trade receivables					
Residential - Group 2	2,589,355,831	(672,732,712)	1,916,623,119	Collective assessment	Lifetime ECL
Residential - Group 3	304,881,884	(304,881,884)	-	Credit impaired	Lifetime ECL
Corporate - Group 1	287,883,089	-	287,883,089	Collective assessment	Lifetime ECL
Corporate - Group 2	816,331,976	(139,848,970)	676,483,006	Collective assessment	Lifetime ECL
Corporate - Group 3	548,305,856	(548,305,856)	-	Credit impaired	Lifetime ECL
Other receivables - Group 1	190,989,978	-	190,989,978	Performing	12-month ECL
Due from related parties	1,162,512,114	-	1,162,512,114	Performing	12-month ECL
	15,540,598,649	(1,665,769,422)	13,874,829,227		
<i><u>December 31, 2020</u></i>					
Cash and cash equivalents	12,951,106,708	-	12,951,106,708	Performing	12-month ECL
Trade receivables					
Residential - Group 2	1,094,997,067	(360,188,527)	734,808,540	Collective assessment	Lifetime ECL
Residential - Group 3	144,670,942	(144,147,521)	523,421	Credit impaired	Lifetime ECL
Corporate - Group 1	297,180,728	-	297,180,728	Collective assessment	Lifetime ECL
Corporate - Group 2	1,282,889,637	(232,491,852)	1,050,397,785	Collective assessment	Lifetime ECL
Corporate - Group 3	151,064,606	(151,064,606)	-	Credit impaired	Lifetime ECL
Other receivables - Group 1	50,856,097	-	50,856,097	Performing	12-month ECL
Due from related parties	1,571,681,798	-	1,571,681,798	Performing	12-month ECL
	17,544,447,583	(887,892,506)	16,656,555,077		

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, 2021 amounting to P6,611,664. (December 31, 2020 - P6,301,980) which is not subject to credit risk.

As at September 30, 2021, 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 and investment in short-term government securities. The maximum exposure at September 30, 2021 is the carrying amount of the investments aggregating to P77,404,900. 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 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, 2021 and December 31, 2020.

Cash and cash equivalents

To minimize credit risk exposure from cash, the Group deposits its cash in banks with good credit ratings. Amounts deposited in universal banks amounted to P9,640,337,921 as of September 30, 2021 (2020 - P12,951,106,708)

Trade receivables

Residential subscribers

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
<u>September 30, 2021</u>						
Carrying amount, gross	1,231,788,836	239,689,425	131,052,841	101,868,672	884,956,057	2,589,355,831
Loss allowance	5,166,069	9,009,230	16,530,675	77,500,292	564,526,446	672,732,712
<u>December 30, 2020</u>						
Carrying amount, gross	463,484,075	102,603,694	93,129,020	43,090,107	392,690,171	1,094,997,067
Loss allowance	29,126,111	11,535,881	17,638,622	25,794,329	276,093,584	360,188,527

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, 2021, credit impaired receivables from certain residential subscribers amounting P304,881,884 (December 31, 2020 - P144,147,521) which are deemed uncollectible despite collection efforts have been fully provided with an allowance for impairment. In calculating the allowance, subscribers' deposits as at September 30, 2021 amounting to nil (December 31, 2020 - P523,421) which will be applied against any outstanding balance from defaulted residential subscribers were considered.

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
<u>September 30, 2021</u>						
Carrying amount, gross	226,591,782	156,099,426	102,646,825	79,278,268	251,715,675	816,331,976
Loss allowance	38,921,848	28,190,496	18,576,525	14,489,516	39,670,585	139,848,970
<u>December 31, 2020</u>						
Carrying amount, gross	198,973,284	161,568,544	146,981,125	122,506,512	652,860,172	1,282,889,637
Loss allowance	34,929,226	29,322,367	26,843,109	22,536,658	118,860,492	232,491,852

As at September 31, 2021, credit impaired receivables from certain corporate subscribers (Group 3) amounting P548,305,856 (December 31, 2020 - P151,064,606) which are deemed uncollectible despite collection efforts have been fully provided with an allowance for impairment.

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.

4.4 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, 2021 and December 31, 2020.

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

At September 30, 2021, if the US Dollar had weakened or strengthened by 1.1% (December 31, 2020 - 0.12%) against the Philippine Peso, with all other variables held constant, pre-tax profit for the nine-month period ended September 30, 2021 and equity would have been P78,932,301 lower or higher (year ended December 31, 2020 - P4,860,653 higher or lower), mainly as a result of foreign exchange losses or gains on translation of net US Dollar denominated monetary liabilities (December 31, 2020 - 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.

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, 2021, if interest rates increased/decreased by 6 basis points, with all other variables held constant, profit for the nine-month period ended September 30, 2021 would have been P6,255,253 (year ended December 31, 2020 - 7 basis points; P3,874,096) 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, 2021 and December 31, 2020, 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 P71,904,900. 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 4.57%. 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
<u>September 30, 2021</u>			
Adjusted BVAL rate	+/- 1.00%	(11,793,138)	14,963,935
<u>December 31, 2020</u>			
Adjusted BVAL rate	+/- 1.00%	(11,175,931)	14,246,573

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.

4.5 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
<u>September 30, 2021</u>			
Trade and other liabilities	17,945,931,877	389,683,175	18,335,615,052
Due to related parties	128,926,111	-	128,926,111
Loans payable	3,061,031,385	15,036,868,100	18,097,899,485
Lease liabilities, gross of discount	365,691,857	1,665,499,978	2,031,191,835
Future interest payable	832,647,205	1,491,869,580	2,324,516,785
	22,334,228,435	18,583,920,833	40,918,149,268
<u>December 31, 2020</u>			
Trade and other liabilities	12,092,284,510	1,132,965,276	13,225,249,786
Due to related parties	217,976,119	-	217,976,119
Loans payable	731,214,286	10,582,607,143	11,313,821,429
Lease liabilities, gross of discount	424,240,821	1,916,375,992	2,340,616,813
Future interest payable	558,213,532	2,188,524,637	2,746,738,169
	14,023,929,268	15,820,473,048	29,844,402,316

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.

4.6 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 share-based compensation as shown in the consolidated interim 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 5 - Basis of preparation

This condensed consolidated interim financial statements for the nine-month period ended September 30, 2021 have 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 annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial statements for the year ended December 31, 2020 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, 2021 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, 2021 that are expected to have a material impact on the Group's condensed consolidated interim financial statements.

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SUPPLEMENTARY SCHEDULES AS REQUIRED BY THE REVISED SRC RULE 68

SEPTEMBER 30, 2021

Schedules	Description
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
C	Amounts Receivable from Related Parties which are eliminated during the consolidation of the financial statements
D	Long Term Debt
E	Indebtedness to Related Parties (Long-Term loans from Related Companies)
F	Guarantees of Securities of Other Issuers
G	Share Capital
	Schedule of Financial Soundness Indicators

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SCHEDULE A - FINANCIAL ASSETS

SEPTEMBER 30, 2021

Name of issuing entity and association of each issue	Principal amount of bonds and notes	Amount shown in the consolidated statement of financial position	Income received and accrued
Financial assets at amortized cost			
Cash in banks			
Bank of the Philippine Islands	-	4,314,245,338	8,401,769
Banco de Oro	-	1,526,019,535	2,971,844
Rizal Commercial Banking Corporation	-	1,254,009,651	2,442,119
Union Bank of the Philippines, Inc	-	729,600,567	1,420,859
Asia United Bank	-	716,866,743	1,396,061
Security Bank Corporation	-	699,574,681	1,362,385
Philippine National Bank	-	186,180,154	362,576
China Banking Corporation	-	129,591,506	252,373
Landbank of the Philippines	-	65,797,546	128,137
Citibank, N. A. (Philippine Branch)	-	8,452,203	-
Short-term placements			
Bank of the Philippine Islands	-	10,000,000	19,474
Cash on hand	-	6,611,661	-
Total cash and cash equivalents		9,646,949,585	18,757,597
Trade and other receivables, gross	-	4,737,748,614	-
Due from related parties	-	1,162,512,114	11,526,256
Investment in short-term government securities	-	5,500,000	-
		15,552,710,313	30,283,853
Financial assets at fair value through profit or loss			
Pentastar Holding Co. Inc.	104,510,000	71,904,900	2,034,258
Total financial assets	104,510,000	15,624,615,213	32,318,111

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**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL
STOCKHOLDERS (OTHER THAN RELATED PARTIES)**

SEPTEMBER 30, 2021

Name and Designation of debtor	Balance at the beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at the end of the period
Advances to directors, officers and employees*	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Trade and other receivables							
Pentastar Holding Co. Inc.	1,791,982	2,034,258	-	-	3,826,240	-	3,826,240
	1,791,982	2,034,258	-	-	3,826,240	-	3,826,240
Due from related parties							
Pentastar Holding Co. Inc.	32,152,350	-		-	32,152,350	-	32,152,350
Coherent Cloud Investments B.V	91,713,617	-	(91,713,617)	-	-	-	-
Comclark Network & Tech. Corp.	544,508,455	69,896,331	(393,428,789)	-	220,975,997	-	220,975,997
Pacific Kabelnet Holding Co. Inc. and affiliates	903,307,376	315,908,199	(309,831,808)	-	745,961,393	163,422,374	909,383,767
Total Due from related parties	1,571,681,798	385,804,530	(794,974,214)	-	999,089,740	163,422,374	1,162,512,114

* As required by the Revised SRC Rule 68, this schedule shall be filed with respect to each person among the directors, officers and employees from whom an aggregate indebtedness of more than P1 million or one percent (1%) of total assets, whichever is less, is owed for items arising outside the ordinary course of business. There were no advances with respect to each person among the directors, officers and employees amounting to more than P1 million outside the ordinary course of business as of September 30, 2021.

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**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2021

Name and Designation of debtor	Balance at the beginning of period	Additions	Amounts collected	Amounts written off	Current	Non- current	Balance at the end of the period
Converge Information and Communications Technology Solutions, Inc.	2,541,796,938	4,858,757,076	(5,277,830,512)	-	2,122,723,502	-	2,122,723,502
Metroworks ICT Construction, Inc.	202,571,016	1,218,101	(201,581,802)	-	2,207,315	-	2,207,315
Pentagon Holding Co. Inc.	600,082,950	-	-	-	600,082,950	-	600,082,950
Converge ICT Solutions (Global) Limited	26,929,664	11,463,750	-	-	38,393,414	-	38,393,414
	3,371,380,568	4,871,438,927	(5,479,412,314)	-	2,763,407,181	-	2,763,407,181

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SCHEDULE D - LONG TERM DEBT

SEPTEMBER 30, 2021

Title of Issue and type of obligation	Amount authorized by indenture	Current portion of long-term debt	Non-current portion of long-term Debt	Notes
Bank Borrowings	-	305,000,000	686,250,000	- Interest rate ranges from 4.50% to 5.75% per annum subject to quarterly repricing - Payable in equal quarterly installments starting February 24, 2019 and matures on November 24, 2024.
Bank Borrowings	-	997,857,143	3,990,892,857	- Interest rate ranges from 4.92% to 5.25% per annum based on prevailing market interest rate - Payable in equal quarterly installments starting March 23, 2022 and matures on December 23, 2026.
Bank Borrowings	8,000,000,000	86,250,000	6,862,978,895	- Interest rate ranges from 3.98% to 4.75% per annum based on prevailing market interest rate - Payable in equal quarterly installments starting February 26, 2023 and matures on November 27, 2027 - With unused credit facility, available for withdrawal until June 5, 2024.
Bank Borrowings	1,500,000,000	-	-	- Interest rate based on prevailing market interest rate subject to quarterly repricing - Available for withdrawal until December 30, 2021. - As at September 30, 2021, there is no outstanding balance from this facility.
Bank Borrowings	-	679,424,242	1,014,826,705	- Interest rate ranges from 4.50% to 5.25% per annum subject to quarterly repricing - Payable in equal quarterly installments starting March 7, 2021 and matures on March 7, 2024.

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SCHEDULE D - LONG TERM DEBT, CONT'D

SEPTEMBER 30, 2021

Title of Issue and type of obligation	Amount authorized by indenture	Current portion of long-term debt	Non-current portion of long-term Debt	Notes
Bank Borrowings	1,000,000,000	-	-	• Subject to interest at prevailing market rate • Available for withdrawal until January 31, 2022. • As at September 30, 2021, there is no outstanding balance from this facility.
Bank Borrowings	3,000,000,000	-	-	• Subject to interest at prevailing market rate • Available for withdrawal until August 27, 2022. • As at September 30, 2021, there is no outstanding balance from this facility.
Bank Borrowings	500,000,000	-	-	• Subject to interest at prevailing market rate • Available for withdrawal until February 28, 2022. • As at September 30, 2021, there is no outstanding balance from this facility.
Bank Borrowings	2,000,000,000	-	-	• Subject to interest at prevailing market rate • Available for withdrawal until October 2024. • As at September 30, 2021, there is no outstanding balance from this facility.
Bank Borrowings	3,500,000,000	-	1,489,151,786	• Interest rate ranges at 4.5% per annum • Payable in equal quarterly installments starting September 18, 2023 and matures on June 16, 2028.
Bank Borrowings	-	992,500,000	-	• Interest rate at 2.75% per annum • Payable lump sum on August 22, 2022.
Bank Borrowings	4,000,000,000	-	992,767,857	• Interest rate at 4.5% per annum • Payable in equal quarterly installments starting September 1, 2023, matures on June 1, 2028.
	23,500,000,000	3,061,031,385	15,036,868,100	

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

**SCHEDULE E - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED
COMPANIES)**

SEPTEMBER 30, 2021

Name of related party	Balance at beginning of the period	Balance at the end of the period
N/A	N/A	N/A

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

SCHEDULE F - GUARANTEES OF SECURITIES OF OTHER ISSUERS

SEPTEMBER 30, 2021

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
N/A	N/A	N/A	N/A	N/A

CONVERGE INFORMATION AND COMMUNICATIONS TECHNOLOGY SOLUTIONS, INC. AND SUBSIDIARIES**SCHEDULE G - SHARE CAPITAL**

SEPTEMBER 30, 2021

Title of issue	Number of shares authorized	Number of shares issued and outstanding	Number of shares reserved for options, warrants, conversion, and other rights	Number of shares held by related parties	Directors, officers, and employees	Others
Common shares at P0.25	16,900,000,000	7,526,294,461	37,500,000	5,988,830,118	72,807	N/A
Preferred shares at P0.25	3,060,000,000	-	-	-	-	N/A
Preferred B shares at P0.0025	4,000,000,000	-	-	-	-	N/A

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

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

SEPTEMBER 30, 2021

	September 30, 2021	December 31, 2020
Current ratio ^a	0.9x	1.4x
Acid test ratio ^b	0.6x	1.1x
Solvency ratio ^c	0.6x	0.6x
Debt-to-equity ratio ^d	0.5x	0.4x
Asset-to-equity ratio ^e	2.3x	2.0x
Interest rate coverage ratio ^f	23.9x	14.9x
Debt service coverage ratio ^g	4.4x	3.0x
Net debt/ EBITDA ^h	0.6x	-0.2x
Earnings per share (PHP) ⁱ	0.69	0.61
Book value per share ^j	4.40	3.69
Return on Assets ^k	7.9%	7.7%
Return on Equity ^l	17.1%	17.0%
Net profit margin ^m	27.6%	21.6%

^aCurrent assets/ current liabilities

^bCash and cash equivalents + Trade and other receivables, net + Due from related parties (current portion) / Current liabilities

^cLast twelve months' ("LTM") net operating profit after tax + LTM depreciation and amortization / Loans payable

^dLoans payable/ Total equity

^eTotal assets/ Total equity

^fLTM Earnings before interest, taxes, depreciation and amortization / LTM interest expense

^gParent Company's LTM earnings before interest, taxes, depreciation and amortization / Parent Company's LTM annual debt service requirements due over the same corresponding period which are the interests, principal and lease payments

^hLoans payable less cash and cash equivalents/ LTM earnings before interest, taxes, depreciation and amortization

ⁱNet 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

^jTotal equity less Preferred Equity/ Total number of shares outstanding

Book value per share information have been retroactively adjusted to reflect the stock split

^kNet income attributable to owners of the Parent Company / Average total assets

^lNet income attributable to owners of the Parent Company / Average total equity

^mNet income/ Revenues