PAXYS

26 June 2020

THE PHILIPPINE STOCK EXCHANGE, INC.
Disclosure Department
6th Floor PSE Tower
One Bonifacio High Street
28th Street corner 5th Avenue
Bonifacio Global City, Taguig City

Attention: **MS. JANET A. ENCARNACION**
Head, Disclosure Department

Gentlemen:

Enclosed herewith is our Annual Report for the year ended 31 December 2019 (SEC Form 17-A) with Sustainability Report.

We trust that you will find the attached documents in order.

Very truly yours,

PAXYS, INC.

By:

MAYETTE H. TAPIA
Corporate Information Officer

15th Floor • 6750 Ayala Office Tower
Ayala Avenue, Makati City, Philippines 1226
Tel No. (+632) 8250-3800 • Fax No. (+632) 8250-3801
www.paxys.com

6609

SEC Registration Number

PAXYS, INC.

(Company's Full Name)

15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City

(Business Address: No. Street City/Town/Province)

Atty. Mayette H. Tapia

(Contact Person)

(+632) 8250-3800

(Company Telephone Number)

12	31
Month	*Day*

(Calendar Year)

17-A

(Form Type)

12	12
Month	*Day*

(Annual Meeting)

2019

(Secondary License Type, If Applicable)

CRMD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

714

Total No. of Stockholders

-	-
Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the calendar year ended **2019**

2. SEC Identification Number **6609**

3. BIR Tax Identification No. **000-233-218**

4. Exact Name of the registrant as specified in its charter **PAXYS, INC.**

5. Province, Country or other jurisdiction of incorporation: **Philippines**

6. Industry Classification Code: _____________ (SEC Use Only)

7. Address of principal office: **15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City**

8. Issuer's telephone number, including area code: **(+632) 8250-3800**

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

10. Securities registered pursuant to Sections 8 and 12 of the SRC:

a) Authorized Capital Stock

Common shares, ₱1.00 par value	1,800,000,000 shares

b) Issued and Outstanding Shares

Common shares, ₱1.00 par value	1,148,534,866 shares

c) Amount of Debt Outstanding as of December 31, 2019:

Nil

Are any or all of these securities listed on the Philippine Stock Exchange?

Yes [x]   No [ ]

11. Check whether the issuer:

(i) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [x]   No [ ]

(ii) has been subject to such filing requirements for the past 90 days.

Yes [x]   No [ ]

12. Aggregate market value of the voting stock held by non-affiliates:

₱462,277,982.19 (171,850,551 shares @ ₱2.69 per share as of December 31, 2019)

PAXYS, INC.

SUPPLEMENTAL SCHEDULES
TO THE FINANCIAL STATEMENTS REQUIRED BY THE
SECURITIES AND EXCHANGE COMMISSION
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
AND INDEPENDENT AUDITORS' REPORT

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Description of Business

Corporate Information

Paxys, Inc. (Paxys, the Company, or the Parent Company) is an investment holding company incorporated in the Philippines and listed on the Philippine Stock Exchange. Formerly known as Fil-Hispano Holdings Corporation, Paxys was registered with the Philippine Securities and Exchange Commission (SEC) on February 14, 1952. As at December 31, 2019, its major shareholders are All Asia Customer Services Holdings Ltd. (AACSHL), a privately-held company incorporated in Hong Kong, and Paxys NV, a wholly owned subsidiary of the Company, with 54.93% and 30.09% interests, respectively.

Through its operating subsidiary, Paxys provides general transcription, data conversion, contact center and other business process outsourcing services.

Previous investments of Paxys include the following:

- The Parent Company expanded its business and made several acquisitions in Australia through Paxys Australia Pty Ltd ("PAU"). The most significant acquisition was made in April 2006 when PAU acquired SmartSalary Pty Ltd ("SmartSalary"), a salary packaging company based in Australia. In 2009, SmartSalary acquired two major Australian providers of in-house salary packaging software solutions, namely, Melbourne System Group Pty Ltd and Seqoya Pty Ltd. In 2010, PAU incorporated a wholly-owned subsidiary, Smartfleet Management Pty Ltd ("Smartfleet"), for the purpose of engaging in fleet management-related business. Smartfleet further expanded by acquiring the assets of Webfleet Management Services Pty Ltd, a leading provider of software solutions for online fleet management. Smartfleet also acquired Australian Vehicle Consultants Pty Ltd, a full-service fleet management company and a leading provider of vehicle maintenance services. SmartSalary also acquired PBI Benefit Solutions Pty Ltd, a company engaged in issuing credit card products to employees of public hospitals and public benevolent institutions in Australia. In June 2012, the Company, through Paxys N.V., sold its 100% interest in PAU and its subsidiaries to SmartGroup Investments Pty Ltd.

- In January 2007, Paxys, together with joint venture partner Stellar Global, Inc., established Stellar Global Solutions Philippines, Inc. ("SGSP"). SGSP was organized to provide cost-effective Philippine offshore outsourcing for the Australian and UK clients of the Stellar Community. In April 2011, SGSP formed a wholly-owned subsidiary – Stellar Philippines, Inc. ("Stellar Philippines") to further expand Stellar's operations in the Philippines. Paxys sold all of its equity interests in SGSP and Stellar Philippines to Stellar Global, Inc. in July 2013.

- In 2008, Paxys partnered with WNS Global Services Netherlands Cooperative U.A. ("WNS Global") to form WNS Philippines, Inc. Based in Mumbai India, WNS Global is a leading provider of business process outsourcing for various services such as banking, travel, telecommunications, logistics, insurance, and healthcare. In October 2011, Paxys transferred all of its equity interests in WNS Philippines, Inc. to its foreign partner.

- To further improve its IT capabilities and expertise, the Company acquired a majority stake in Ubaldo Reidenbach Solutions, Inc. ("URSI") in 2008. URSI is a Philippine company engaged in IT consultancy focusing on Linux, Open Source Software and Red Hat Software. In 2008, Paxys acquired majority ownership in Global Idealogy Corporation ("GIC"), a software solutions provider. In October 2012, Paxys transferred all of its equity interests in URSI in favor of URSI's minority shareholders. In August 2011, Paxys sold all of its equity interests in GIC in favor of GIC's minority shareholders.

In 2014, Paxys N.V., a wholly-owned subsidiary of the Parent Company, completed a tender offer to acquire 345,622,477 common shares of the Parent Company representing 30.09% of its outstanding capital stock at the price of ₱3.20 per share. As of December 31, 2019, AACSHL remains the majority shareholder owning 54.93% of the Parent Company's total issued and outstanding shares. The public ownership level of Paxys is at 14.96% as of December 31, 2019.

The registered office address of the Parent Company is at 15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines.

<u>Bankruptcy/Receivership for the Group</u>

There has been no bankruptcy, receivership or similar proceeding for the Paxys Group.

<u>Business Combinations and Discontinued Operations for the Last Three (3) Years</u>

Paxys Ltd. and Simpro Solutions Limited (SSL)

In 2012, Paxys purchased one hundred percent (100%) equity in Paxys Limited, a company registered and incorporated in Hong Kong. Paxys Ltd. owns 50% of SSL, a company incorporated in Hong Kong; along with its joint venture partner, Simpro Solutions, Inc., a Canadian BPO company engaged in contact center and back office outsourcing activities.

SSL established Simpro Solutions Philippines, Inc. (SSPI) in 2012 for its BPO business in the Philippines. Effectively, Paxys has joint control in SSPI through its wholly-owned subsidiary, Paxys Limited.

In 2015, SSPI terminated its Philippine operations due to non-renewal of its revenue contracts. With the approval of the Board, SSPI thereafter amended its Articles of

Incorporation shortening the term of its existence up to June 30, 2018. Said amendment has been approved by the Board of Directors on March 15, 2017 and by the Securities and Exchange Commission on May 24, 2017. By virtue of the Amended Articles of Incorporation, the corporate existence of SSPI was terminated on June 30, 2018.

Principal Products or Service

Paxys is an investment holding company. Through its operating subsidiaries, Paxys has been engaged in diversified services such as business process outsourcing and data conversion throughout the Philippines and internationally. For the past years, Paxys divested its call center, salary packaging, IT consulting, and software solutions business. At present, Scopeworks Asia, Inc. (SWA) is its only remaining operating subsidiary.

SWA is a Philippine BPO company engaged in business process outsourcing by providing outsourcing services including data transcription services, customer service, facilities and support services, and back office services to domestic and foreign institutions, as well as to multinational companies based in the Philippines and abroad.

Percentage of revenues contributed by foreign sales *(In Millions Php)*

	2019		2018		2017	
	Amount	**Percentage**	Amount	Percentage	Amount	Percentage
Foreign	**₱63.0**	**80%**	₱82.5	95%	₱79.2	100%
Local	**15.5**	**20%**	4.0	5%	-	-
Total	**₱78.5**	**100%**	₱86.5	100%	₱79.2	100%

Distribution methods of the products or services

To ensure that all of the clients' needs are properly addressed and met, the team has developed the Group's website (www.paxys.com). Through this site, clients can easily access all of the subsidiaries' services and individual websites.

SWA delivers the service to its clients using a proprietary system which integrates marketing, transcription upload and download, job monitoring, customer service, and customer payment all on its website.

Status of any publicly- announced new product or service

There are no new products and services introduced in 2019.

Competition

The Company's competition within the global BPO services industry includes US-based outsourcing companies and offshore BPO companies.

Sources and Availability of Raw Materials and the Names of Principal Suppliers

Paxys and its subsidiaries obtain equipment and other materials mostly from local suppliers. The Company is not dependent upon one or limited number of suppliers for essential equipment and other materials as it continuously looks for new suppliers that can satisfy the Company's requirements.

Major Customers

The revenues from external customers accounting for 10% or more of the consolidated revenue pertain to revenue from services rendered by its operating subsidiary to Nuance Communications Ireland Ltd.

Related Party Transactions

Paxys has established procedures to ensure the integrity and transparency of related party transactions between and among the Company and its joint venture partners, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by directors and officers. The arms-length principle is applied and these transactions are properly recorded and disclosed in the financial records. The Group complies and shall disclose material RPTs in accordance with the SEC rules on material related party transactions for publicly-listed companies.

For the year ending December 31, 2019 and 2018, there are no material related party transactions nor any pending or proposed transactions, to which the Company was or is to be a party and/or in which any of its directors and officers, any close family members of such individuals, had or is to have a direct or indirect material interest except as provided hereunder.

Transactions between related parties for the year 2019 and 2018 pertain mainly to cash advances in support of working capital requirements of ACS Pacific Limited in the net amount of ₱1.5 million and ₱3.9 million, respectively. Complete details of the related party transactions of the Company were disclosed in the notes to the financial statements.

Licenses

Scopeworks Asia, Inc. (SWA)
On November 25, 2009, SWA's registration of its expanding business process outsourcing service in the field of data transcription activity was approved by the BOI. This certification entitles SWA to a three-year Income Tax Holiday (ITH) starting December 2009 until November 2012. The ITH shall be limited only to the revenue generated from the registered expansion project. As a registered entity, SWA is required to export at least 70% of its total services, among other requirements. SWA's ITH incentive has expired in 2012 and it is now subject to 30% regular corporate income tax.

Simpro Solutions Philippines, Inc. (SSPI)
SSPI was registered with the Philippine Economic Zone Authority (PEZA) in October 2012 as an Ecozone Information Technology Enterprise. Under SSPI's registration conditions, SSPI's operations is not entitled to ITH, but only to 5% Gross Income Tax (GIT) incentive, in lieu of all national and local taxes, including the additional deduction of training expenses, as provided in RA 7916, as amended, and to incentives under Article 77, Book VI of EO 226 provided that it complies with the export sales requirement prescribed for Ecozone IT Enterprises.

As at December 31, 2019, SSPI has not availed the 5% GIT incentive and has been subjected to regular corporate income tax rate of 30% following the termination of its registered activities in June 2015. Given the termination of the corporate existence of SSPI as of June 30, 2018, the Group is also processing the cancellation of its PEZA registration.

Effect of existing or probable governmental regulations on the business

The limitation and conditions on SWA imposed by BOI has ended in November 2012. Starting 2013, SWA is already subject to government regulations governing regular business entities.

Research and Development

The Company has not spent any amount during the last three calendar years on research and development activities.

Environmental Matters

The Company is not involved in any action or proceeding involving non-compliance in any material respect with relevant environmental laws and regulations of the Philippines.

Employee and Labor Relations

As of December 31, 2019, the Group has 127 employees - including regular, project-based, and probationary employees. There are no existing collective bargaining agreements (CBA) covering the employees of Paxys, Inc. and its subsidiaries.

The Group provides its employees with medical insurance and leave benefits. For professional development, the Group provides for team building activities and offers training programs that address the specific needs of employees. To foster work-life balance, the Group sponsors, among others, annual, summer, and year-end activities.

<u>Additional Requirements as to Certain Issues or Issuers</u>

<u>Debt Issues</u>
The Company's net worth exceeds ₱25.0 million. There are no unsecured bonds to be issued.

Item 2. Properties

The Group's assets consist of computer and communication equipment, leasehold improvements, furniture and fixtures, transportation equipment and software licenses. None of these assets were held as collateral in 2019 and 2018.

Below is the list of leased properties of the Group, including conditions thereof as of December 31, 2019:

PAXYS Location	Expiration of Lease	Term of Renewal
15^{th} Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City	April 30, 2021	Upon agreement of both parties

SWA Location	Expiration of Lease	Term of Renewal
Building No.1, Diode St., Light Industry & Science Park (LISP), Brgy. Diezmo, Cabuyao Laguna	December 31, 2021	With option to extend for two years and six months or until June 30, 2024

SWA Location	Expiration of Lease	Term of Renewal
Mezzanine – (5^{th} Floor) /Penthouse Unit Yupangco Building #1606 Trade St. corner Investment Drive, Madrigal Business Park, Alabang Muntinlupa City	October 20, 2020	Upon agreement of both parties

Item 3. Legal Proceedings

There are no material pending legal proceedings to which the Company nor any of its subsidiary or affiliates is a party, or of which any of their property is the subject.

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

There were no matters submitted to a vote of security holders during the year covered by this report.

PART II – SECURITIES

Item 5. Market for Registrant's Common Equity and Related Stockholders Matters

Market Information

Principal market where common equity is traded: **Philippine Stock Exchange**

High and low sales prices for each quarter within the last two fiscal years:
The following are the high and low closing sales prices of the Corporation's shares:

	Closing Prices	
	High	**Low**
2019		
1st quarter	3.75	3.02
2nd quarter	3.38	3.02
3rd quarter	3.07	2.76
4th quarter	2.98	2.65
2018		
1st quarter	3.60	2.72
2nd quarter	3.91	2.74
3rd quarter	3.95	3.04
4th quarter	3.50	2.95

Price information as of latest practicable trading date:

As of December 31, 2019, Paxys shares are traded on the Philippine Stock Exchange at the price of ₱2.69 per share.

Description of Registrant's Securities

Common Stock
Common share with par value of ₱1.00 is the only class of shares of Paxys. As of December 31, 2019, total issued and outstanding shares of the Company amounted to 1,148,534,866 shares. The total authorized capital shares of stock is 1.8 billion shares.

Debt Securities
The Company does not have any debt securities to be registered.

Securities Subject to Redemption or Call
There are no securities subject to redemption or call.

Dividends

There were no dividends declared for the years ended December 31, 2019, 2018, and 2017.

Holders

The number of stockholders of record as of December 31, 2019 in the Company's stock and transfer book was 714. The common shares issued as of December 31, 2019 were 1,148,534,866. The list of the top 20 stockholders of Paxys common shares as of December 31, 2019 is stated hereunder:

Name	No. of Shares	% of Total
All Asia Customer Services Holdings Ltd.	621,260,820*	**54.09%**
PCD Nominee Corporation (Non-Filipino)	464,458,402	**40.44%**
PCD Nominee Corporation (Filipino)	60,859,832	**5.30%**
Kho, Jimmy Jao	300,000	**0.03%**
Chua, Carmen	216,276	**0.02%**
Granados, Juan P.	158,112	**0.01%**
Yao Shiong Shio	95,184	**0.01%**
Kaw Sek & Company	86,088	**0.01%**
Lim, Ghee Keong	81,800	**0.01%**
Paredes, Antonio	79,728	**0.01%**
Urrutia, Kevin	75,000	**0.01%**
Willis, Hugh Warren	63,111	**0.01%**
Jalandoni, Rodegelio M.	62,052	**0.01%**
Celis, Angela	55,776	**0.00%**
Martinez, Emilio G.	55,236	**0.00%**
Santiago, Eduardo A.	37,920	**0.00%**
Tangco, Francisco F.	37,896	**0.00%**
Co, Victor C.	31,536	**0.00%**
Asiamerit Securities, Inc.	24,000	**0.00%**
Reyes, Leopoldo T.	19,800	**0.00%**
Total	**1,148,058,569**	**99.96%**

* *Excluding 9,538,218 shares lodged with AB Capital Securities, Inc. and SJ Roxas and Co., Inc. The total number of shares owned by All Asia Customer Services Holdings Ltd. is 630,844,038, representing 54.93% of the total outstanding shares*

PART III – FINANCIAL INFORMATION

Item 6. Management's Discussion and Analysis and Plan of Action

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF ACTION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Year Ended December 31, 2019 Compared with Year Ended December 31, 2018

The following discussion and analysis of the financial condition and results of operations of Paxys, Inc. and its subsidiaries should be read in conjunction with the audited consolidated financial statements and other accompanying disclosures set forth elsewhere in this report.

Results of Operation

Consolidated Financial and Operational Highlights
(*In Thousand Pesos unless otherwise stated*)

	2019	2018	YoY Change
Service Income	₱78,506	₱86,477	(9%)
Gross Profit	20,123	20,971	(4%)
EBITDA[1]	55,614	22,805	144%
Loss from operations[2]	(80,267)	(80,621)	0%
Net Income attributable to equity holders	24,282	14,087	72%

Revenue in 2019 and 2018 came mainly from Scopeworks Asia, Inc. (SWA), the remaining operating subsidiary of the Group. With technology advancement over the past years, the volume in the data conversion business of SWA further decreased in 2019. This was partially mitigated by the revenue generated from managed-seat lease business which started around fourth quarter of 2018, resulting to a much lower impact in the revenue of about 9% short compared to prior year.

At the Gross Profit level, the revenue impact is around 4% due to efficient operations and management of personnel cost resulting to a reduction in the direct cost of operation.

The Interest Income from the Group's surplus funds amounted to ₱116.5 million in 2019 or about 22% higher compared to the interest income in 2018. This is more than enough to cover the loss from operations in 2019 of about ₱80.3 million, and resulted to a Net Income of ₱24.3 million. Compared to prior, 2019 Net Income is better by around 63%.

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[1] EBITDA is defined as Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization. 2019 is inclusive of Right-of-Use Depreciation in accordance with PFRS16 standard.
[2] Operating Income (Loss) = Gross Profit - Gen & Admin Expenses. Exclusive of Other Income

EBITDA more than doubled in 2019 as compared to prior year. Other than the cash earnings, the Group's adoption of PFRS 16 standard resulted to right-of-use amortization and interest expense on leases which were included for EBITDA computation purposes. Excluding these in the computation, the EBITDA in 2019 is ₱39.3 million or 72% better compared to 2018 EBITDA of ₱22.8 million.

Scopeworks Asia, Inc. (SWA)
(in Thousand Pesos unless otherwise stated)

	2019	2018	YoY Change
Service Income	₱78,506	₱86,477	(9%)
Gross Profit	20,124	20,971	(4%)
EBITDA[1]	7,351	5,549	32%
Income (loss) from operations[2]	(5,653)	630	(997%)
Net Income (Loss)	(5,559)	3,228	(272%)

The new Managed Service program posted promising growth in 2019, however, the revenue from Data Conversion program went down resulting to a 9% net decrease in the Service Income in 2019 versus 2018. While SWA is efficient in terms of managing its cost, there are unavoidable and fixed premise costs which resulted to overall Net Loss of ₱5.6 million in 2019, a 272-percentage points drop versus 2018's Net Income of ₱630 thousand.

SWA is continuously looking and exploring other business opportunities to further increase its revenues, not just limited to business processing outsourcing but for other similar services as well.

Financial Position

Consolidated Financial and Operational Highlights
(in Thousand Pesos unless otherwise stated)

	2019	2018	YoY Change
Current Assets	₱3,813,632	₱3,884,972	(2%)
Noncurrent Assets	53,491	20,419	162%
Assets	3,867,123	3,905,391	(1%)
Current Liabilities	41,465	28,882	44%
Noncurrent Liabilities	38,499	12,880	199%
Equity	3,786,979	3,863,629	(2%)

The Group's assets are mainly cash equivalents and investment securities. These funds are invested in various local and international bank and earned interest income with a net yield of about 2.8% and 2.3% in 2019 and 2018, respectively. With minimal corporate overhead, the Interest Income earned from these funds is more than enough to cover the Group's expenses.

[1] EBITDA is defined as Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization
[2] Operating Income (Loss) = Gross Profit - Gen & Admin Expenses. Exclusive of Other Income

The main changes in the Group's financial position pertain to the recognition of right-of-use assets and lease liabilities due to PFRS 16 (lease standard) adoption effective January 1, 2019 and translation losses on the dollar funds of the Group, as a result of the appreciation of Philippine Peso against US Dollar. Nonetheless, the net effect of these changes is a minimal 4% decrease in the total assets as at December 31, 2019, as compared with December 31, 2018.

Liquidity and Capital Resources

Consolidated Financial and Operational Highlights
(In Thousand Pesos unless otherwise stated)

	2019	2018	YoY Change
Net Cash provided by (used in) Operating Activities	(₱221,632)	₱35,153	-730%
Net Cash provided by Investing Activities	448,358	228,502	96%
Net Cash used in Financial Activities	(15,378)	-	-100%
Net increase in Cash and Cash Equivalents	211,348	263,655	-20%

The cash provided by investing activities pertain mainly to redeemed investment securities of as disclosed in the Group's consolidated financial statements for year ended December 31, 2019 and 2018.

The Company's management believes that the current level of cash generated from operations and the borrowing capability are sufficient to meet the Company's immediate future cash needs. The Company does not anticipate any liquidity problems that may arise from its operating activities in the near future.

Top Financial Ratios

The following are the major financial ratios of the Company as at and for the years ended December 31, 2019 and 2018:

	2019	2018	YoY Change
Current Ratio	91.6	134.5	-32%
Debt to Equity Ratio	0.02	0.01	100%
Return on Equity	0.64%	0.36%	78%
EBITDA Margin	71%	26%	173%
Net Income margin	31%	16%	94%

All KPI ratios are within the management's expectation within the periods under review.

1. Current ratio – Current ratio is a measurement of liquidity. It measures the Group's ability to cover its short-term liabilities with its current assets. This is derived by dividing the total current assets of the Group over total current liabilities. Higher ratio means higher liquidity.

2. Debt to equity ratio – indicates the relative proportion of the debt used to finance the Group's assets over its total shareholders' equity.

3. Return on equity ratio – Return on equity ratio is a profitability measure. This is computed by dividing the net income over total stockholders' equity.

4. EBITDA Margin – this is equal to the Group's earnings before interest, tax, depreciation and amortization (EBITDA) divided by total revenue.

5. Net Income Margin – ratio of net profits to revenues

Other Matters

a. Subsequent event
   None.

b. Contingencies
   As of December 31, 2019, the Company has no material contingencies.

c. Commitments
   There were no material commitments for expansion as of December 31, 2019.

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

e. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Conditions and Results of Operations.

f. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

g. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or an unfavorable impact on net sales or revenue or income from continuing operation.

h. The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".

i. The effects of seasonality or cyclicality on the operations of the Company's business are not material.

j. There were no material changes in estimates of amounts reported in interim periods of the current year or changes in estimates of amounts reported in prior financial years.

Trends, Events, Uncertainties or Contingent Financial Obligation with Material Impact on Liquidity

The Company does not anticipate having liquidity problem within the next twelve (12) months since it has adequate amount of cash to pay its maturing obligations and to support its working capital requirements.

Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

The following discussion and analysis of the financial condition and results of operations of Paxys, Inc. and its subsidiaries should be read in conjunction with the audited consolidated financial statements and other accompanying disclosures set forth elsewhere in this report.

Results of Operation

Consolidated Financial and Operational Highlights
(*In Thousand Pesos unless otherwise stated*)

	2018	2017	YoY Change
Service Income	₱86,477	₱79,205	9%
Gross Profit	20,971	12,684	65%
EBITDA[1]	22,805	8,993	154%
Loss from operations[2]	(80,621)	(73,142)	(10%)
Net Income attributable to equity holders	14,087	1,954	621%

Service income of the Group, which pertains to the revenue from the remaining operating subsidiary - SWA, grew by 9% in 2018 as compared to 2017.

Revenue growth came mainly from organic increase in the volume of the business of SWA and additional revenue streams coming from its new site in Alabang, Muntinlupa. Coupled with cost efficiencies, the improvement resulted to a 65% improvement in the Group's Gross Profit in 2018 versus 2017.

The Group's Operations resulted to a loss of amounting to ₱80.6 million and ₱73.1 million for the years ended December 31, 2018 and 2017, respectively. However, the Group earned Interest Income from its surplus funds amounting to ₱95.4 million and ₱74.9 million for the years ended December 31, 2018 and 2017, respectively, or growth of about 27%. This, together with net foreign exchange gain and other income of the Group more than covered the Group's overhead and resulted to Net Income for the year of ₱14.1 million. Compared with prior year results, the Group's Net Income in 2018 is higher by 621%. EBITDA is also at positive ₱22.8 million.

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[1] EBITDA is defined as Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization.
[2] Operating Income (Loss) = Gross Profit - Gen & Admin Expenses. Exclusive of Other Income

Scopeworks Asia, Inc. (SWA)
(in Thousand Pesos unless otherwise stated)

	2018	2017	YoY Change
Service Income	₱86,477	₱79,205	9%
Gross Profit	20,971	12,684	65%
EBITDA[1]	5,549	2,634	111%
Income from operations[2]	630	392	61%
Net Income	3,228	1,311	146%

Service Income of SWA grew by 9% in 2018 as compared to 2017. This revenue growth is mainly driven by the increase in the volume from its data conversion account for a UK client. SWA also had additional revenue streams in 2018 coming mainly from its new site in Alabang, Muntinlupa which provides facility and services to a client covering work-ready seats to be used for business process outsourcing and shared services.

In terms of operations, SWA's efficiency in better in 2018 as compared to 2017. The direct cost has further gone down from ₱66.5 million in 2017 to ₱65.5 million in 2018 resulting to a Gross Profit with a 61% growth or ₱21.0 million in 2018 versus ₱12.7 million in 2017.

SWA is continuously looking for additional opportunities to further increase its revenues.

Financial Position

Consolidated Financial and Operational Highlights
(in Thousand Pesos unless otherwise stated)

	2018	2017	YoY Change
Current Assets	₱3,884,972	₱3,742,200	4%
Noncurrent Assets	20,419	13,395	52%
Assets	3,905,391	3,755,595	4%
Current Liabilities	28,882	26,692	8%
Noncurrent Liabilities	12,880	4,064	217%
Equity	3,863,629	3,724,839	4%

The Group's total assets as at December 31, 2018 have increased by ₱149.8 million. This is mainly due to the operating income of the Group and the gain on translation of Paxys NV's dollar-denominated funds which is shown in the Equity section of the audited consolidated statements of financial position under "Other Equity Reserves".

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[1] EBITDA is defined as Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization

[2] Operating Income (Loss) = Gross Profit - Gen & Admin Expenses. Exclusive of Other Income

Liquidity and Capital Resources

Consolidated Financial and Operational Highlights
(In Thousand Pesos unless otherwise stated)

	2018	2017	YoY Change
Net Cash provided by (used in) Operating Activities	₱35,153	(₱13,164)	367%
Net Cash provided by (used in) Investing Activities	228,502	(95,359)	340%
Net increase (decrease) in Cash and Cash Equivalents	263,655	(108,523)	343%

The cash provided by and/or used in investing activities pertain mainly to redeemd and/or additional Investment Securities of the Group as disclosed in the consolidated financial statements of the Group.

The Company's management believes that the current level of cash generated from operations and the borrowing capability are sufficient to meet the Company's immediate future cash needs. The Company does not anticipate any liquidity problems that may arise from its operating activities in the near future.

Top Financial Ratios

The following are the major financial ratios of the Company as at and for the years ended December 31, 2018 and 2017:

	2018	2017	YoY Change
Current Ratio	134.5	140.2	(4%)
Debt to Equity Ratio	0.01	0.01	-
Return on Equity	0.36%	0.05%	620%
EBITDA Margin	26%	11%	136%
Net Income margin	16%	2%	700%

All KPI ratios are within the management's expectation within the periods under review.

1. Current ratio – Current ratio is a measurement of liquidity. It measures the Group's ability to cover its short-term liabilities with its current assets. This is derived by dividing the total current assets of the Group over total current liabilities. Higher ratio means higher liquidity.

2. Debt to equity ratio – indicates the relative proportion of the debt used to finance the Group's assets over its total shareholders' equity.

3. Return on equity ratio – Return on equity ratio is a profitability measure. This is computed by dividing the net income over total stockholders' equity.

4. EBITDA Margin – this is equal to the Group's earnings before interest, tax, depreciation and amortization (EBITDA) divided by total revenue.

5. Net Income Margin – ratio of net profits to revenues

Other Matters

a. <u>Subsequent event</u>
None.

b. <u>Contingencies</u>
As of December 31, 2018, the Company has no material contingencies.

c. <u>Commitments</u>
There were no material commitments for expansion as of December 31, 2018.

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

e. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Conditions and Results of Operations.

f. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

g. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or an unfavorable impact on net sales or revenue or income from continuing operation.

h. The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".

i. The effects of seasonality or cyclicality on the operations of the Company's business are not material.

j. There were no material changes in estimates of amounts reported in interim periods of the current year or changes in estimates of amounts reported in prior financial years.

Trends, Events, Uncertainties or Contingent Financial Obligation with Material Impact on Liquidity

The Company does not anticipate having liquidity problem within the next twelve (12) months since it has adequate amount of cash to pay its maturing obligations and to support its working capital requirements.

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

The following discussion and analysis of the financial condition and results of operations of Paxys, Inc. and its subsidiaries should be read in conjunction with the audited consolidated financial statements and other accompanying disclosures set forth elsewhere in this report.

Results of Operation

Consolidated Financial and Operational Highlights
(*In Thousand Pesos unless otherwise stated*)

	2017	2016	YoY Change
Service Income	₱79,205	₱92,073	(14%)
Gross Profit	12,684	12,258	3%
EBITDA[1]	8,993	19,739	(54%)
Loss from operations[2]	(73,142)	(65,070)	(12%)
Net Income attributable to equity holders	1,954	11,830	(83%)

Service income for the years ended December 31, 2017 and 2016 pertain to the revenue from the remaining operating subsidiary of the Group, SWA.

SWA revenues went down by 14% mainly due to lower volume. At the Gross Profit level, the impact of this shortfall was tempered by lower direct cost resulting primarily from effective planning and management of workforce in response to the decline in volume.

SWA continue to generate income from operations and recorded ₱1.3 million and ₱5.9 million Net Income for the years ended December 31, 2017 and 2016, respectively. Meanwhile, the Group's total interest income from surplus funds are about ₱74.9 million and ₱66.8 million for the years ended December 31, 2017 and 2016, respectively. These effectively offset the overhead costs of the Parent Company and results to a consolidated Net Income and positive EBITDA of ₱9.0 million and ₱19.7 million, respectively.

Compared with prior year results, the Group's Net Income went down by 83% due to one-off net gain in 2016 amounting to ₱6.8 million. Excluding one-off gain, Net Income has decreased by about 61% mainly due to higher operating expenses related to business development activities of the Parent Company.

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[1] EBITDA is defined as Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization.
[2] Operating Income (Loss) = Gross Profit - Gen & Admin Expenses. Excluding Other Income

<u>Scopeworks Asia, Inc. (SWA)</u>
(in Thousand Pesos unless otherwise stated)

	2017	2016	YoY Change
Service Income	₱79,205	₱92,073	(14%)
Gross Profit	12,684	12,258	3%
EBITDA	2,634	7,657	(66%)
Income from operations	392	3,263	(88%)
Net Income	1,311	5,911	(78%)

SWA's service income has decreased year on year over the last two years mainly due to the lower demand for the service and the improvement in the technologies.

In 2017, the ₱79.2 million Service Income decreased by 14% versus prior year Service Income of ₱92.1 million. While SWA is continuously looking for new business opportunities to increase its revenues, several mitigating measures have been put into place to ensure that the business will be able to address potential losses brought by volume decline. In 2016, SWA site operations were consolidated in Laguna and this has significantly reduced the operating expenses of the company.

As a result, SWA recorded a Net Income of ₱1.3 and ₱5.9 million for the years ended December 31, 2017 and 2016, respectively. EBITDA is also positive at ₱2.6 million and ₱7.7 million for 2017 and 2016, respectively.

Financial Position

Consolidated Financial and Operational Highlights
(in Thousand Pesos unless otherwise stated)

	2017	2016	YoY Change
Current Assets	₱3,742,200	₱3,728,440	0.4%
Noncurrent Assets	13,395	14,493	(7.6%)
Assets	3,755,595	3,742,933	0.3%
Current Liabilities	26,692	34,230	(22.0%)
Noncurrent Liabilities	4,064	5,258	(22.7%)
Equity	3,724,839	3,703,445	0.6%

The Group's total assets as has increased by ₱12.7 million in 2018. This is mainly due to the operating income of the Group and the gain on translation of Paxys NV's dollar-denominated funds. The translation gain is shown in the Equity section of the audited consolidated statements of financial position under "Other Equity Reserves".

Liquidity and Capital Resources

Consolidated Financial and Operational Highlights
(In Thousand Pesos unless otherwise stated)

	2017	2016	YoY Change
Net Cash provided by (used in) Operating Activities	(₱13,164)	₱19,730	(167%)
Net Cash used in Investing Activities	(95,359)	(285,112)	67%
Net decrease in Cash and Cash Equivalents	(108,523)	(265,382)	59%

The cash used in investing activities pertain mainly to purchase of additional investments in short-duration bonds and managed funds. These are classified as Held-to-Maturity Investments and Available-for-Sale financial assets in the consolidated financial position.

The Company's management believes that the current level of cash generated from operations and the borrowing capability are sufficient to meet the Company's immediate future cash needs. The Company does not anticipate any liquidity problems that may arise from its operating activities in the near future.

Top Financial Ratios

The following are the major financial ratios of the Company as at and for the years ended December 31, 2017 and 2016:

	2017	2016	YoY Change
Current Ratio	140.2	108.9	29%
Debt to Equity Ratio	0.01	0.01	-
Return on Equity	0.05%	0.32%	(84%)
EBITDA Margin	11%	21%	(47%)
Net Income margin	2%	13%	(81%)

All KPI ratios are within the management's expectation within the periods under review.

1. Current ratio – Current ratio is a measurement of liquidity. It measures the Group's ability to cover its short-term liabilities with its current assets. This is derived by dividing the total current assets of the Group over total current liabilities. Higher ratio means higher liquidity.

2. Debt to equity ratio – indicates the relative proportion of the debt used to finance the Group's assets over its total shareholders' equity.

3. Return on equity ratio – Return on equity ratio is a profitability measure. This is computed by dividing the net income over total stockholders' equity.

4. EBITDA Margin – this is equal to the Group's earnings before interest, tax, depreciation and amortization (EBITDA) divided by total revenue.

5. Net Income Margin – ratio of net profits to revenues

Other Matters

a. Subsequent event
None.

b. Contingencies
As of December 31, 2017, the Company has no material contingencies.

c. Commitments
There were no material commitments for expansion as of December 31, 2017.

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

e. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Conditions and Results of Operations.

f. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

g. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or an unfavorable impact on net sales or revenue or income from continuing operation.

h. The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".

i. The effects of seasonality or cyclicality on the operations of the Company's business are not material.

j. There were no material changes in estimates of amounts reported in interim periods of the current year or changes in estimates of amounts reported in prior financial years.

Trends, Events, Uncertainties or Contingent Financial Obligation with Material Impact on Liquidity

The Company does not anticipate having liquidity problem within the next twelve (12) months since it has adequate amount of cash to pay its maturing obligations and to support its working capital requirements.

Item 7. Financial Statements

Please refer to the attached consolidated financial statements of Paxys Group (Exhibit C) as at and for the years ended December 31, 2019, 2018, and 2017.

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

The Group's external auditor from calendar year 2014 up to present is Reyes Tacandong & Co.

The Group adopts the SEC Rule 68 policy on rotation of external auditors and complies with the provision of the long association of personnel (including partner rotation) as prescribed in the Code of Ethics for Professional Accountants in the Philippines as adopted by the Board of Accountancy and Philippine Regulation Commission and such other standards adopted by the SEC.

There are no disagreements with the current and previous auditors regarding accounting and financial disclosure.

The consolidated fees billed for the audit of the Company's annual financial statements amounted to ₱1.6 million, and ₱1.3 million in 2018-2019 and 2017, respectively.

There are no other assurance and related services rendered by the external auditors.

The audit fees were approved by the Audit Committee based on the scope of work of external auditors and the complexity of accounting and audit issues identified. There are no professional services rendered by the external auditor for tax accounting, compliance, advice, planning and any other form of tax services for the last two fiscal years.

PART IV. MANAGEMENT AND CERTAIN SECURITY HOLDERS

Item 9. Directors and Executive Officers of the Registrant

Directors, including independent directors and executive officers:

NAME	POSITION	AGE	CITIZENSHIP
Tarcisio M. Medalla	Chairman & President	71	Filipino
Roger Leo A. Cariño	Director/ Treasurer	60	Filipino
Christopher B. Maldia	Director	59	Filipino
Ghee Keong Lim	Director	52	Malaysian
Roberto A. Atendido	Director	72	Filipino
George Edwin Y. SyCip	Independent Director	63	American
Jose Antonio A. Lichauco	Independent Director	61	Filipino
Mayette H. Tapia	Corporate Secretary / CIO	33	Filipino
Ana Maria A. Katigbak-Lim	Assistant Corporate Secretary/CIO	51	Filipino
Pablito O. Lim	Compliance Officer	61	Filipino
Sheri A. Inocencio	Chief Audit Executive	54	Filipino
Divine Grace M. Gandeza	Chief Risk Officer	33	Filipino

Mr. Tarcisio M. Medalla, 71 years old, Filipino, has been the Chairman and President of the Company since 30 December 2003. He is concurrently a Director of UT Global Services Limited, a privately held company with an RHQ in Manila and affiliated with All Asia Customer Services Holdings Ltd., an investment holding company that owns the controlling equity interest in Paxys. He has been connected with the Group since 1983. He is also a director of Pacific Online Systems Corporation, a company listed with the Philippine Stock Exchange. He graduated with a BSC degree, major in Accounting, from De La Salle University. He attended the Advanced Management Program (AMP) at the Harvard Business School. He is a Certified Public Accountant.

Mr. Roger Leo A. Cariño, 60 years old, Filipino, has been a Director of the Company since 30 December 2003. He is currently the Company's Treasurer, which he also held from 2004 to 2006 and 2009. He is concurrently a Director of UT Global Services Limited, a privately held investment company with an RHQ in Manila and affiliated with All Asia Customer Services Holdings Ltd. He is also the Chairman and President of UT Foundation, Inc. He has been connected with the Group since 1990. He graduated with a BSC degree, major in Accountancy, from Ateneo de Naga University and attended the MBA Program at Murdoch University and the Strategic Business Economics program at the University of Asia and the Pacific. He is a Certified Public Accountant.

Mr. Christopher B. Maldia, 59 years old, Filipino, has been a Director of the Company since December 2003. He graduated with a Bachelor of Laws degree from the Ateneo de Manila University. He also has a Master of Laws in International Legal Studies from New York University School of Law. He is a member of the Philippine Bar and the New York Bar.

Mr. Lim Ghee Keong, 52 years old, Malaysian, was appointed as Director of the Company on 3 June 2005. He has more than 30 years of experience in finance, treasury and credit management. Prior to joining the Usaha Tegas Sdn. Bhd. (UTSB) Group in 1995, he was attached to General Electric Capital Corporation in the USA and Ban Hin Lee Bank in Malaysia. He is a Director and Chief Operating Officer of UTSB and serves on the boards of several other companies in which UTSB Group has interests, such as Maxis Berhad (listed on the Bursa Malaysia Securities Berhad (Bursa Securities), Astro Malaysia Holdings Berhad (listed on Bursa Securities) and Bond Pricing Agency Malaysia Sdn. Bhd., a bond pricing agency registered with the Securities Commission Malaysia. He is also a Director of Yu Cai Foundation. He holds a Bachelor of Business Administration degree, majoring in Finance- from the University of Hawaii at Manoa, USA.

Mr. Roberto A. Atendido, 72 years old, Filipino, has been a Director of the Corporation since 1 October 2004. He is currently the Vice Chairman/Director of Asian Alliance Investment Corp. and Sinag Energy Philippines, Inc. and President/Director of Asian Alliance Holdings and Development Corp. He is currently a member of the board of the following companies: Philippine Business Bank, Sinag Global Energy Corporation, West Palawan Premiere Development Corporation, Myka Consultancy and Advisory Services Inc. and Macay Holdings Inc. He holds a Masters Degree in Business Management from the Asian Institute of Management.

Mr. George Edwin Y. SyCip, 63 years old, American, has been a Director of the Company since 1 October 2004. He advises a variety of companies in their cross-border endeavors between the US/Europe and Asia and serves on the corporate Boards of Asian Alliance Investment Corp., Cityland Development Corporation, Premiere Horizon Alliance Corporation and Bank of the Orient in San Francisco. He is also a Trustee or Director of the International Institute for Rural Reconstruction, Give2Asia, Global Heritage Fund and the US-Philippines Society. He holds a Master's Degree in Business Administration from Harvard Business School and a Bachelor's degree in International Relations/Economics from Stanford University.

Mr. Jose Antonio A. Lichauco, 61 years old, Filipino, is concurrently the President of Asian Alliance Investment Corp., specializing in Investment Banking and Corporate Finance. He is also concurrently a Director of Automated Technology (Philippines), Inc. where he was previously Senior Vice-President and Chief Financial Officer. He also held positions at Insular Investment and Trust Corporation and at SGV & Co. He obtained his Masters Degree in Business Administration from Columbia University in New York, USA in 1989.

Atty. Mayette H. Tapia, 33 years old, Filipino, is the Corporate Secretary, General Counsel, Corporate Information Officer, and Investor Relations Officer beginning September 4, 2017. She previously served as a General Counsel of a multinational company and as an associate lawyer at Angara Abello Concepcion Regala & Cruz (ACCRA) Law Offices. She is currently a member of the Association of Southeast Asian Nation (ASEAN) Law Association and served as a corporate secretary of the San Beda Law Alumni Association Board of Trustees. She obtained her Bachelor of Laws degree from San Beda University-College of Law in Manila and became a member of the Integrated Bar of the Philippine on April 2013.

Atty. Ana Maria A. Katigbak, 51 years old, Filipino, is the Assistant Corporate Secretary of the Company and has held the office since 1997. She is a partner in Castillo, Laman, Tan, Pantaleon & San Jose Law Offices and also acts as Director of Mabuhay Holdings, Inc. and Vulcan Industrial and Mining Corp., Corporate Secretary of Energy Development Corporation, and Assistant Corporate Secretary of Paxys Inc., Premiere Horizon Alliance Corporation and Solid Group, Inc. She is a member of the Integrated Bar of the Philippines.

Mr. Pablito O. Lim, 61 years old, Filipino, is the Chief Financial Officer of the Group since 2013 and the Compliance Officer of the Company. He was the former CFO of Stellar Philippines, Inc. and Stellar Global Solutions Philippines, Inc. Prior to joining the Group, he was the CFO of Brightpoint Italy and served as an Audit Executive in Sycip Gorres Velayo & Co., a member firm of Ernst & Young. He is also concurrently a Director of some of the Company's subsidiaries such as Simpro Solutions Philippines, Inc., Scopeworks Asia, Inc. and Paxys Realty, Inc. (formerly known as Paxys Global Services, Inc.). He is a Certified Public Accountant and completed the Executive Development Program and the Management Development Program at the Asian Institute of Management.

Ms. Sheri A. Inocencio, 54 years old, Filipino, is the Group's Chief Audit Executive (CAE). Prior to joining the Group, she was the Vice President for Finance in BA Continuum Philippines, Inc. (a subsidiary of Bank of America) from August 2013 up to February 2015 and in Advanced Contact Solutions, Inc. from March 2003 up to November 2008. She also held several key finance and audit roles in C3/Customer Contact Channels, Inc., Prople, Inc., NGL Pacific Ltd., Pacific Cable & DTU Systems, Inc., and SGV & Co. Ms. Inocencio graduated cum laude from University of the Philippines with a degree in Business Administration and Accountancy and is a Certified Public Accountant.

Ms. Divine Grace M. Gandeza, 33 years old, Filipino, is the Group's Chief Risk Officer and has been with the Group since September 2012. She has extensive background in risk management, finance, and internal audit from her experience and various positions held within the Paxys group and other listed companies in diverse industries such as service, retail, freight and supply chain, transportation and logistics. She's a Certified Public Accountant and a Certified Information Systems Auditor.

KEY EMPLOYEES

All the employees are considered important assets of the Company who collectively make significant contributions to the Company. The key employees of the Company as at December 31, 2019 are as follows:

1. Mr. Tarcisio M. Medalla—Chairman and President
2. Atty. Mayette H. Tapia—Corporate Counsel, Corporate Secretary, and Corporate Information Officer
3. Mr. Pablito O. Lim—Chief Financial Officer and Compliance Officer

The relevant experience and professional details of the above key employees were exhaustively discussed in the previous pages.

Family Relationship

None of the directors and executive officers is related to each other by affinity or consanguinity.

Involvement in Certain Legal Proceedings

None of the directors and executive officers was involved during the past five years and as of date of this report in any bankruptcy proceeding. Neither have they been convicted by final judgment in any criminal proceeding or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative body to have violated a securities or commodities law.

Item 10. Executive Compensation

Year/ Top Highly Compensated Officers* *(Amounts in Million Pesos)*	Compensation and other benefits	Stock Options	Total
2019: Chairman and President, Corporate Counsel, and Compliance Officer	₱25.9	₱-	₱25.9
2018: Chairman and President, Corporate Counsel, and Compliance Officer	25.5	-	25.5
2017: Chairman and President, Corporate Counsel, and Compliance Officer	18.7	-	18.7

**The Group has a lean organizational structure. There are no other highly compensated officers other than the above. The names are shown in Item 9 part of this report.*

Per diem fees, of the Group's executive officers and directors amounted to ₱924,000, ₱812,000 and ₱1.02 million for the last three years ending December 31, 2019, 2018, and 2017, respectively.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There are no agreements between the registrant and its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the law.

Warrants and Options Outstanding: Repricing

Not applicable. The Company has no outstanding warrants and options.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

As of December 31, 2019 the Company has no knowledge of any individual or any party who beneficially owns in excess of 5% of Paxys common stock except as set forth in the table below:

Title of Class	Name and Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	Number of Shares Held	Percent of Class
Common	All Asia Customer Services Holdings, Ltd. (AACSHL) Level 54 Hopewell Centre, 183 Queen's Road East, Hong Kong	Expac Holdings Ltd. owns 100% of AACSHL. Paxys has neither corporate relationship nor information about Expac Holdings Ltd.	Hong Kong	630,844,038*	54.93%
Common	Paxys N.V. Kaya W.F.G. (Jombi) Mensing 36, Curaçao	Paxys, Inc. owns 100% equity of Paxys N.V.	Curaçao	345,622,477**	30.09%
Common	PCD Nominee Corp. G/F MSE Bldg., 6767 Ayala Ave., Makati City	Beneficial owners are the clients of the PCD participants' brokers. There are no beneficial owners owning more than 5% of the Registrant's capital stock.	Philippines	170,112,539	14.81%
			Total	**1,146,579,054**	**99.83%**

** Inclusive of 9,583,218 shares lodged under PCD Nominee Corporation (Non-Filipino)*

*** Lodged under PCD Nominee Corporation (Non-Filipino)*

Ownership Security of Management as of December 31, 2019:

Title of Class	Name of Beneficial Owner	Amount of Beneficial Ownership	Citizenship	Percent of Class
Common	**Tarcisio M. Medalla** Chairman & President	1,120	Filipino	0.0001%
Common	**Christopher B. Maldia** Director	129,520	Filipino	0.0113%
Common	**Ghee Keong Lim** Director	82,800	Malaysian	0.0072%
Common	**Roger Leo A. Carino** Director	1,120	Filipino	0.0001%
Common	**Roberto A. Atendido** Director	1,000	Filipino	0.0001%
Common	**George Y. SyCip** Independent Director	1,120	American	0.0001%
Common	**Jose Antonio A. Lichauco** Independent Director	1,120	Filipino	0.0001%
Common	**Mayette H. Tapia** Corporate Secretary/ CIO	0	Filipino	-
Common	**Ana Maria A. Katigbak** Assistant Corporate Secretary	0	Filipino	-
Common	**Pablito O. Lim** Compliance Officer	0	Filipino	-
	Total	**₱217,800**		**0.0189%**

The shareholdings of the above-named directors and officers aggregate to 217,800 shares or 0.0189% of the outstanding capital stock of the Company.

As reported in the Public Ownership Report as of December 31, 2019, 171,850,551 common shares are held by public shareholders, which is approximately 14.96% of the total issued and outstanding shares. The Company is compliant with the 10% minimum public ownership rule.

Voting Trust Holder of 5% or more

There are no voting trust agreements or any other similar agreement which may result in a change in control of the Company of which the Company has any knowledge.

Changes in control

No change in control of the Registrant has occurred since the previous fiscal year.

Item 12. Certain Relationships and Related Transactions

Except from those mentioned in **Item 1 (viii),** there has been no transaction during the last two years, nor is any transaction presently proposed, to which the Company was or is to be a party in which any director or executive officer of the Company, or nominee for election as a director, or owner of more than 10% of the Company's voting securities, or voting trust holder of 10% or more of any class of the Company's securities, or any member of the immediate family of any of the foregoing persons had or is to have a direct or indirect material interest. In the ordinary and regular course of business, the Company had or may have transactions with other companies in which some of the foregoing persons may have an interest.

PART V.
CORPORATE GOVERNANCE
(Please refer to the Company's I-ACGR)

This will be exhaustively discussed in the Integrated Annual Corporate Governance Report of the Group (I-ACGR).

Pursuant to SEC Memorandum Circular No. 15, Series of 2017, publicly-listed are mandated to provide disclosure on compliance/non-compliance with the recommendations provided under the Code of Corporate Governance requirements of the Securities and Exchange Commission and the Philippine Stock Exchange through the I-ACGR. The I-ACGR will be published and disclosed to the PSE not later than July 31, 2020.

PART VI.
EXHIBITS AND SCHEDULES
(Please refer to the following attachments)

Exhibit A – Report on SEC Form 17-C

Exhibit B – Directors' Attendance of Board Meetings for the year 2019

Exhibit C – Audited Financial Statements as at December 31, 2019

Exhibit D – Sustainability Report

PART VII.
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

The above schedules formed part of the Supplementary Schedules attached in the Audited Consolidated Financial Statements as at and for the year ending December 31, 2019, 2018 and 2017.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized, in the City of Makati on ____________, 2020

Issued By:
PAXYS, INC.

TARCISIO M. MEDALLA
Chairman & President

MAYETTE H. TAPIA
Corporate Secretary

SUBSCRIBED AND SWORN to before me this ________day of JUN 24 2020 2020 affiant(s) exhibiting to me their Passport Nos., as follows:

NAMES	PASSPORT No.	VALID UNTIL	PLACE OF ISSUE
Tarcisio M. Medalla	P7548707A	June 13, 2028	Manila, Philippines
Mayette H. Tapia	P0985037B	March 8, 2029	Manila, Philippines

NOTARY PUBLIC
Doc. No. 402
Page No. 82
Book No. 40
Series of 2020.

RUBEN T.M. RAMIREZ
Notary Public for Makati City
Until Decemeber 31,2021
2086 E. Pascua St., Makati City
IBP O.R No. 097071/ December 10,2019
Roll No. 28947/ MCLE No. VI-0020246
PTR No. MKT 8117044/1-02-2020
Appointment No. M-158

Exhibit A

Reports on SEC Form 17-C

Date Filed	Items Reported
8 May 2019	The Company informed the Exchange that the annual meeting of the stockholders of Paxys, Inc. for the year 2019, which is scheduled to be held on any day in May, has been postponed to a later date. The purpose of the postponement is to provide the Board and management of Paxys with greater opportunity in determining the Company's strategic direction.
16 August 2019	The Company informed the Exchange that the scheduled annual meeting of the stockholders of Paxys Inc. is on 12 December 2019 at the Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City.
23 August 2019	The Company submitted the Certificate of Completion for Corporate Governance Seminar attended by Atty. Ana Maria A. Katigbak-Lim issued by ROAM.
11 October 2019	The Company informed the Exchange of its new contact number in compliance with the directive of the National Telecommunications Commission.
5 November 2019	The Company submitted to the Commission the Certificate of Independent Directors of Messrs. Jose Antonio A. Lichauco and George Y. Sycip with undertaking.
5 November 2019	The Company provided the Exchange with the certified list of shareholders of Paxys Inc. as of 31 October 2019, the record date of our Annual Stockholders' Meeting, which was scheduled on 12 December 2019.
11 November 2019	The Company submitted the Certificates of Completion for Corporate Governance Seminar for the Directors and Officers of Paxys, Inc. in compliance with the SEC Memorandum Circular No. 20 Series of 2013.
12 December 2019	The Company informed the Exchange the result of the Annual Stockholders' Meeting held on 12 December 2019.

Exhibit B

PAXYS INC.
DIRECTORS' ATTENDANCE OF BOARD MEETINGS FOR THE YEAR 2019

Name of Director	Regular Meeting **29 Mar 2019**	Regular Meeting **7 May 2019**	Regular Meeting **5 Aug 2019**	Regular Meeting **8 Nov 2019**	Organizational Meeting **12 Dec 2019**
Tarcisio M. Medalla	✓	✓	✓	✓	✓
Roger Leo A. Cariño	✓	✓	✓	✓	✓
Roberto A. Atendido	✓	**A**	✓	✓	✓
Christopher B. Maldia	✓	✓	✓	✓	✓
Jose Antonio A. Lichauco	✓	✓	✓	✓	✓
Lim Ghee Keong	✓	✓	✓	✓	**A**
George Y. Sycip	✓	✓	**A**	✓	**A**

✓ Present
A - Absent

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

							6	6	0	9

COMPANY NAME

PAXYS, INC. AND SUBSIDIARIES

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

15th Floor, 6750 Ayala Office Tower,
Ayala Avenue, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
–	(632) 8250-3800	–

No. of Stockholders	Annual Meeting (Month / Day)	Calendar Year (Month / Day)
714	December 12	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Atty. Mayette H. Tapia	mayette.tapia@paxys.com	(632) 8250-3800	–

CONTACT PERSON'S ADDRESS

15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City

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

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

PAXYS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Paxys, Inc. and Subsidiaries** (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, including the schedules attached therein, 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements, including the schedules attached therein, and submits the same to the stockholders.

Reyes Tacandong & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Tarcisio M. Medalla
Chairman of the Board and President

Pablito O. Lim
Chief Financial Officer

SUBSCRIBED AND SWORN TO BEFORE ME THIS JUN 1 9 2020
AT MAKATI CITY AFFIANT EXHIBITED TO ME HIS/HER
NO. ISSUED AT

Signed this 27th day of March 2020

RUBEN T.M. RAMIREZ
Notary Public for Makati City
Until Decemeber 31,2021
2086 E. Pascua St., Makati City
IBP O.R No. 097071/ December 10,2019
Roll No. 28947/ MCLE No. VI-0020246
PTR No. MKT 8117044/1-02-2020
Appointment No. M-158

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BOOK NO. 37
SERIES OF 20 20

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Ayala Avenue, Makati City, Philippines 1226
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www.paxys.com

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
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Fax : +632 8 982 9111
Website : www.reyestacandong.com

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Paxys, Inc.
15th Floor, 6750 Ayala Office Tower
Ayala Avenue, Makati City

Opinion

We have audited the accompanying consolidated financial statements of Paxys, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of income, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019 and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRS).

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Accounting for Financial Assets</u>

The Group has significant amount of financial assets, which mainly consist of cash equivalents and investment securities. This is significant to our audit because the aggregate balance of financial assets amounting to ₱3,794.3 million as at December 31, 2019 is substantial in relation to the consolidated financial statements as a whole.

We have assessed the propriety of recognition, classification and measurement, as well as management's assessment of the impairment of financial assets. Our audit procedures included, among others, (a) understanding of financial asset management and recording process; (b) verifying the existence of financial assets by obtaining external confirmations from custodians and reviewing underlying documents; (c) evaluating the propriety of the classification of financial instruments based on a duly approved business model; (d) testing the reasonableness of recorded interest income and the changes in fair values of financial assets measured at fair value through profit or loss and other comprehensive income; and (e) evaluating management's assessment of impairment losses on financial assets based on expected credit losses.

Necessary disclosures are included in Note 5, *Cash and Cash Equivalents*, Note 6, *Investment Securities*, and Note 24, *Financial Instruments*.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the subsidiaries or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

REYES TACANDONG & CO.

Haydee M. Reyes

HAYDEE M. REYES
Partner
CPA Certificate No. 83522
Tax Identification No. 102-095-265-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 0663-AR-3 Group A
Valid until August 30, 2020
BIR Accreditation No. 08-005144-006-2019
Valid until October 20, 2022
PTR No. 8116475
Issued January 6, 2020, Makati City

March 27, 2020
Makati City, Metro Manila

PAXYS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Amounts in Thousands

		December 31	
	Note	**2019**	2018
ASSETS			
Current Assets			
Cash and cash equivalents	5	**₱3,287,798**	₱3,155,310
Investment securities	6	**458,640**	670,599
Trade and other receivables	7	**44,289**	38,904
Other current assets	8	**22,905**	20,159
Total Current Assets		**3,813,632**	3,884,972
Noncurrent Assets			
Right-of-use assets	23	**38,369**	–
Property and equipment	10	**6,035**	7,918
Intangible assets	11	**316**	610
Other noncurrent assets	12	**8,771**	11,891
Total Noncurrent Assets		**53,491**	20,419
		₱3,867,123	₱3,905,391
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	13	**₱27,203**	₱28,674
Current portion of lease liabilities	23	**14,420**	–
Income tax payable		**22**	208
Total Current Liabilities		**41,645**	28,882
Noncurrent Liabilities			
Lease liabilities - net of current portion	23	**23,153**	–
Retirement liability	14	**13,544**	11,531
Other noncurrent liabilities		**1,802**	1,349
Total Noncurrent Liabilities		**38,499**	12,880
Total Liabilities		**80,144**	41,762
Equity	15		
Capital stock		**1,148,535**	1,148,535
Additional paid-in capital		**451,364**	451,364
Parent shares held by a subsidiary		**(1,149,886)**	(1,149,886)
Other equity reserves		**416,426**	517,358
Retained earnings		**2,920,540**	2,896,258
Total Equity		**3,786,979**	3,863,629
		₱3,867,123	₱3,905,391

See accompanying Notes to Consolidated Financial Statements.

PAXYS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Amounts in Thousands, except Basic/Diluted Earnings per Share

		Years Ended December 31		
	Note	2019	2018	2017
REVENUE		₱78,506	₱86,477	₱79,205
COST OF SERVICES	17	(58,383)	(65,506)	(66,521)
GROSS PROFIT		20,123	20,971	12,684
GENERAL AND ADMINISTRATIVE EXPENSES	18	(100,390)	(101,592)	(85,826)
INTEREST INCOME	20	116,548	95,408	74,927
NET FOREIGN EXCHANGE GAIN (LOSS)		(2,758)	4,436	321
INTEREST EXPENSE	23	(1,526)	–	–
OTHER INCOME	20	2,712	1,103	5,425
INCOME BEFORE INCOME TAX		34,709	20,326	7,531
INCOME TAX EXPENSE (BENEFIT)	21			
Current		10,427	6,744	6,080
Deferred		–	(505)	(503)
		10,427	6,239	5,577
NET INCOME		₱24,282	₱14,087	₱1,954
BASIC/DILUTED EARNINGS PER SHARE	22	₱0.030	₱0.018	₱0.002

See accompanying Notes to Consolidated Financial Statements.

PAXYS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

Amounts in Thousands

		Years Ended December 31		
	Note	**2019**	2018	2017
NET INCOME		**₱24,282**	₱14,087	₱1,954
OTHER COMPREHENSIVE INCOME (LOSS)				
Items to be Reclassified to Profit or Loss				
Translation adjustments		**(106,137)**	138,161	10,275
Unrealized fair value gain (loss) on investment securities	6	**5,874**	(6,500)	6,945
Item not to be Reclassified to Profit or Loss				
Remeasurement gain (loss) on retirement liability	14	**(669)**	(6,958)	2,220
		(100,932)	124,703	19,440
TOTAL COMPREHENSIVE INCOME (LOSS)		**(₱76,650)**	₱138,790	₱21,394

See accompanying Notes to Consolidated Financial Statements.

PAXYS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Amounts in Thousands

	Note	2019	2018	2017
		Years Ended December 31		
CAPITAL STOCK	15			
Balance at beginning and end of year		**₱1,148,535**	₱1,148,535	₱1,148,535
ADDITIONAL PAID-IN CAPITAL	15			
Balance at beginning and end of year		**451,364**	451,364	451,364
PARENT SHARES HELD BY A SUBSIDIARY	15			
Balance at beginning and end of year		**(1,149,886)**	(1,149,886)	(1,149,886)
OTHER EQUITY RESERVES				
Cumulative Translation Adjustment				
Balance at beginning of year		**523,263**	385,102	374,827
Translation gain (loss)		**(106,137)**	138,161	10,275
Balance at end of year		**417,126**	523,263	385,102
Cumulative Fair Value Changes on Investment Securities	6			
Balance at beginning of year		**(4,678)**	14,765	7,820
Net unrealized gain (loss) on fair value changes		**5,874**	(6,500)	6,945
Transfer of realized fair value gain on redemption of investment securities		**–**	(12,943)	–
Balance at end of year		**1,196**	(4,678)	14,765
Cumulative Remeasurement Gain (Loss) on Retirement Liability	14			
Balance at beginning of year		**(1,227)**	5,731	3,511
Remeasurement gain (loss)		**(669)**	(6,958)	2,220
Balance at end of year		**(1,896)**	(1,227)	5,731
		416,426	517,358	405,598
RETAINED EARNINGS	15			
Balance at beginning of year		**2,896,258**	2,869,228	2,867,274
Net income		**24,282**	14,087	1,954
Transfer of realized fair value gain on redemption of investment securities	6	**–**	12,943	–
Balance at end of year		**2,920,540**	2,896,258	2,869,228
		₱3,786,979	₱3,863,629	₱3,724,839

See accompanying Notes to Consolidated Financial Statements.

PAXYS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in Thousands

		Years Ended December 31		
	Note	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱34,709**	₱20,326	₱7,531
Adjustments for:				
Interest income	20	**(116,548)**	(95,408)	(74,927)
Depreciation and amortization	20	**19,379**	2,479	1,462
Interest expense on lease liabilities	23	**1,526**	–	–
Net retirement benefits	14	**1,344**	509	1,026
Unrealized fair value gain on investment securities	20	**(540)**	–	–
Net unrealized foreign exchange loss (gain)		**389**	(268)	89
Provision for impairment losses on:				
Input value-added tax	18	**6**	792	2,409
Trade and other receivables	18	**–**	6,255	13,151
Gain on disposal of property and equipment	20	**–**	(406)	(357)
Gain on redemption of investment securities	20	**–**	(22)	(53)
Reversal of payables	20	**–**	–	(3,743)
Operating loss before working capital changes		**(59,735)**	(65,743)	(53,412)
Decrease (increase) in:				
Investment securities measured at fair value through profit or loss	6	**(254,345)**	1,078	–
Trade and other receivables		**(1,509)**	2,490	(16,135)
Other current assets		**(3,009)**	(6,080)	(3,776)
Other noncurrent assets		**216**	(597)	141
Increase (decrease) in:				
Trade and other payables		**(4,628)**	4,297	(3,399)
Other noncurrent liabilities		**453**	1,349	–
Net cash used for operations		**(322,557)**	(63,206)	(76,581)
Interest received		**111,538**	104,580	69,390
Income taxes paid		**(10,613)**	(6,221)	(5,973)
Net cash provided by (used in) operating activities		**(221,632)**	35,153	(13,164)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from:				
Redemption of investment securities measured at fair value through other comprehensive income and at amortized cost	6	**450,786**	237,002	631,617
Disposal of property and equipment	10	**–**	406	357
Additions to:				
Property and equipment	10	**(2,402)**	(8,322)	(362)
Intangible assets	11	**(26)**	(584)	(143)
Investment securities measured at fair value through other comprehensive income and at amortized cost	6	**–**	–	(726,828)
Net cash provided by (used in) investing activities		**448,358**	228,502	(95,359)

(Forward)

	Note	2019	2018	2017
		Years Ended December 31		
CASH FLOW FROM A FINANCING ACTIVITY				
Payments of lease liabilities	23	**(₱15,378)**	₱–	₱–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**211,348**	263,655	(108,523)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(78,860)**	133,126	10,186
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**3,155,310**	2,758,529	2,856,866
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	**₱3,287,798**	₱3,155,310	₱2,758,529

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amounts in Thousands, Except as Indicated

1. Corporate Information

Paxys, Inc. (Paxys or the Parent Company) is an investment holding company incorporated in the Philippines and listed (stock symbol: PAX) in the Philippine Stock Exchange (PSE). The Parent Company was formerly known as Fil-Hispano Holdings Corporation and registered with the Philippine Securities and Exchange Commission (SEC) on February 14, 1952. On June 18, 2001, the SEC approved the extension of corporate existence for 50 years until February 2052. However, in accordance with the Revised Corporation Code of the Philippines, effective February 23, 2019, the Parent Company shall have a perpetual existence.

As at December 31, 2019 and 2018, the major shareholders of the Parent Company are All Asia Customer Services Holdings Ltd (AACSHL), a company incorporated in Hong Kong, and Paxys N.V., a wholly owned subsidiary of the Parent Company, with 54.93% and 30.09% equity interest, respectively.

At present, Scopeworks Asia, Inc. (SWA), the operating subsidiary, provides outsourcing services such as customer service, facilities and support services, back office services, leasing and subleasing.

The Parent Company and its subsidiaries are collectively referred herein as the Group.

The registered office address of the Parent Company is at 15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City.

Approval of the Consolidated Financial Statements

The accompanying consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 were authorized for issuance by the Board of Directors (BOD) on March 27, 2020, upon endorsement by the Group's Audit, Risk Management, and Related Party Transactions Committee on the same date.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Measurement Bases

The consolidated financial statements are presented in Philippine Peso, which is the functional currency of the Parent Company. All amounts are rounded to the nearest thousands, unless otherwise stated.

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for the following items:

Items	Measurement Bases
Investment securities measured at fair value through profit or loss (FVPL) or fair value through other comprehensive income (FVOCI)	Fair value
Retirement liability	Present value of the defined benefit retirement obligation less the fair value of the plan assets
Lease liabilities	Present value of discounted minimum lease payments

Historical cost is generally based on the fair value of the consideration given in exchange for an asset or the fair value of the consideration received in exchange for incurring a liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured and/or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active market for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

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

Information about the assumptions made in measuring fair value is included in the following notes to consolidated financial statements:

Note 3, *Significant Judgments, Accounting Estimates and Assumptions*
Note 24, *Financial Instruments*

Adoption of New and Amended PFRS
The accounting policies adopted are consistent with those of the previous reporting year, except for the adoption of the following new and amended PFRS effective for annual periods beginning on or after January 1, 2019:

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

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

  Prior to the adoption of PFRS 16, the Group classified leases as operating leases under PAS 17. These pertain to office space, parking space, storage and office equipment. The leases of storage and office equipment are considered as low-value assets and excluded from the recognition of right-of-use (ROU) assets and lease liabilities.

  At transition, as a lessee, the Group recognized ROU assets and lease liabilities for leases previously classified as operating leases under PAS 17. Lease liabilities are measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate of 4% as at January 1, 2019. ROU assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

  The Group used the following practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17.

  - Applied PFRS 16 only to lease agreements that were previously identified as leases applying PAS 17 at the date of initial application.

  - Applied the exemption not to recognize ROU assets and lease liabilities for leases with low-value assets.

  - Used hindsight in determining the lease term if the lease agreement contains options to extend or terminate the lease.

Impact on Transition
The Group adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized as part of the ROU assets as at January 1, 2019. Accordingly, there is no adjustment on the beginning retained earnings and no restatement in the 2018 comparative financial information.

The impact on transition as at January 1, 2019 is summarized below:

	Note	Increase (Decrease)
ROU assets	23	₱53,143
Lease liabilities	23	51,425
Advance rent	23	(3,161)
Accrued rent	23	(1,443)

The reconciliation of operating lease commitments as at December 31, 2018 under PAS 17 discounted using the incremental borrowing rate as at January 1, 2019 and the lease liabilities recognized as at January 1, 2019 under PFRS 16 follows:

Operating lease commitments as at December 31, 2018 (see Note 23)	₱24,557
Recognition of additional leases	31,580
Discount at incremental borrowing rate	(4,312)
Exempt leases with less than 12 months term and low-value assets at transition date	(400)
Lease liabilities recognized as at January 1, 2019	₱51,425

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes,* in particular (i) matters to be considered in accounting for uncertain tax treatments separately, (ii) assumptions for taxation authorities' examinations, (iii) determinants of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments clarify that a financial asset passes the "solely payments of principal and interest" criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Consequently, financial assets with termination provisions can now be measured at amortized cost (or, depending on the business model, at FVOCI).

- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

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

- Annual Improvements to PFRS 2015 to 2017 Cycle:

  - Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements - Previously Held Interest in a Joint Operation* – The amendments to PFRS 3, *Business Combinations,* clarify that when an entity obtains control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation at its acquisition-date fair value. The amendment to PFRS 11, *Joint Arrangements,* clarifies that when an entity obtains joint control of a business that is a joint operation, the previously held interests in that business are not remeasured.

  - Amendments to PAS 12, *Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity* – The amendments require entities to recognize the income tax consequences of dividends as defined in PFRS 9 when the liability to pay dividends are recognized. The income tax consequences of dividends are recognized either in profit or loss, other comprehensive income or equity, consistently with the transactions that generated the distributable profits. This requirement applies to all income tax consequences of dividends, such as withholding taxes.

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

New and Amended PFRS Issued but Not yet Effective

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

Effective for annual periods beginning January 1, 2020:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance–in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.

- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides a new definition of a "business" which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, an integrated set of activities and assets must now include 'an input and a substantive process that because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets.

- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of "material" and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS. Based on the new definition, an information is "material" if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Deferred effectivity -

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

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

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and its subsidiaries, which it controls as at December 31 of each year. The Parent Company has control when it is exposed, or has right, to variable returns from its investment with the investee and it has the ability to affect those returns through its powers over the investee.

The wholly-owned subsidiaries of the Parent Company are as follows:

	Line of Business	Principal Place of Business
Paxys N.V.	Investment holding	Curacao
Paxys Ltd.	Investment holding	Hong Kong
SWA	Business process outsourcing	Philippines
Paxys Realty, Inc. (PRI)	Real estate	Philippines
Paxys Global Services Pte. Ltd. (PGSPL)	Business process outsourcing	Singapore
Regional Operating Headquarters of PGSPL (PGS ROHQ)	Shared services	Philippines

PRI, PGSPL and PGS ROHQ are currently not in operations.

Each entity determines its own functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity, and items included in the financial statements of each entity are measured using that functional currency.

The functional currency of all the subsidiaries, except Paxys N.V. and Paxys Ltd., is the Philippine Peso. The functional currency of Paxys N.V. and Paxys Ltd. is the United States Dollar (US$). As at reporting date, the assets and liabilities of Paxys N.V. and Paxys Ltd. have been translated to the functional and presentation currency of the Parent Company (the Philippine Peso) at the closing exchange rate, while the profit and loss accounts are translated using weighted average exchange rate. The exchange differences arising on the translation of these accounts recorded in the "Cumulative translation adjustment," a separate component of equity included as part of "Other equity reserves."

Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Parent Company obtains control, and continue to be consolidated until the date such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Changes in the controlling equity ownership (i.e., acquisition of non-controlling interest or partial disposal of equity interest over a subsidiary) that do not result in a loss of control are accounted for as equity transactions.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; or
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The separate financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using uniform accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position;

- Recognizes any investment retained in the former subsidiary when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant PFRS. The remaining equity interest is remeasured and the remeasured value is regarded as the fair value on initial recognition of a financial asset, when appropriate, the cost on initial recognition of an investment in an associate or joint venture; and

- Recognizes the gain or loss associated with the loss of control attributable to the former controlling interest.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are recognized as expense.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured. Subsequent settlement is accounted for within equity. In instance where the contingent consideration does not fall within the scope of PFRS 9, it is measured in accordance with the appropriate PFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss. If the initial accounting for business combination can be determined only provisionally by the end of the year by which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts the combination using provisional values. Adjustments to these provisional values as a result of completing the initial accounting should be made within 12 months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting should be calculated as if its fair value at the acquisition date had been recognized from that date and goodwill or any gain recognized should be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

<u>Financial Assets and Liabilities</u>

Date of Recognition. The Group recognizes a financial asset or liability in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

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

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Group deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference.

Financial Assets

Classification. Starting January 1, 2018, the Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at FVOCI. The classification of a financial instrument largely depends on the Group's business model and its contractual cash flow characteristics.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting date, with any fair value gains or losses recognized in profit or loss to the extent these are not part of a designated hedging relationship.

This category includes investment in Unit Investment Trust Fund (UITF), which was previously classified available-for-sale (AFS) financial asset under PAS 39.

Financial Assets at FVOCI. For debt instruments, financial assets should be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and to sell the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity instruments, the Group irrevocably designates the financial asset to be measured at FVOCI notwithstanding the foregoing conditions.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When debt instruments carried at FVOCI are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in other comprehensive income and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent years.

This category includes investments in various bonds, which were previously classified as AFS financial assets under PAS 39.

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets at amortized cost are included under current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

The Group classifies its cash and cash equivalents, trade and other receivables, investment in unquoted bonds and rental and security deposits under this category.

Under PAS 39, cash and cash equivalents and trade and other receivables were classified as loans and receivables while investment in bonds were classified as AFS financial assets and held-to-maturity (HTM) investments.

Prior to adoption of PFRS 9, the Group classifies its financial assets into the following categories: financial assets at FVPL, loans and receivables, HTM investments and AFS financial assets. The Group classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification of financial instruments depends on the purpose for which these were acquired and whether these are quoted in an active market.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as financial assets at FVPL or AFS financial assets.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any allowance for impairment losses in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

AFS Financial Assets. AFS financial assets are those non-derivative financial assets which are designated as such or are not classified in any other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial recognition, AFS financial assets are subsequently measured at fair value with unrealized gains and losses recognized as other comprehensive income until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported as other comprehensive income is recognized in profit or loss. The effective yield component of AFS financial assets, as well as the impact on foreign currency-denominated AFS financial assets, is recognized in profit or loss. Interest earned on holding AFS financial assets is recognized as "Interest income" using effective interest method.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to hold to maturity. When the Group sells more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category is tainted and should be reclassified as AFS financial assets.

After initial recognition, HTM investments are subsequently measured at amortized cost using the effective interest method, less allowance for any impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is recognized in profit or loss.

Financial Liabilities

Classification. The Group classifies its financial liabilities at initial recognition as either financial liabilities at FVPL and financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Group's business model and its contractual cash flow characteristics.

The Group does not have financial instruments classified as financial liabilities at FVPL.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost unless either the financial liability is held for trading and is therefore required to be measured at FVPL or the entity elects to measure the liability at FVPL. Financial liabilities are recognized when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. These financial liabilities are initially recognized at fair value less any directly attributable transaction costs.

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

The Group classifies its trade and other payables (excluding statutory payables), lease liabilities and other noncurrent liabilities under this category.

Reclassification

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

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

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

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in other comprehensive income, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Impairment of Financial Assets
The Group assesses at the end of each reporting year whether a financial asset or a group of financial assets is impaired.

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

For trade receivables, the Group calculates impairment based on lifetime ECL using a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets at amortized cost, which comprise cash equivalents, investment securities, other receivables (including due from related parties) and rental and security deposits, ECL is based on 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

For a financial asset that is credit-impaired at the reporting date, an entity should measure the ECL as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset original effective interest rate. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events, among others: (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event or (c) the disappearance of an active market for that financial asset because of financial difficulties. It may not be possible to identify a single discrete event instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Financial assets are written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Derecognition of Financial Assets and Liabilities
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized by the Group when:

- The rights to receive cash flows from the asset has expired; or

- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and benefits of the asset, or (b) has neither transferred nor retained substantially all the risks and benefits of the asset, but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and benefits of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset, if any, is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

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

Offsetting of Financial Instruments
Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Classification of Financial Instrument between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;

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

- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

Other Current Assets
Other current assets, which consist of input value-added tax (VAT) and prepaid expenses, are carried at face value, net of allowance for impairment losses.

Input VAT. Input VAT represents the net amount of VAT recoverable from the tax authority. Revenue, expenses and assets are recognized, net of the amount of VAT, except where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority.

Prepaid Expenses. Prepaid expenses are expenses paid in advance and recorded as assets before these are utilized. Prepaid expenses are apportioned over the period covered by the payment and recognized in profit or loss when incurred. Prepaid expenses that are expected to be realized within 12 months after the reporting year are classified as current assets. Otherwise, these are classified as other noncurrent assets.

Prepaid expenses include CWT which represents the amount of tax withheld by the lessees in relation to the Group's rent income. CWT can be utilized as payment for income taxes provide that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. Unutilized CWT can also be claimed for refund and cannot be withdrawn. CWT that is expected to be utilized as payment for income taxes within 12 months after the reporting year is classified as current assets. Otherwise, this is classified as other noncurrent asset.

Investments in Joint Ventures
The Parent Company has interests in joint ventures, whereby the venturers have a contractual arrangement that establishes joint control. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest.

Interest in a joint venture is initially recognized at cost and subsequently accounted for under the equity method of accounting. Under the equity method of accounting, the interest in a joint venture is carried at cost plus post-acquisition changes in the Group's share in the net assets of the joint venture, less any impairment in value. The share in the results of the operations of the joint venture is recognized in profit or loss. The Group's share of post-acquisition movements in the joint venture's equity reserves is recognized directly in equity. Profits or losses resulting from the transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the interest. If the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group discountinues recognizing its share of further losses.

After the application of the equity method, the Group determines at the end of each reporting year whether there is any objective evidence that the investment may be impaired. If this is the case, the amount of impairment is calculated as the difference between the carrying amount of the investment and recoverable amount and recognizes the difference in profit or loss.

After the Group's investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes the recognition of its share of those profits only after its share of the profits equals the share of losses not previously recognized.

Property and Equipment

Property and equipment are carried at historical cost less accumulated depreciation, amortization and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the asset, including borrowing costs on qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged to profit or loss in the year these are incurred.

Major renovations that qualify for capitalization are depreciated and amortized over the remaining useful life of the related asset or up to the date of the next major renovation, whichever is shorter.

Depreciation and amortization are calculated using the straight-line method to allocate the cost over the estimated useful lives of the assets as follows:

Asset Type	Number of Years
Computer equipment	3 to 5
Communication equipment	3 to 5
Leasehold improvements	5 or lease term, whichever is shorter
Office furniture, fixtures and equipment	2 to 5
Transportation equipment	5

Depreciation and amortization commence when an asset is in its location or condition capable of being operated in the manner intended by management. Depreciation and amortization cease at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method of property and equipment are reviewed, and adjusted if appropriate, periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

Fully depreciated property and equipment are retained in the books until these are no longer being used in the operations.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation, amortization and any impairment are derecognized. Gains and losses on disposals or retirement are determined by comparing the proceeds with the carrying amount of the assets and are recognized in profit or loss.

Intangible Assets

Intangible assets are composed of website and software packages.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and are recognized in profit or loss in the year in which the expenditures are incurred.

Intangible assets are amortized over the estimated economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets with finite lives are amortized over three to five years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets

The carrying amount of ROU assets, property and equipment, intangible assets and investments in joint ventures are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in profit or loss 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 costs to sell and value-in-use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Nonfinancial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized. After such a reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount on a systematic basis over its remaining estimated useful lives.

Equity

Capital Stock. Capital stock is measured at par value for all shares issued. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Additional Paid-in Capital. Additional paid-in capital includes any premium received in the initial issuances of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of tax.

Parent Shares Held by a Subsidiary. Where any entity of the Group purchases the Parent Company's shares (treasury stock), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related tax effect, is included in equity.

Retained Earnings. Retained earnings represent the cumulative balance of net income or loss, dividend distributions, effects of the changes in accounting policy and other capital adjustments.

Other Comprehensive Income

Other comprehensive income comprise items of income and expenses (including items previously presented as other equity reserves under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year. Other comprehensive income, which is presented as "Other equity reserves," includes cumulative translation adjustment, cumulative fair value changes on investment securities and cumulative remeasurement gain or loss on retirement liability.

Revenue Recognition

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

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

The following specific recognition criteria must also be met before revenue is recognized:

Service Income. Revenue is recognized as services are rendered.

Interest Income. Revenue is recognized as the interest accrues using the effective interest method, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Other Income. Revenue is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Group.

Cost and Expense Recognition

Costs and expenses are decreases in economic benefits during the year in the form of outflows, decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

Cost of Services. Costs of services are recognized as expense when the related services are rendered.

General and Administrative Expenses. General and administrative expenses constitute cost of administering the business and cost incurred to sell and market the services. These expenses are recognized in profit or loss as incurred.

Interest Expense. Interest expense is recognized on lease liabilities which are measured at amortized cost using the effective interest method.

Employee Benefits

Short-term Benefits. The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the year. Short-term benefits given by the Group to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. Retirement benefit costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. The calculation of defined benefit obligations is performed by a qualified actuary.

The Group recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements and interest cost or income in profit or loss. Net interest is calculated by applying the discount rate to the retirement liability.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Group recognizes restructuring-related costs.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Remeasurements of the retirement liability, which comprise actuarial gains and losses, are recognized immediately in other comprehensive income.

The retirement liability is the present value of the defined benefit obligation. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rate of government bonds that have terms to maturity approximating the terms of the related retirement and other long-term benefits liability.

Actuarial valuations are made annually so that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

Termination Benefits. Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Leases

Policies Applicable Beginning January 1, 2019. At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract converys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset. This may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Group has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and

- the Group has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. The Group has the right to direct the use of the asset if either:

  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group as a Lessee. The Group recognizes ROU assets and lease liabilities at the lease commencement date. The ROU assets are initially measured at cost comprising the initial measurement of lease liabilities adjusted for any lease payments made at or before the commencement date less any lease incentives received, any initial direct and restoration costs.

The ROU assets are measured subsequently at cost, less amortization and any impairment losses. In addition, the cost is subsequently adjusted for any remeasurement of the lease liabilities resulting from reassessments or lease modifications.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liabilities comprise of the following:

- 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 payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease liabilities are measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise an extension or termination option.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis of accounting as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group as a Lessor. Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which these are earned.

Policies prior to January 1, 2019. The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception on the lease only if one of the following applies:

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

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

The Group as a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

The Group as a Lessor. Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which these are earned.

Foreign Currencies

Transactions and Balances. Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

Foreign Operations. The assets and liabilities of foreign operations are translated into Philippine Peso at the rate of exchange ruling at financial reporting date and, the profit and loss amounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to "Cumulative translation adjustment," a separate component of equity included as part of "Other equity reserves." Upon disposal of a foreign operation, the cumulative translation adjustment relating to that particular foreign operation is recognized in profit or loss.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting year.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax liability is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss. Also, deferred tax liabilities are not provided on taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures when the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits (excess of minimum corporate income taxes or MCIT over regular corporate income taxes or RCIT) and unused tax losses (net operating loss carryover or NOLCO), to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the end of reporting year.

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

Deferred tax relating to items recognized outside profit or loss (either in other comprehensive income or directly in equity) is recognized outside profit or loss (either in other comprehensive income or directly in equity).

Related Party Relationship and Transactions

Related party transactions consist of transfers of resources, services or obligations between the Group and its related parties.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals who, by owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on legal form.

Earnings per Share
The Group presents basic and diluted earnings per share. Basic and diluted earnings per share is calculated by dividing the net income by the weighted average number of common shares outstanding during the year, excluding parent shares held by a subsidiary.

There are no potential dilutive common shares as at December 31, 2019 and 2018.

Segment Reporting
An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. The operating results of an operating segment are reviewed regularly by the chief operating decision maker, which is defined to be the Parent Company's BOD, to determine the resources to be allocated to the segment and assess its performance, and for which financial information is available.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property and equipment and intangible assets other than goodwill.

Provisions and Contingencies
Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

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

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make estimates and use assumptions that affect the reported amounts of assets, liabilities, income, expenses and related disclosures. The Group makes estimates and uses assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as these become reasonably determinable.

Judgments, estimates and assumptions are continuously 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 Group believes the following represent a summary of significant judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, as well as to the related revenues and expenses, within the next year, and related impact and associated risk in the consolidated financial statements.

Judgments

In the process of applying the Group's accounting policies, management exercises judgment on the following items, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Determining Functional Currency. Based on the economic substance of the underlying circumstances, the Group has determined that its functional currency is the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Parent Company and certain subsidiaries operate. It is the currency that mainly influences the sale of services and the costs of providing the services.

Recognizing Service Revenue. For revenue recognized over time, the Group recognizes revenue if any of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group performance as the entity performs.

- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time.

The Group does not incur costs to obtain contracts with customers and does not provide ancillary services to the lessees under its sublease agreements.

Revenue on data transcription and managed services, amounting to ₱78.5 million, ₱86.5 million and ₱79.2 million in 2019, 2018 and 2017, respectively, are recognized in profit or loss over time.

Determining Operating Segments. Determination of operating segments is based on the information about components of the Group that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Parent Company's chief operating decision maker in order to allocate resources to the segment and assess its performance. The Parent Company reports separate information about an operating segment that meets any of the following quantitative thresholds: (a) its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; (b) the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and (c) its assets are 10% or more of the combined assets of all operating segments.

The Group determined that its operating segments are organized and managed separately based on the nature of the business segment, with each business representing a strategic business segment (see Note 4).

Recognizing Deferred Tax Liability on Undistributed Income of a Foreign Subsidiary. Since Paxys N.V., a company incorporated and domiciled in Curacao, is a wholly owned subsidiary of the Parent Company, management believes that the Parent Company can control the timing of the dividend distribution of Paxys N.V. to the Parent Company. Thus, no deferred tax liability was recognized on the undistributed income of Paxys N.V. Unrecognized deferred tax liability on undistributed income of a foreign subsidiary amounted to ₱933.0 million and ₱913.7 million as at December 31, 2019 and 2018, respectively (see Note 21).

Determining Classification of Financial Instruments. Classification of financial instruments under PFRS 9 depends on the results of the business model test and "sole payment of principal and interest" (SPPI) test performed by the Group. The Group exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives.

The classification of various financial assets and liabilities of the Group are disclosed in Note 2.

Determining the Classification of Lease Arrangements and Appropriate Lease Term and Discount Rates. The Group, as a lessee, has various lease agreements with third parties for office space, parking space, storage and equipment. The Group accounts for these lease agreements as operating leases until December 31, 2018. Rent expense under operating leases amounted to ₱13.6 million and ₱13.0 million in 2018 and 2017, respectively (see Note 23).

The Group has exercised significant judgment in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or in any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The leases are renewable upon mutual agreement by both parties or by the option of the lessee to be covered by a separate and new lease agreement. Accordingly, the renewal option was not considered in the lease term.

Significant management judgment was likewise exercised by the Group in determining the discount rate to be used in calculating the present value of ROU assets and lease liabilities. The discount rate is 4% which is the incremental borrowing rate.

Rent expense on low-value asset leases on storage and equipment amounted to ₱0.2 million in 2019 (see Note 23). Amortization on ROU assets and interest expense on lease liabilities amounted to ₱14.8 million and ₱1.5 million, respectively, in 2019 (see Note 23).

As at December 31, 2019, ROU assets and lease liabilities amounted to ₱38.4 million and ₱37.6 million, respectively (see Note 23).

The Company, as a lessor, has existing lease agreements for the sublease of its office space. The Company has determined that it retains the significant risk and benefits of ownership over the leased properties. Accordingly, the Company accounts for the lease agreements as operating leases.

Rent income amounted to ₱1.7 million, ₱0.4 million and ₱0.9 million in 2019, 2018 and 2017, respectively (see Note 23).

Evaluating Contingencies. The Group is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Group's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

Estimates and Assumptions

The key assumptions concerning future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when these occur.

Determining the Fair Value of Financial Instruments. Certain financial assets are carried at fair value and whose fair values are disclosed, which requires extensive use of accounting estimates. When the fair values of financial assets recorded or disclosed in the consolidated statements of financial position cannot be measured based on quoted prices in active market, their fair value is measured using valuation techniques including the Discounted Cash Flow model. The inputs to this model are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Fair values of financial assets and liabilities are presented in Note 24, *Financial Instruments*.

Assessing Impairment Losses on Financial Assets. Upon adoption of PFRS 9, impairment losses on financial assets are determined based on expected credit losses. In assessing the expected credit losses, the Group uses historical loss experience adjusted for forward-looking factors, as appropriate.

The Group's cash and cash equivalents are maintained at reputable financial institutions with good industry rating and score.

For investment securities, the Group estimates impairment based on 12-month expected credit loss. Investment securities at amortized cost and FVOCI, which have credit quality equivalent to "high grade" and have low credit risk at reporting date, are presumed to have no significant increase in credit risk since initial recognition.

The Group estimates impairment on trade receivables based on lifetime expected credit loss using a provision matrix that is based on days past due and takes into consideration historical credit loss experience, adjusted for forward-looking factors, as applicable. Management recognizes losses on credit-impaired receivables from related parties considering its ability to pay based on its available assets.

No provision for impairment losses on cash equivalents and investment securities at amortized cost and FVOCI were recognized in 2019, 2018 and 2017. No provisions for impairment losses on trade and other receivables recognized in 2019. Provisions for impairment losses on trade and other receivables amounted to ₱6.3 million and ₱13.2 million in 2018 and 2017, respectively (see Note 7).

The carrying amount of financial assets at amortized cost and FVOCI as at December 31, 2019 and 2018 are as follows:

	Note	**2019**	2018
Cash and cash equivalents	5	**₱3,287,798**	₱3,155,310
Investment securities at:	6		
FVOCI		**153,101**	153,062
Amortized cost		**50,654**	517,537
Trade and other receivables	7	**44,289**	38,904

Prior to adoption of PFRS 9 in 2018, impairment losses is established when there is objective evidence or impairment based on events that affect future cash flows. For loans and receivables, the amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. AFS financial asset is impaired based on whether there has been a substantial or prolonged decline in the fair value of the investment (e.g. more than 20% and prolonged decline is defined as a period of more than six months). HTM investments carried at amortized cost are impaired when the carrying amount exceeds its recoverable amount, which requires judgment of the financial health of the investee.

Provision for impairment losses on trade and other receivables, including due from related parties amounted to ₱13.2 million in 2017 (see Note 18).

No provision for impairment losses on AFS financial assets and HTM investments was recognized in 2017.

Assessing Impairment Losses on Input VAT. The provision for impairment losses on input VAT is maintained at a level considered adequate to provide for potentially unrecoverable claims. The Group, on a continuing basis, makes a review of the status of the claims, designed to identify those to be provided with any impairment losses. In these cases, management uses judgment based on the best available facts and circumstances. The amount and timing of recorded expenses for any year would therefore differ based on the judgments or estimates made.

The carrying amount of input VAT amounted to ₱21.1 million and ₱18.2 million as at December 31, 2019 and 2018, respectively. Allowance for impairment losses on input VAT amounted to ₱49.6 million as at December 31, 2019 and 2018 (see Note 8).

Estimating the Useful Lives of Nonfinancial Assets. The estimated useful life of each of the items of property and equipment and intangible assets is estimated based on the year over which the assets are expected to be available for use. Such estimation is based on a collective assessment of similar business, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed at each financial year end 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 change in the estimated useful life on property and equipment and intangible assets would impact the recorded expenses and noncurrent assets.

There is no change in the estimated useful lives of property and equipment and intangible assets in 2019, 2018 and 2017.

The carrying amount of property and equipment and intangible assets are as follows:

	Note	2019	2018
Property and equipment	10	**₱6,035**	₱7,918
Intangible assets	11	**316**	610

Assessing the Impairment of Nonfinancial Assets. The Group assesses at the end of each reporting year whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the Group estimates the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators. In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The carrying amount of nonfinancial assets that are subject to impairment assessment when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenue or other external indicators) are as follows:

	Note	2019	2018
ROU assets	23	**₱38,369**	₱–
Property and equipment	10	**6,035**	7,918
Intangible assets	11	**316**	610

Investments in joint ventures are fully provided with allowance for impairment losses as at December 31, 2019 and 2018 (see Note 9).

Determining Retirement Liability. The determination of the cost of retirement benefits and related retirement liability is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. The assumptions, which include among others, discount rate and rate of salary increase are described in Note 14.

Actual results that differ from the assumptions are accumulated and are recognized as part of other comprehensive income. While management believes that the assumptions are reasonable and appropriate, significant differences in the Group's actual experience of significant changes in the assumptions may materially affect the retirement liability.

Retirement liability amounted to ₱13.5 million and ₱11.5 million as at and December 31, 2019 and 2018, respectively. The retirement benefits expense amounted to ₱1.3 million, ₱0.5 million and ₱1.0 million in 2019, 2018 and 2017, respectively (see Note 14).

Assessing the Realizability of Deferred Tax Assets. The Group reviews the carrying amounts at the end of each reporting year and reduces the amount of deferred tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred tax assets as at December 31, 2019 and 2018 were not recognized because management believes that sufficient future taxable income may not be available against which the carry forward benefits of NOLCO, excess of MCIT over RCIT and other deductible temporary differences may be utilized. Unrecognized deferred tax assets amounted to ₱67.2 million and ₱58.2 million as at December 31, 2019 and 2018, respectively (see Note 21).

4. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services and serves different market.

Segment Assets and Liabilities. Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, property and equipment and intangible assets. Segment liabilities include all operating liabilities and consist principally of trade and other payables.

Inter-segment Transactions. Segment revenue, segment expenses and segment performance include transfers among business segments. Such transfers are eliminated in consolidation.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating income or loss and is measured consistently with operating income or loss in the consolidated financial statements.

Business segment information is reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources among operating segments. For management purposes, the Group is organized into business units based on the services rendered and has two reportable operating segments as follows:

- Outsourcing - This segment includes general transcription, data conversion, contact center, and other outsourcing services of the Group. This was previously termed as "Data Conversion".
- Others - This segment includes holding and investment companies, which consists of the Parent Company, Paxys N.V., and other non-operating subsidiaries.

Business Segment Information

The following table presents the revenue and expenses and certain assets and liabilities information of the Group's business segments as at and for the years ended December 31, 2019, 2018 and 2017.

	2019			
	Outsourcing	**Others**	**Eliminations**	**Consolidated**
Results of Operations				
Revenue from external customers	₱78,506	₱–	₱–	₱78,506
Cost and expenses	(84,159)	(74,614)	–	(158,773)
Operating loss	(5,653)	(74,614)	–	(80,267)
Interest income	288	116,260	–	116,548
Net foreign exchange gain (loss)	(683)	(2,816)	741	(2,758)
Other income - net	2,083	763	(134)	2,712
Interest expense on lease liabilities	(1,101)	(425)	–	(1,526)
Income tax expense	(492)	(9,935)	–	(10,427)
Net income (loss)	(₱5,558)	₱29,233	₱607	₱24,282
Assets and Liabilities				
Assets	₱85,141	₱5,437,485	(₱1,655,503)	₱3,867,123
Liabilities	98,759	182,285	(200,900)	80,144
Other Segment Information				
Capital expenditures:				
Property and equipment	₱2,269	₱133	₱–	₱2,402
Intangible assets	–	26	–	26
Depreciation and amortization	11,317	8,062	–	19,379

	2018			
	Outsourcing	Others	Eliminations	Consolidated
Results of Operations				
Revenue from external customers	₱86,477	₱–	₱–	₱86,477
Cost and expenses	(85,847)	(81,340)	89	(167,098)
Operating income (loss)	630	(81,340)	89	(80,621)
Interest income	361	95,047	–	95,408
Net foreign exchange gain (loss)	1,699	3,878	(1,141)	4,436
Other income - net	591	870	(358)	1,103
Income tax expense	(53)	(6,186)	–	(6,239)
Net income (loss)	₱3,228	₱12,269	(₱1,410)	₱14,087
Assets and Liabilities				
Assets	₱61,815	₱5,500,090	(₱1,656,514)	₱3,905,391
Liabilities	69,001	165,845	(193,084)	41,762
Other Segment Information				
Capital expenditures:				
Property and equipment	₱7,840	₱482	₱–	₱8,322
Intangible assets	264	320	–	584
Depreciation and amortization	2,267	212	–	2,479

	2017			
	Outsourcing	Others	Eliminations	Consolidated
Results of Operations				
Revenue from external customer	₱79,205	₱–	₱–	₱79,205
Cost and expenses	(78,813)	(73,798)	264	(152,347)
Operating income (loss)	392	(73,798)	264	(73,142)
Interest income	357	74,570	–	74,927
Net foreign exchange gain (loss)	(242)	753	(190)	321
Other income - net	832	4,593	–	5,425
Income tax expense	(28)	(5,549)	–	(5,577)
Net income	₱1,311	₱569	₱74	₱1,954
Assets and Liabilities				
Assets	₱56,368	₱5,352,072	(₱1,652,845)	₱3,755,595
Liabilities	65,825	164,385	(199,454)	30,756
Other Segment Information				
Capital expenditures:				
Property and equipment	₱78	₱284	₱–	₱362
Intangible assets	132	11	–	143
Depreciation and amortization of property, equipment and intangibles	1,295	167	–	1,462

The Outsourcing segment is managed and operated in the Philippines. Other reportable segments include the Parent Company and other non-operating companies with excess funds invested in corporate bonds and other short-term deposits from various banks. Interest income earned from these funds amounted to ₱116.5 million, ₱95.4 million and ₱74.9 million in 2019, 2018 and 2017, respectively (see Note 20).

5. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand and cash in banks	**₱46,793**	₱37,369
Cash equivalents	**3,241,005**	3,117,941
	₱3,287,798	₱3,155,310

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term investments made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Any pre-termination or redemption prior to maturity date shall not result to significant change in investment values and penalties.

Total interest income earned amounted to ₱104.8 million, ₱75.6 million and ₱56.0 million in 2019, 2018 and 2017, respectively (see Note 20).

6. Investment Securities

This account consists of financial assets measured at:

	2019	2018
FVPL	**₱254,885**	₱–
FVOCI	**153,101**	153,062
Amortized cost	**50,654**	517,537
	₱458,640	₱670,599

Financial Assets at FVPL

This pertains to investment in Unit Investment Trust Fund (UITF) at local bank. Unrealized gain from fair value changes amounted to ₱540 in 2019. In 2018, fund investment amounting to ₱4.1 million was fully redeemed resulting to realized gain recognized in the profit or loss amounting to ₱22 (see Note 20).

Movements financial assets at FVPL follows:

	2019	2018
Balances at beginning of the year	**₱–**	₱–
Additions	**254,345**	2,956
Fair value changes	**540**	22
Reclassification	**–**	1,056
Redemption	**–**	(4,034)
Balances at end of year	**₱254,885**	₱–

Financial Assets at FVOCI (Previously Classified as AFS Financial Assets)

This pertains to investment in funds managed by international banks which provides fixed interest income and capital appreciation.

Movements in follows:

	2019	2018
Balances at beginning of the year	**₱153,062**	₱814,982
Unrealized fair value gains	**5,874**	(6,500)
Translation gain (loss)	**(5,835)**	15,900
Reclassification	**–**	(500,641)
Redemption	**–**	(170,679)
Balances at end of year	**₱153,101**	₱153,062

In 2018, equity securities with a net amount of ₱154.8 million were redeemed and the related realized fair value gain amounting to to ₱12.9 million was directly transferred to the retained earnings. In 2017, investment securities with an aggregate amount of ₱50.2 million were redeemed and the related realized fair value gain amounting to ₱53 was reported in the profit and loss (see Note 20).

Unrealized fair value gain amounting to ₱5.9 million and ₱7.0 million in 2019 and 2017, respectively, and unrealized fair value loss amounting to ₱6.5 million in 2018 were reported in the other comprehensive income (loss).

Interest income earned from these financial assets amounted to ₱6.2 million, ₱6.4 million and ₱9.8 million in 2019, 2018 and 2017, respectively (see Note 20).

Financial Assets at Amortized Cost
Financial assets at amortized cost consist of unquoted bonds with fixed interest rate and maturity date until 2020. Interest income earned from these bonds amounted to ₱5.5 million, ₱13.4 million and ₱9.1 million in 2019, 2018 and 2017, respectively (see Note 20).

Movement in the account follows:

	2019	2018
Balances at beginning of the year	**₱517,537**	₱100,175
Redemption	**(450,786)**	(105,493)
Translation gain (loss)	**(15,091)**	26,053
Reclassification	**–**	499,585
Premium amortization	**(1,006)**	(2,783)
Balances at end of year	**₱50,654**	₱517,537

7. Trade and Other Receivables

This account consists of:

	Note	**2019**	2018
Trade		**₱19,750**	₱21,387
Due from related parties	16	**83,292**	83,174
Accrued interest		**18,073**	12,057
Others		**19,793**	18,905
		140,908	135,523
Allowance for impairment losses		**(96,619)**	(96,619)
		₱44,289	₱38,904

Trade receivables are noninterest-bearing with average credit terms of 30 to 60 days.

Accrued interest are normally received within one year.

Other receivables comprise mainly of receivable from employees, contractors and suppliers which are collectible upon demand.

There are no provisions for impairment losses recognized in 2019. Receivables amounting to ₱1.3 million were directly written off in 2019.

Movements in the allowance for impairment losses in 2018 are as follows:

	Note	Trade Receivables	Due from Related Parties (see Note 16)	Others	Total
Balance at beginning of year		₱11,072	₱63,064	₱17,684	₱91,820
Provision	18	–	6,255	–	6,255
Write-off		(1,456)	–	–	(1,456)
Balance at end of year		₱9,616	₱69,319	₱17,684	₱96,619

In 2017, the Group recognized provision for impairment losses amounting to ₱13.2 million (see Note 18).

8. Other Current Assets

This account consists of:

	2019	2018
Input VAT, net of allowance for impairment losses	**₱21,122**	₱18,242
Prepaid expenses	**1,783**	1,917
	₱22,905	₱20,159

Prepaid expenses include prepaid rent, insurance, subscriptions, creditable withholding taxes and licenses.

Movements in the allowance for impairment losses on input VAT are as follows:

	Note	2019	2018
Balance at beginning of year		**₱49,585**	₱48,793
Provision	18	**6**	792
Balance at end of year		**₱49,591**	₱49,585

9. Investments in Joint Ventures

The following are the joint ventures of the Group:

	Place of Incorporation	Principal Activity	Percentage of Ownership
Paxys Global Services Dalian Ltd (PGS Dalian)	China	Call center	50.0%
Simpro Solutions Limited (SSL)	Hong Kong	Call center	50.0%

The investments in joint ventures, with an aggregate cost of ₱28.7 million, are fully provided with allowance for impairment losses as at December 31, 2019 and 2018.

The Group has no outstanding commitments with the joint ventures as at December 31, 2019 and 2018. The joint ventures have no contingent liabilities or capital investments as at December 31, 2019 and 2018.

In 2018, Simpro Solutions Philippines, Inc. (SSPI), a wholly-owned subsidiary of SSL, has been dissolved and is currently in the process of liquidation.

10. Property and Equipment

The balances and movements of this account are as follows:

		2019					
	Note	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost							
Balances at beginning of year		₱109,584	₱7,624	₱159,084	₱14,060	₱9,749	₱300,101
Additions		162	–	1,167	1,073	–	2,402
Balances at end of year		109,746	7,624	160,251	15,133	9,749	302,503
Accumulated Depreciation and Amortization							
Balances at beginning of year		106,973	7,624	156,129	11,808	9,649	292,183
Depreciation and amortization	20	1,085	–	1,848	1,252	100	4,285
Balances at end of year		108,058	7,624	157,977	13,060	9,749	296,468
Net Book Value		₱1,688	₱–	₱2,274	₱2,073	₱–	₱6,035

		2018					
	Note	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost							
Balances at beginning of year		₱106,505	₱7,624	₱155,931	₱11,970	₱10,712	₱292,742
Additions		3,079	–	3,153	2,090	–	8,322
Disposals		–	–	–	–	(963)	(963)
Balances at end of year		109,584	7,624	159,084	14,060	9,749	300,101
Accumulated Depreciation and Amortization							
Balances at beginning of year		106,304	7,624	155,512	11,210	10,411	291,061
Depreciation and amortization	20	669	–	617	598	201	2,085
Disposals		–	–	–	–	(963)	(963)
Balances at end of year		106,973	7,624	156,129	11,808	9,649	292,183
Net Book Value		₱2,611	₱–	₱2,955	₱2,252	₱100	₱7,918

In 2018, the Group sold certain fully depreciated property and equipment, resulting to a gain of ₱0.4 million (see Note 20).

As at December 31, 2019 and 2018, fully depreciated property and equipment amounting to ₱61.3 million and ₱59.0 million, respectively, are still being used by the Group.

11. Intangible Assets

Movements in this account are as follows:

	Note	2019	2018
Cost			
Balance at beginning of year		**₱15,451**	₱14,867
Additions		**26**	584
Balance at end of year		**15,477**	15,451
Accumulated Amortization			
Balance at beginning of year		**14,841**	14,447
Amortization	20	**320**	394
Balance at end of year		**15,161**	14,841
Net Book Value		**₱316**	₱610

Intangible assets pertain to computer softwares, which are amortized over three to five years.

12. Other Noncurrent Assets

This account consists of:

	Note	2019	2018
Rental and security deposits	23	**₱3,592**	₱5,008
Others		**5,179**	6,883
		₱8,771	₱11,891

Rental and security deposits pertain to cash deposits on lease agreements, which are refundable at the end of lease period.

Others consist of claims for tax refund expected to be received beyond 12 months after the reporting year and in 2018, others include advance rent which will be applied on the end of the lease term.

13. Trade and Other Payables

This account consists of:

	Note	2019	2018
Trade		**₱1,974**	₱2,250
Statutory payables		**6,523**	7,143
Dividends	15	**6,554**	6,554
Accrued expenses:			
Professional fees		**2,937**	2,481
Contracted services		**2,800**	2,961
Salaries and wages		**2,634**	3,001
Taxes and licenses		**1,770**	1,812
Rent		**263**	1,743
Others		**1,748**	729
		₱27,203	₱28,674

Trade payables are noninterest-bearing and are normally settled on a 60-day term.

Statutory payables represent withholding taxes payable, SSS, HDMF and PhilHealth premiums, and other liabilities to the government agencies.

Accrued expenses are normally settled within 30 to 60 days.

14. Retirement Benefits

The Parent Company and SWA maintain separate unfunded, non-contributory, and defined benefit plans covering all eligible employees. An independent actuary conducts an actuarial valuation of the retirement liability. The latest actuarial report is as at December 31, 2019.

The retirement benefits expense recognized in the consolidated statements of income is as follows:

	Note	**2019**	2018	2017
Current service cost		**₱487**	₱285	₱751
Interest cost		**857**	224	275
	19	**₱1,344**	₱509	₱1,026

The net cumulative remeasurement gains (losses) on retirement liability recognized as other comprehensive income follows:

	2019	2018	2017
Balance at beginning of year	**(₱1,227)**	₱5,731	₱3,511
Remeasurement gain (loss)	**(669)**	(6,958)	2,220
Balance at end of year	**(₱1,896)**	(₱1,227)	₱5,731

Changes in the present value of retirement liability are as follows:

	2019	2018
Balance at beginning of year	**₱11,531**	₱4,064
Interest cost	**857**	224
Remeasurement loss	**669**	6,958
Current service cost	**487**	285
Balance at end of year	**₱13,544**	₱11,531

The principal assumptions used in determining the retirement liability are shown below:

	2019	2018
Discount rate	**5.21%**	7.53%
Salary increase rate	**2.00%**	2.00%

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

	Change in Assumption	Effect on Retirement Liability
Discount rate	-7.60%	-₱365
	+9.35%	+449
Salary Rate	+9.55%	+460
	-7.90%	-364

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

As at December 31, 2019, expected future benefit payments are shown below:

Within one year	₱8,066
More than one year	5,268
	₱13,334

The weighted average duration of the defined benefit obligation at the end of the reporting year is at 8.5 years.

15. **Equity**

Capital Stock
This account consists of the following:

	Number of Shares	Amount
Common Stock "Class A" - ₱1 par value		
Authorized	1,800,000,000	₱1,800,000
Issued and outstanding	1,148,534,866	1,148,535

On March 22, 1971, the shares of the Parent Company with ₱1 par value per share were listed with the PSE. As as December 31, 2019 and 2018, 1,148,534,866 common shares of the Parent Company are listed in the PSE and traded in the PSE at the price of ₱2.69 and ₱3.25 per share, respectively.

Additional Paid-in Capital
This account consists of:

Premium on issuance of shares of stock	₱348,213
Premium on forfeited stock option	103,151
	₱451,364

Premium on issuance of shares of stock represents the excess of paid-up capital over the par value of capital stock. Premium on forfeited stock option represents increase in equity arising from equity-settled share-based payment transactions.

In 2005, the BOD and the stockholders of the Company, respectively, approved the Employee Equity Plan ("Plan") available to the executives and key employees of the Company. The Plan was approved by the SEC on June 1, 2006 and was terminated on May 1, 2015. All unexercised stock options were forfeited.

Parent Shares Held by a Subsidiary
In 2014, Paxys N.V., through a tender offer, completed the purchase of 345,622,477 common shares of the Parent Company representing 30.09% of its outstanding capital stock for a total consideration of ₱1,149.9 million.

Retained Earnings
Undistributed retained earnings of a foreign subsidiary amounting to ₱3,110.1 million and ₱3,045.7 million as at December 31, 2019 and 2018, respectively, are not available for dividend declaration until these are distributed by the subsidiary to the Parent Company.

Dividends payable of the Parent Company as at December 31, 2019 and 2018 amounted to ₱6.6 million, which pertain to dividends declared in prior years (see Note 13).

16. Related Party Transactions and Balances

In the normal course of business, the Group has transactions and balances with related parties pertaining to noninterest-bearing advances as follows:

Related Party	Year	Transactions during the Year	Due from Related Parties (see Note 7)
Joint Venture	**2019**	**₱–**	**₱15,915**
	2018	11,283	15,915
Entities with Common Stockholders	**2019**	**2,966**	**67,377**
	2018	3,918	67,259
	2019		**₱83,292**
	2018		83,174

Outstanding balances are unsecured, noninterest-bearing with no fixed repayment terms and are normally settled in cash. No guarantees have been provided or received for these balances. Impairment assessment is undertaken at each reporting date.

In 2018, upon liquidation of SSPI, its receivable from SSL amounting to ₱11.2 million were assigned to the Parent Company in 2018 as payment of its payables to the latter.

Allowance for impairment losses related to these receivables amounted to ₱69.3 million as at December 31, 2019 and 2018 (see Note 7).

Compensation of Key Management Personnel of the Group

	2019	2018	2017
Salaries and wages	**₱14,348**	₱13,325	₱11,646
Professional fees	**7,452**	7,452	6,426
Other short-term benefits	**4,125**	4,764	628
	₱25,925	₱25,541	₱18,700

17. Cost of Services

This account consists of:

	Note	2019	2018	2017
Personnel cost	19	**₱31,680**	₱42,785	₱42,233
Depreciation and amortization	20	**11,146**	2,177	1,192
Utilities		**4,008**	3,943	3,445
Security and janitorial services		**3,974**	3,078	2,645
Communication		**3,398**	2,494	2,084
Outside services		**1,026**	1,263	6,315
Association dues		**273**	102	45
Supplies		**258**	438	415
Rent	23	**128**	6,259	5,694
Others		**2,492**	2,967	2,453
		₱58,383	₱65,506	₱66,521

Others pertain to insurance, transportation and travel, dues and repairs and maintenance expenses.

18. General and Administrative Expenses

This account consists of:

	Note	2019	2018	2017
Professional fees		**₱43,862**	₱40,401	₱29,827
Personnel cost	19	**30,025**	29,591	14,010
Depreciation and amortization	20	**8,233**	302	270
Utilities		**2,527**	2,363	2,252
Insurance		**2,516**	2,835	2,721
Communication		**1,871**	1,819	1,745
Membership dues		**1,692**	791	1,224
Bank charges		**1,658**	1,257	2,205
Security and janitorial services		**1,614**	1,835	1,522
Entertainment, amusement and recreation		**1,352**	1,311	1,315
Transportation and travel		**1,058**	2,096	2,067
Rent	23	**120**	7,387	7,318
Provision for impairment losses on:				
Input VAT	8	**6**	792	2,409
Trade and other receivables	7	**–**	6,255	13,151
Others		**3,856**	2,557	3,790
		₱100,390	₱101,592	₱85,826

19. Personnel Costs

This account consists of:

	Note	2019	2018	2017
Salaries and wages		**₱50,451**	₱62,703	₱45,931
Retirement benefits	14	**1,344**	509	1,026
Trainings		**785**	971	1,528
Other employee benefits		**9,125**	8,193	7,758
		₱61,705	₱72,376	₱56,243

Other employee benefits pertain mainly to statutory contributions, incentives, and health care and insurance benefits of employees.

Personnel costs are allocated as follows:

	Note	2019	2018	2017
Cost of services	17	**₱31,680**	₱42,785	₱42,233
General and administrative expenses	18	**30,025**	29,591	14,010
		₱61,705	₱72,376	₱56,243

20. Interest Income, Other Income and Costs and Expense

Interest Income

	Note	2019	2018	2017
Cash and cash equivalents	5	**₱104,816**	₱75,622	₱56,023
Investment securities:	6			
Financial assets at:				
FVOCI		**6,245**	6,355	–
Amortized cost		**5,487**	13,431	–
AFS financial assets		**–**	–	9,831
HTM investments		**–**	–	9,073
		₱116,548	₱95,408	₱74,927

Other Income

	Note	2019	2018	2017
Rent	23	**₱1,749**	₱367	₱859
Unrealized fair value gain on investment securities	6	**540**	–	–
Gain on disposal of property and equipment	10	**–**	406	357
Gain on redemption of investment securities	6	**–**	22	53
Reversal of payables		**–**	–	3,743
Others		**423**	308	413
		₱2,712	₱1,103	₱5,425

Depreciation and Amortization

This account consists of:

	Note	2019	2018	2017
ROU assets	23	**₱14,774**	₱–	₱–
Property and equipment	10	**4,285**	2,085	1,021
Intangible assets	11	**320**	394	441
		₱19,379	₱2,479	₱1,462

Depreciation and amortization are allocated as follows:

	Note	2019	2018	2017
Cost of services	17	**₱11,146**	₱2,177	₱1,192
General and administrative expenses	18	**8,233**	302	270
		₱19,379	₱2,479	₱1,462

21. Income Tax

a. The components of current income tax expense as presented in the consolidated statements of income are as follows:

	2019	2018	2017
Final tax	**₱9,952**	₱6,031	₱5,384
RCIT	**475**	505	503
MCIT	**–**	208	193
	₱10,427	₱6,744	₱6,080

b. The reconciliation of income tax expense computed at statutory tax rate and income tax expense as shown in the consolidated statements of income is as follows:

	2019	2018	2017
Income tax expense at statutory income tax rate	**₱10,413**	₱6,098	₱2,259
Income tax effects of:			
Nontaxable income	**(16,874)**	(15,732)	(14,342)
Expired NOLCO	**10,925**	11,045	6,649
Interest income subjected to final tax	**(5,088)**	(3,037)	(2,953)
Nondeductible expenses	**1,702**	1,292	6,216
Net changes in unrecognized net deferred tax assets	**8,961**	6,455	7,118
Expired MCIT	**373**	65	577
Expenses subject to 10% preferential income tax rate	**15**	53	53
	₱10,427	₱6,239	₱5,577

c. Details of unrecognized net deferred tax assets relating to NOLCO, MCIT and other temporary differences are as follows:

	2019	2018
NOLCO	**₱52,496**	₱41,570
Allowance for impairment losses on receivables and input VAT	**8,190**	12,899
Retirement liability	**4,063**	4,166
Excess MCIT over RCIT	**876**	774
Unrealized foreign exchange loss (gain)	**705**	(1,863)
Excess of ROU assets amortization and interest expense over lease payments	**276**	–
Accruals and provision	**593**	676
Unrealized gain from fair value changes of investment securities	**(16)**	–
	₱67,183	₱58,222

Management has assessed that sufficient future taxable income may not be available against which the carry-forward benefits of NOLCO, excess MCIT over RCIT and other deductible temporary differences may be utilized.

As at December 31, 2019 and 2018, the Group did not recognize deferred tax liability on undistributed income of Paxys N.V., a wholly owned subsidiary of the Parent Company, amounting to ₱933.0 million and ₱913.7 million, respectively. Management believes that the Parent Company can control the timing of the dividend distribution of Paxys N.V. to the Parent Company.

d. Details of carry- forward benefits arising from NOLCO and excess MCIT over RCIT are as follows:

NOLCO

Year Incurred	Balance as at December 31, 2018	Additions	Expired	Balance as at December 31, 2019	Available Until
2016	₱36,454	₱–	(₱36,454)	₱–	2019
2017	42,230	–	–	42,230	2020
2018	60,315	–	–	60,315	2021
2019	–	72,987	–	72,987	2022
	₱138,999	₱72,987	(₱36,454)	₱175,532	

MCIT

Year Incurred	Balance as at December 31, 2018	Additions	Applied/ Expired	Balance as at December 31, 2019	Available Until
2016	₱373	₱–	(₱373)	₱–	2019
2017	193	–	–	193	2020
2018	208	–	–	208	2021
2019	–	475	–	475	2022
	₱774	₱475	(₱373)	₱876	

MCIT amounting to ₱505 and ₱503 were applied against RCIT in 2018 and 2017, respectively.

22. Earnings per Share

Basic/diluted earnings per share are computed as follows:

	Note	**2019**	2018	2017
Net income (a)		**₱24,282**	₱14,087	₱1,954
Issued and outstanding shares	15	**1,148,535**	1,148,535	1,148,535
Parent shares held by a subsidiary	15	**(345,622)**	(345,622)	(345,622)
Number of shares issued and outstanding (b)		**802,913**	802,913	802,913
Basic/diluted earnings per share (a/b)		**₱0.030**	₱0.018	₱0.002

There are no potential dilutive common shares as at December 31, 2019 and 2018.

23. Commitments

Lease Commitments

a. The Group as a Lessee

i. The Parent Company has an existing lease agreement with a third party for the lease of office space for five years until April 30, 2021. The quarterly rent is subject to escalation rates ranging from 5% to 10% per annum. The lease is renewable upon mutual consent of the parties to be covered by a separate lease agreement. As at December 31, 2019 and 2018, refundable security deposit amounted to ₱1.4 million and ₱2.9 million, respectively (see Note 12).

ii. SWA has an existing non-cancellable five-year agreement with a third party for the lease of an office space until December 31, 2018. This was extended for one year up to December 31, 2019. On January 22, 2019, the lease was renewed for another two years until 2021, with an option to extend for another two years and six months. The rental rate is subject to an escalation rate of 5% per annum. As at December 31, 2019 and 2018, refundable security deposit amounted to ₱1.5 million (see Note 12).

iii. On October 21, 2018, SWA entered into a two-year lease agreement with a third party for the lease of an office space until October 20, 2020. The lease is renewable upon mutual consent of the parties to be covered by a separate and new lease agreement. The rental rate shall be subjected to an escalation rate of 5% per annum upon renewal. As at December 31, 2019 and 2018, refundable security deposit amounted to ₱0.3 million.

Outstanding rental and security deposits on lease commitments, presented under "Other noncurrent assets" in the consolidated statements of financial position, amounted to ₱3.6 million and ₱5.0 million as at December 31, 2019 and 2018, respectively (see Note 12). These are refundable in cash at the end of the lease term.

Upon adoption of PFRS 16, advance rent amounting to ₱3.2 million and accrued rent from straight-line accounting for lease amounting to ₱1.4 million were recognized as part of ROU assets in 2019 (see Note 2).

Amounts recognized in the consolidated statements of income follows:

	2019	2018	2017
Amortization on ROU assets	**₱14,774**	₱–	₱–
Interest expense on lease liabilities	**1,526**	–	–
Rent expense	**248**	13,646	13,012
	₱16,548	₱13,646	₱13,012

Rent expense in 2019 pertains to low-value asset leases on storage and equipment.

Amortization on ROU assets in 2019 is allocated as follows:

	Note	
Cost of services	17	₱7,082
General and administrative expenses	18	7,692
		₱14,774

Rent expense is allocated as follows:

	Note	**2019**	2018	2017
Cost of services	17	**₱128**	₱6,259	₱5,694
General and administrative expenses	18	**120**	7,387	7,318
		₱248	₱13,646	₱13,012

Movements in the lease liabilities as at December 31, 2019 are presented below:

	Note	
Balance at beginning of year	2	₱51,425
Payments		(15,378)
Interest expense		1,526
		37,573
Current portion		14,420
Noncurrent portion		₱23,153

Total cash outflows for the payment of lease liabilities amounted to ₱15.4 million in 2019.

The movements in the ROU assets as at December 31, 2019 are presented below:

	Note	
Balance as at beginning of year	2	₱53,143
Amortization	20	(14,774)
Balance at end of year		₱38,369

The future minimum lease payments under noncancellable leases are as follows:

	2019	2018
Within one year	**₱14,420**	₱13,938
After one year but not more than five years	**23,153**	10,619
	₱37,573	₱24,557

The future cash outflows under short-term and low value leases are as follows:

	2019	2018
Within one year	**₱220**	₱239
After one year but not more than five years	**135**	161
	₱355	₱400

b. The Group as a Lessor

In 2019, SWA has subleased a portion of its office space in Laguna to a third party for a period of five years.

Rent income from subleased portion amounted to ₱1.7 million, ₱0.4 million and ₱0.9 million in 2019, 2018 and 2017, respectively (see Note 20).

Facilities and Support Services Agreement

In October 2018, SWA entered into a Managed Facility and Support Services Agreement with a third party for work-ready seats for a period of two years until October 20, 2020. The service agreement provides outsourced facility services, data connectivity, IT support and power for the leased work seats. Refundable deposit amounted to ₱1.3 million as at December 31, 2019 and 2018.

Income earned from this agreement amounted to ₱15.5 million and ₱4.0 million in 2019 and 2018, respectively, as shown in the revenues in the statements of income of the Group.

24. Financial Instruments

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, investment securities, trade and other receivables, rental and security deposits, and trade and other payables, which arise directly from the operations. The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, and liquidity risk. The BOD reviews and agrees policies for managing each of these risks and these are summarized below.

Foreign Currency Risk

The Group's exposure to foreign currency risk results mainly from foreign currency denominated services rendered by SWA and other business transactions of the Group denominated in foreign currencies. The Group's consolidated financial position and financial performance may be affected by the movements in the U.S. Dollar (US$) to Philippine Peso exchange rates.

The following rates of exchange have been used by the Group in translating foreign currency consolidated statement of income and consolidated statement of financial position items as at and for the years ended December 31, 2019 and 2018:

	2019		2018	
	Closing	**Average**	Closing	Average
Philippine Peso to 1 unit of US$	**₱50.64**	**₱51.57**	₱52.58	₱52.69

As at December 31, 2019 and 2018, the significant foreign currency-denominated monetary assets of the Group are as follows:

	2019		2018	
	In US$	**Philippine Peso Equivalent**	In US$	Philippine Peso Equivalent
Cash and cash equivalents	**US$54,108**	**₱2,739,797**	US$43,531	₱2,288,882
Trade and other receivables	**448**	**22,684**	336	17,656
Investment securities -				
Financial assets at:				
FVPL	**4,997**	**253,032**	–	–
FVOCI	**3,024**	**153,101**	2,911	153,062
Amortized cost	**1,000**	**50,564**	7,770	408,537
Foreign currency-denominated monetary assets	**US$63,577**	**₱3,219,178**	US$54,548	₱2,868,137

A reasonably possible change of -1.95/+1.95 in 2019 and -2.65/2.65 in 2018 in the US$ to Philippine Peso exchange rate based on latest year-on-year movement in the currency, with all other variables held constant, shall result to the following income before tax movements in the Group's consolidated statements of income:

	2019		2018	
	Increase (Decrease) in Exchange Rates	**Increase (Decrease) on Income before Tax**	Increase (Decrease) in Exchange Rates	Increase (Decrease) on Income before Tax
US$	**1.94**	**₱123,339**	2.65	₱144,552
	(1.94)	**(123,339)**	(2.65)	(144,552)

The decrease in Philippine Peso to US$ means stronger Philippine Peso against the US$ rates while increase in Philippine Peso to US$ rate means stronger foreign exchange rates against Philippine Peso.

Credit Risk
Credit risk is the risk that the Group will incur a loss when its counterparties fail to discharge their contractual obligations.

Receivables are monitored on an on-going basis to minimize Group's exposure to possible losses. The Group trades only with recognized, creditworthy third parties. It is Group policy to subject customers who trade on credit terms to credit verification procedures. Trade receivables pertain mainly to the account of Nuance Communications Ireland Ltd.

The credit risk for cash and financial instruments is considered negligible because the counterparties are reputable banks and investment institutions with high quality external credit ratings. The Group does not have major concentration of credit risk.

The gross maximum exposure of the Group to credit risk corresponds to the total carrying amounts of the following financial assets:

	2019	2018
Cash and cash equivalents[(a)]	**₱3,287,733**	₱3,155,245
Investment securities -		
Financial assets at:		
FVPL	**254,885**	–
FVOCI	**153,101**	153,062
Amortized cost	**50,654**	517,537
Trade and other receivables	**140,908**	135,523
Rental and security deposits[(b)]	**3,592**	5,008
	₱3,890,873	₱3,966,375

[(a)]Excluding cash on hand amounting to ₱65 as at December 31, 2019 and 2018.
[(b)]Included under "Other noncurrent assets."

The analysis of the financial assets that were past due but not impaired as at December 31, 2019 and 2018 follows:

	2019						
	Neither Past Due nor Impaired	**Past Due but not Impaired**					
		Less than 30 Days	**30 to 60 Days**	**More than 60 Days**	**Total**	**Impaired**	**Total**
Cash and cash equivalents[(a)]	**₱3,287,733**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,287,733**
Investment securities -							
Financial assets at:							
FVPL	**254,885**	**–**	**–**	**–**	**–**	**–**	**254,885**
FVOCI	**153,101**	**–**	**–**	**–**	**–**	**–**	**153,101**
Amortized cost	**50,654**	**–**	**–**	**–**	**–**	**–**	**50,654**
Trade and other receivables:							
Trade	**10,134**	**–**	**–**	**–**	**–**	**9,616**	**19,750**
Accrued interest	**18,073**	**–**	**–**	**–**	**–**	**–**	**18,073**
Due from related parties	**–**	**–**	**–**	**13,973**	**13,973**	**69,319**	**83,292**
Others	**2,109**	**–**	**–**	**–**	**–**	**17,684**	**19,793**
Rental and security deposits[(b)]	**3,592**	**–**	**–**	**–**	**–**	**–**	**3,592**
	₱3,780,281	**₱–**	**₱–**	**₱13,973**	**₱13,973**	**₱96,619**	**₱3,890,873**

[(a)]Excluding cash on hand amounting to ₱65.
[(b)]Included under "Other noncurrent assets.

	2018						
	Neither Past Due nor Impaired	Past Due but not Impaired					
		Less than 30 Days	30 to 60 Days	More than 60 Days	Total	Impaired	Total
Cash and cash equivalents[(a)]	₱3,155,245	₱–	₱–	₱–	₱–	₱–	₱3,155,245
Investment securities -							
Financial assets at:							
Amortized cost	517,537	–	–	–	–	–	517,537
FVOCI	153,062	–	–	–	–	–	153,062
Trade and other receivables:							
Trade	11,771	–	–	–	–	9,616	21,387
Due from related parties	–	–	–	13,855	13,855	69,319	83,174
Accrued interest	12,057	–	–	–	–	–	12,057
Others	1,221	–	–	–	–	17,684	18,905
Rental and security deposits[(b)]	5,008	–	–	–	–	–	5,008
	₱3,855,901	₱–	₱–	₱13,855	₱13,855	₱96,619	₱3,966,375

[(a)]Excluding cash on hand amounting to ₱65.
[(b)]Included under "Other noncurrent assets."

The table below shows the credit quality of the financial assets classified as neither past due nor impaired as at December 31, 2019 and 2018:

	2019			2018		
	High Grade	Standard Grade	Total	High Grade	Standard Grade	Total
Cash and cash equivalents[(a)]	**₱3,287,733**	**₱–**	**₱3,287,733**	₱3,155,245	₱–	₱3,155,245
Investment securities -						
Financial assets at:						
FVPL	**254,885**	**–**	**254,885**	–	–	–
FVOCI	**153,101**	**–**	**153,101**	153,062	–	153,062
Amortized cost	**50,654**	**–**	**50,654**	517,537	–	517,537
Trade and other receivables	**30,316**	**–**	**30,316**	25,049	–	25,049
Rental and security deposits[(b)]	**–**	**3,592**	**3,592**	–	5,008	5,008
	₱3,776,689	**₱3,592**	**₱3,780,281**	₱3,850,893	₱5,008	₱3,855,901

[(a)]Excluding cash on hand amounting to ₱65 as at December 31, 2019 and 2018.
[(b)]Included under "Other noncurrent assets."

For trade receivables, the Group calculates impairment based on lifetime ECL using a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets at amortized cost, which comprise cash equivalents, investment securities, other receivables (including due from related parties) and rental and security deposits, ECL is based on 12-month ECL. However, the ECL for certain receivables, which are identified as credit-impaired, is based on lifetime ECL.

The credit quality of financial assets is managed by the Group using high grade and standard grade as internal credit ratings.

High Grade. Financial assets with high credit quality are normally collected within the credit period and without history of default collection.

Investment securities and cash and cash equivalents are placed in or deposited with reputable banks, thus, are fully realizable. Probability of default is close to zero and significant change in credit risk is unlikely for these financial instruments.

Standard Grade. Standard grade financial assets pertain mainly to receivables from counter parties that have a strong capacity to meet contractual obligations in the near term and have acceptable probability of default.

Past due receivables from related parties are not impaired when management assesses that these are fully realizable based on the counter parties' available assets.

Receivables from related parties are considered credit-impaired when the counter parties have no liquid assets and/or available assets to pay the outstanding receivables. Thus, these are provided with allowance for impairment losses.

Liquidity Risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk may arise primarily from mismatch of the maturities of financial assets and liabilities.

The Group's objective is to maintain continuity of funding. The Group's liquidity risk management policy is to measure and forecast its cash commitments, to match debt maturities with the assets being financed, to maintain a diversity of funding sources with its access to bank financing and the capital market and to hold a sufficient level of cash reserves.

The Group monitors its risk to shortage of funds by considering the maturity of both its financial assets and liabilities projected cash flows.

The table below summarizes the maturity profile of the Group's financial assets and liabilities (excluding statutory payables) used to manage liquidity as at December 31, 2019 and 2018 based on contractual undiscounted payments.

	2019				2018			
	Upon Demand	Within One Year	Over One Year	Total	Upon Demand	Within One Year	Over One Year	Total
Financial Assets								
Cash and cash equivalents	₱3,287,798	₱–	₱–	₱3,287,798	₱3,155,310	₱–	₱–	₱3,155,310
Investment securities - Financial assets at:								
FVPL	254,885	–	–	254,885	–	–	–	–
FVOCI	153,101	–	–	153,101	153,062	–	–	153,062
Amortized cost	–	50,654	–	50,654	–	517,537	–	517,537
Trade and other receivables	–	44,289	–	44,289	–	38,904	–	38,904
Rental and security deposits	–	–	3,592	3,592	–	–	5,008	5,008
Total undiscounted financial assets	3,695,784	94,943	3,592	3,794,319	3,308,372	556,441	5,008	3,869,821
Financial Liabilities								
Trade payables	₱–	₱1,974	₱–	₱1,974	₱–	₱2,250	₱–	₱2,250
Accrued expenses	–	10,404	–	10,404	–	11,998	–	11,998
Other current liabilities	–	1,748	–	1,748	–	729	–	729
Dividends payable	6,554	–	–	6,554	6,554	–	–	6,554
Lease liabilities	–	15,933	24,424	40,357	–	–	–	–
Other noncurrent liabilites	–	–	1,802	1,802	–	–	1,349	1,349
Total undiscounted financial liabilities	6,554	30,059	26,226	62,839	6,554	14,977	1,349	22,880
Net undiscounted financial assets	₱3,689,230	₱64,884	(₱22,634)	₱3,731,480	₱3,301,818	₱541,464	₱3,659	₱3,846,941

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group competes in an industry where opportunities for growth still abound. Projects are selected if their expected returns are higher than cost of capital. Fundings are sourced from a combination of retained earnings, debt and new capital. The Group aims for flexibility in the capital structure to meet changing conditions and adapt with minimum cost and delay. It looks at solvency by keeping its debt capacity within its ability to generate future cash flows.

The Group is not subject to externally imposed capital requirements. The table below summarizes the equity components of the Group.

	2019	2018
Capital stock	**₱1,148,535**	₱1,148,535
Additional paid-in capital	**451,364**	451,364
Parent shares held by a subsidiary	**(1,149,886)**	(1,149,886)
Other equity reserves	**416,426**	517,358
Retained earnings	**2,920,540**	2,896,258
	₱3,786,979	₱3,863,629

Fair Values

The following is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are reflected in the consolidated financial statements:

	2019		2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱3,287,798**	**₱3,287,798**	₱3,155,310	₱3,155,310
Investment securities -				
Financial assets at:				
FVPL	**254,885**	**254,885**	–	–
FVOCI	**153,101**	**153,101**	153,062	153,062
Amortized cost	**50,654**	**50,654**	517,537	409,597
Trade and other receivables	**44,289**	**44,289**	38,904	38,904
Rental and security deposits	**3,592**	**3,473**	5,008	4,686
	₱3,794,319	**₱3,794,200**	₱3,869,821	₱3,761,559
Financial Liabilities				
Trade and other payables*:				
Accrued expenses	**₱10,404**	**₱10,404**	₱11,998	₱11,998
Dividends	**6,554**	**6,554**	6,554	6,554
Trade	**1,974**	**1,974**	2,250	2,250
Other current liabilities	**1,748**	**1,748**	729	729
Lease liabilities	**35,573**	**39,267**	–	–
Other noncurrent liabilities	**1,802**	**1,802**	1,349	1,349
	₱58,055	**₱61,749**	₱22,880	₱22,880

**Excluding statutory payables amounting to ₱6,523 and ₱7,143 as at December 31, 2019 and 2018, respectively.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Cash Equivalents, Investment Securities at Amortized Cost, Trade and Other Receivables, Trade and Other Payables (excluding statutory payables) and Dividends Payable. Due to the relatively short-term maturities of the financial assets and liabilities, the fair values approximate the carrying amounts at initial recognition.

Financial Assets at FVPL. The fair value of the Group's financial assets at FVPL is based on the net asset value as at end of the reporting period and is categorized as Level 2.

Financial Assets at FVOCI. The fair value of the Group's financial assets at FVOCI is estimated by reference to quoted bid price in an active market at the end of the reporting period and is categorized as Level 1.

Lease Liabilities. The fair value of lease liabilities were determined based on Level 2 in which the inputs are based on the discounted interest rate of the prevailing comparable instrument in the market.

Rental and Security Deposits and Other Noncurrent Liabilities. Fair values of security deposits are based on the present value of the expected future cash flows using discount rates ranging from 3.40% to 3.52%. These are categorized under Level 2 of the fair value measurements hierarchy for financial instruments.

For the years ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements.

25. Events After the Reporting Year

Pursuant to Presidential Proclamation Nos. 929 and 922, series of 2020, a State of Calamity was declared throughout the country due to COVID-19 pandemic. In a move to contain the rapid increase of COVID-19 cases, strict social distancing measures has been imposed and the entire Luzon has been placed under Enhanced Community Quarantine (ECQ) effective March 17, 2020. These measures and events have caused business disruptions and its impact to the Group continue to evolve.

The Group considers these events as a non-adjusting subsequent event and have no impact in the financial position and performance of the Group as at and for the year ended December 31, 2019. However, the outbreak may have an uncertain impact on its 2020 financial results. Considering the evolving nature of this outbreak, the Group cannot ascertain at this time the impact to its financial position, performance and cashflows. The Group will continue to monitor the situation.

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 8 982 9100
Fax : +632 8 982 9111
Website : www.reyestacandong.com

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULES FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Stockholders and the Board of Directors
Paxys, Inc.
15th Floor, 6750 Ayala Office Tower
Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Paxys, Inc. (the Parent Company) and Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and have issued our report thereon dated March 27, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Supplementary Schedules for submission to the Securities and Exchange Commission (SEC) are the responsibility of the Group's management.

The supplementary schedules include the following:

- Schedules Required under Annex 68-E of Revised Securities Regulation Code (SRC) Rule 68 as at and for the years ended December 31, 2019 and 2018
- Schedules Required under Annex 68-J of Revised SRC Rule 68 as at and for the year ended December 31, 2019
- Reconciliation of the Parent Company Retained Earnings Available for Dividend Declaration for the year ended December 31, 2019
- Corporate Structure as at December 31, 2019

The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years ended December 31, 2019 and no material exceptions were noted.

The supplementary schedules are presented for purposes of complying with Revised SRC Rule 68 issued by the SEC, and are not part of the basic consolidated financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

REYES TACANDONG & CO.

HAYDEE M. REYES
Partner
CPA Certificate No. 83522
Tax Identification No. 102-095-265-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 0663-AR-3 Group A
Valid until August 30, 2020
BIR Accreditation No. 08-005144-006-2019
Valid until October 20, 2022
PTR No. 8116475
Issued January 6, 2020, Makati City

March 27, 2020
Makati City, Metro Manila

PAXYS, INC. AND SUBSIDIARIES

LIST OF SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019

Schedules Required under Annex 68-J of the Revised Securities Regulation Code Rule 68

Other Required Information

* *Not Applicable*

SCHEDULE A

PAXYS, INC. AND SUBSIDIARIES

FINANCIAL ASSETS

DECEMBER 31, 2019

(Amounts in Thousands)

Financial Asset/ Name of issuing entity	Number of Shares or Principal Amount of Bonds	Amount Shown in the Statement of Financial Position	Income Received and Accrued
Cash in Banks			
UBS Bank	–	₱17,682	₱476
BDO Unibank, Inc.	–	10,999	26
Bank Julius Baer	–	10,284	170
Bank of the Philippine Islands	–	7,080	19
Security Bank Corporation	–	605	1
Metropolitan Bank and Trust Company	–	78	2
J.P. Morgan Chase Bank	–	–	8
		46,728	702
Cash Equivalents			
J.P. Morgan Chase Bank	–	977,915	15,563
Bank of the Philippine Islands	–	877,374	42,835
Bank Julius Baer	–	874,708	25,109
UBS Bank	–	413,756	14,295
Security Bank Corporation	–	80,252	1,773
Metrobank Card Corporation	–	17,000	4,539
		3,241,005	104,114
		3,287,733	104,816
Financial Assets at FVPL			
Bank Julius Baer	–	253,032	–
Bank of the Philippine Islands	–	1,853	–
		254,885	–
Financial Assets at FVOCI			
Fixed Income Investments:			
UBS Bank Managed Funds	$3,000	153,101	6,245
Financial Assets at Amortized Cost			
Bank Julius Baer	$1,000	50,654	4,239
Bank of the Philippine Islands	–	–	1,028
J.P. Morgan Chase Bank	–	–	220
		50,654	5,487
Trade and Other Receivables - Net			
Trade	–	10,134	–
Accrued interest	–	18,073	–
Due from related parties	–	13,973	–
Others	–	2,109	–
	–	44,289	–
Rental and Security Deposits	–	3,592	–
		₱3,794,254	₱116,548

SCHEDULE B

PAXYS, INC. AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

DECEMBER 31, 2019

(Amounts in Thousands)

	Balance at Beginning of Year	Additions	Amounts Collected	Amounts Written-off	Current	Noncurrent	Balance at end of year
Advances to officers and employees	₱1,485	₱1,775	₱2,204	₱–	₱1,056	–	₱1,056

SCHEDULE C

PAXYS, INC. AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

DECEMBER 31, 2019

(Amounts in Thousands)

Related Parties	Balance at Beginning of Year	Additions*	Amounts Collected	Current	Noncurrent	Balance at end of Year
Due from Related Parties						
Paxys Global Services, Inc.	₱66,410	₱321	₱370	₱66,361	₱–	₱66,361
Scopeworks Asia, Inc.	58,149	85	39	58,195	–	58,195
Paxys N.V.	21,603	–	707	20,896	–	20,896
Paxys Ltd.	11,403	484	–	11,887	–	11,887
Paxys Global Services Ltd. Regional Operating Headquarters	13,893	250	326	13,817	–	13,817
Paxys Global Services Pte. Ltd	34,859	–	842	34,017	–	34,017
	₱206,317	₱1,140	₱2,284	₱205,173	₱–	₱205,173

**inclusive of foreign currency translation adjustmentson dollar-denominated receivables*

SCHEDULE G

PAXYS, INC. AND SUBSIDIARIES

CAPITAL STOCK

DECEMBER 31, 2019

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related consolidated statement of financial position caption	Number of shares reserved for options, warrants, conversion, and other rights	Number of shares held by related parties	Directors and officers	Others
Common shares - "Class A" at ₱1 par value	1,800,000,000	1,148,534,866	–	976,466,515	217,800	171,850,551

SCHEDULE H

PAXYS, INC.

15th Floor 6750 Ayala Office Tower Ayala Avenue, Makati City

RECONCILIATION OF PARENT COMPANY RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2019

Deficit at Beginning of Year	(₱132,514,032)
Net unrealized foreign exchange in 2018	(997,382)
Deficit at Beginning of Year, as Adjusted	(133,511,414)
Net Loss Actually Realized During the Year	
Net loss during the year closed to retained earnings	(34,789,100)
Unrealized foreign exchange loss in 2019	620,143
Unrealized foreign exchange gain in 2018, realized in 2019	997,382
	(33,171,575)
Deficit at End of Year	(₱166,682,989)

SCHEDULE I

PAXYS, INC. AND SUBSIDIARIES

FINANCIAL SOUNDNESS INDICATORS

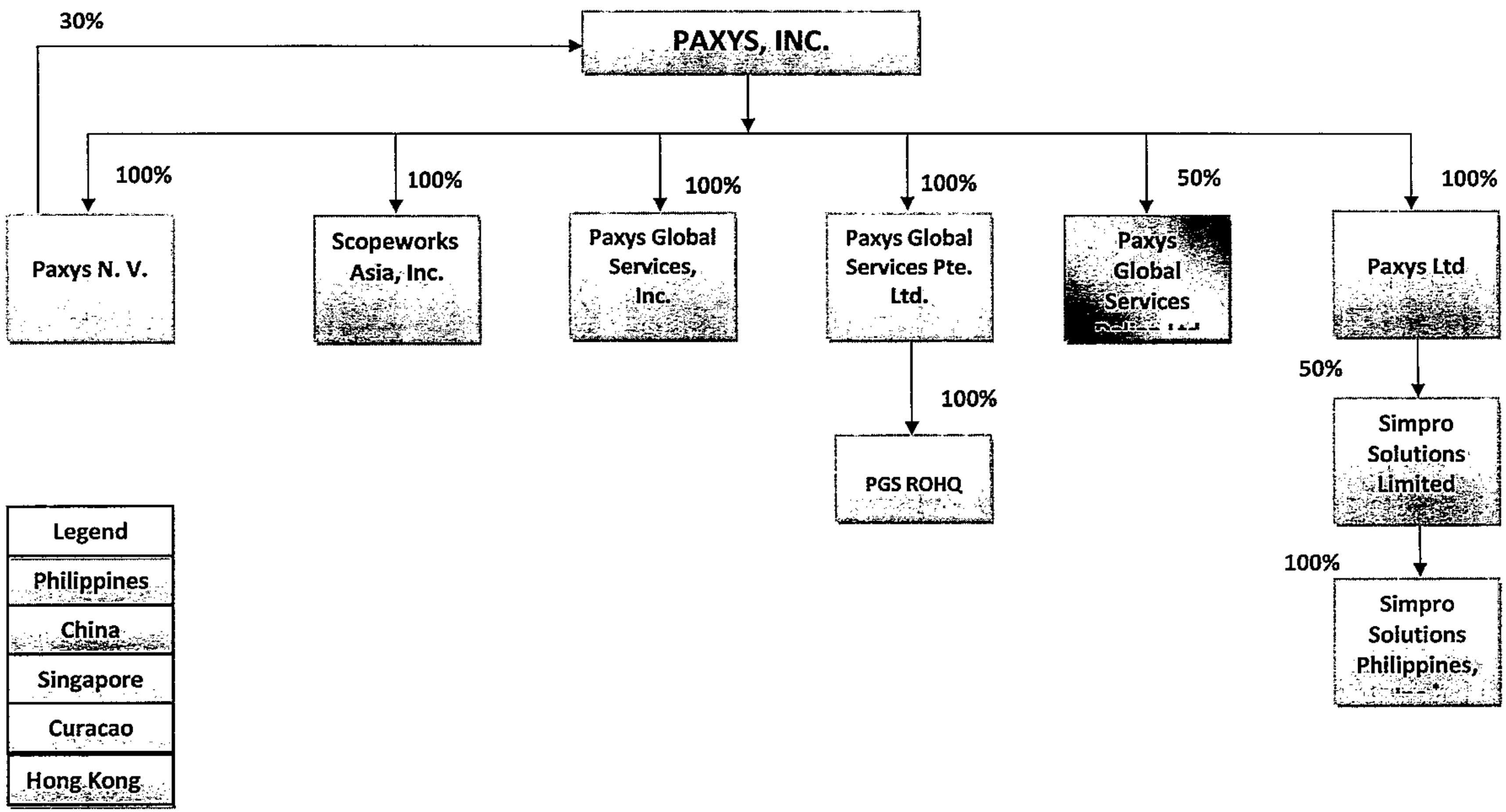
DECEMBER 31, 2019 AND 2018

	Formula		2019	2018
Liquidity ratio				
Current ratio	Total Current Assets	₱3,813,632	**91.57: 1**	134.51: 1
	Divide by: Total Current Liabilities	41,645		
	Current ratio	91.57		
Solvency ratio				
Debt to equity ratio	Total Liabilities	₱80,144	**0.02: 1**	0.01: 1
	Divide by: Total Equity	3,786,979		
	Debt to equity ratio	0.02		
Profitability ratio				
Return on equity	Net Income	₱24,282	**0.64%**	0.36%
	Divide by: Total Equity	3,786,979		
	Return on equity	0.64%		
Net income margin	Net Income	₱24,282	**30.93%**	16.29%
	Divide by: Revenue	78,506		
	Net income margin	30.93%		
Earnings (loss) before interest, tax, depreciation and amortization (EBITDA) margin	Income before tax	₱34,709	**70.84%**	26.37%
	Add: Depreciation and amortization	19,379		
	Interest expense	1,526		
	EBITDA	55,614		
	Divided by: Revenue	78,506		
		70.84%		

PAXYS, INC. AND SUBSIDIARIES

CORPORATE STRUCTURE

AS AT DECEMBER 31, 2019



Currently under dissolution and liquidation. See Notes to Consolidated Financial Statements

SUSTAINABILITY REPORT

(In compliance to the Securities Exchange Commission's Memorandum Circular No. 4, Series of 2019)

Contextual Information

Name of Organization	Paxys, Inc. (Paxys, the "Parent Company" or the "Company")
Location of Headquarters	15^{th} floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City.
Location of Operations	Paxys, Inc. has one operating subsidiary, Scopeworks Asia, Inc. (SWA). The registered office address of SWA is at Bldg. 1 LSL Compound Diode Street, LISP 1, Brgy. Diezmo, Cabuyao, Laguna.
Report Boundary: Legal entities (e.g. subsidiaries) included in this report	This report covers the Parent Company and its operating subsidiary, Scopeworks Asia, Inc. (both companies referred herein as "the Group")
Business Model, including Primary Activities, Brands, Products, and Services	Paxys, Inc. is an investment holding company incorporated in the Philippines. The Company was formerly known as Fil-Hispano Holdings Corporation and registered with the Philippine Securities and Exchange Commission (SEC) on February 14, 1952. SWA, currently the only operating subsidiary of Paxys, Inc., provides data conversion and other business process outsourcing services such as customer service, facilities and support services, back office services and subleasing.
Reporting Period	January 1, 2019 to December 31, 2019
Highest Ranking Person responsible for this report	Tarcisio M. Medalla, Chairman and President

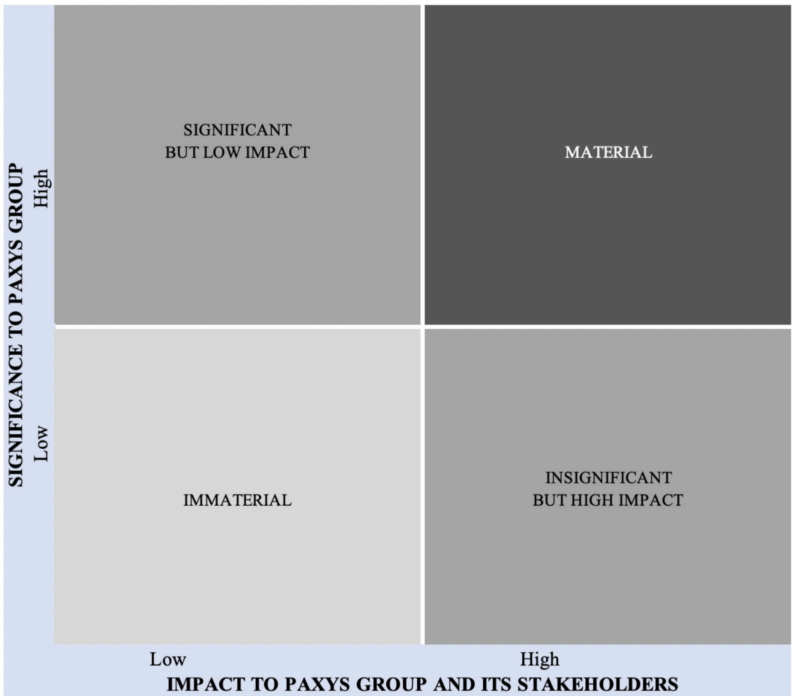
Materiality Process

Paxys recognizes that corporate sustainability is essential to ensure long-term corporate success. More than taking business profits, Paxys ensures that the company and its subsidiaries operate responsibly, ensures compliance to good corporate governance and regulatory requirements, cares for the environment, people and the community where it operates.

This report particularly covers the sustainability performance of Paxys, Inc. and its operating subsidiary, Scopeworks Asia, Inc. (SWA). SWA is an export-oriented business process outsourcing company based in Laguna and Muntinlupa with around 150-200 full-time personnel serving clients based in the US, UK, Australia and Canada . The current business model does not have dependencies with raw materials and machinery but only requires basic resource which include people, computers, and internet connectivity. The Group have a lean organization and optimized number of support people in Operations and in Head Office.

The Group started its formal sustainability program by identifying the kkey personnel who are heavily exposed in managing the business and would be in the best position to become part of the core team for this program. These core team members composed of a mix of employees with strong background in operations, accounting, legal, risk management and corporate governance were sent to series of external sustainability reporting workshops, trainings, seminars and development programs to keep them abreast in best sustainability practices from other businesses within the same industry.

Guided by the GRI standards and best industry practices, the core team members of the Group carefully assessed and reviewed the Group's business activities, including the risks and opportunities of the Group and its economic, social, and environmental impact. Various stakeholders were consulted in the process. Material topics significant to its operations were also identified and were further validated through several engagement sessions with other business heads, officers and concerned team members within the organization. The following matrix was used in order to assist the Group in determining the material topics in this report:



The topics which are highly relevant and high impact are considered as material topics for this report are as follows:

Economic	Environment	Social
• Economic Performance • Procurement	• Resource Management	• Employee Management • Workplace Conditions, Labor Standards and Human Rights • Customer Privacy • Data Security

ECONOMIC

Economic Performance

Direct Economic Value Generated and Distributed

Disclosure	Amount (In Php Million)
Direct economic value generated (revenue)	78.5
Direct economic value distributed:	
a. Operating costs[1]	26.7
b. Employee wages and benefits	61.7
c. Payments to suppliers, other operating costs	69.6
d. Dividends given to stockholders and interest payments to loan providers	-
e. Taxes given to government[2]	13.3
f. Investments to community (e.g. donations, CSR)	-[3]

<table>
<tr><th>What is the impact and where does it occur? What is the organization's involvement in the impact?</th><th>Which stakeholders are affected?</th><th>Management Approach</th></tr>
<tr><td>The performance of the Company highly impacts its stakeholders through the economic values generated from its business operations.

Significant portion of the generated economic value flows back to the Company's stakeholders which include:
<u>investors</u> as added value to their investment
<u>suppliers</u> as payment for the products and services;
<u>employees</u> as compensation for their work or service; and
<u>government</u> as payment for taxes.</td><td>Investors
Employees
Suppliers
Community
Government</td><td rowspan="3">Paxys is aware of the economic impact of its business.

Through its business operations, the Company provides employment opportunities and livelihood not only to privileged and college graduates but also to a wide range of unemployed and underemployed at varying age groups regardless of achievement and social status.

As a way of doing business, Paxys ensures that all regulatory requirements are complied with, stakeholders are timely informed and relevant business updates and information are shared, and its</td></tr>
<tr><th>What are the Risk/s Identified?</th><th></th></tr>
<tr><td>Though the Business Process Outsourcing (BPO) industry outlook in the Philippines</td><td></td></tr>
</table>

[1] Excluding direct personnel cost amounting to Php 31,678,673 included in the Employee wages and benefits
[2] Includes local business taxes, income taxes, and final taxes
[3] The Company provides assistance to its employees, stakeholders and the community where it operates. However, the donations and assistance provided are immaterial to the total expenses of the Company.

<table>
<tr>
<td>remains to be very positive, the market risk is still a threat primarily because of possible government's policy changes effectively reducing the country's competitive advantage. On top of this, within the country alone, BPO companies struggle to compete within the industry.

The Group has also identified technology risk as a threat to the business. Over the past years, the data conversion/transcription program has started to decelerate mainly due to technological advancement and automation of processes. The more reliable the technology is, the lesser human intervention and quality assurance required.</td>
<td>Investors, Employees, Suppliers, Government</td>
<td rowspan="3">people and stakeholders are well taken care of.

Company employees are provided with fair and competitive compensation and benefits and policies and controls were implemented to ensure employee compliance with labor laws and regulations.

Part of the overall business strategy is to continuously seek business opportunities not only within the data conversion and transcription program but to other outsourced and managed services where there is a growing demand or market.

With efficient and effective management of business costs, the Group has positioned itself to continue to be the preferred service provider for data conversion in the BPO industry while tapping other markets and business opportunities.</td>
</tr>
<tr>
<td>What are the Opportunity/ies Identified?</td>
<td></td>
</tr>
<tr>
<td>While market and technology risks exist, there's still ample business opportunities for the Group and the BPO industry as a whole.

Philippines remain to be a strong and competitive player in the BPO industry which allows the country to attract both foreign and local investors. Labor cost remains to be inexpensive and with continuous trainings, Filipino workers are regarded as hardworking and competent in any field.

With technology advancement, it also aided the Group to be more efficient in its back office processes. Data conversion and transcription may be declining, but there's also a spur of growth in other technology-related solutions and services which include managed seat lease facility and disaster recovery sites which are actively pursued by the Group.</td>
<td></td>
</tr>
</table>

Climate-related risks and opportunities[4]

The Group's business does not create significant carbon footprint, and climate-related risks and opportunities have relatively low significance to the Group as compared to other industries. However, Paxys recognizes that the climate change is a global issue which goes beyond gas emissions and energy, and it may have an impact not just to the Group but to each and every one not just in the country but worldwide. It therefore requires concerted efforts from the government, international organizations, businesses, investors, and the general society.

For its part, Paxys has assessed the related risks and opportunities and have established programs, policies and actions plans designed to mitigate the identified climate-related risks and take advantage or act upon the related potential opportunities.

Governance	Strategy	Risk Management	Metrics and Targets
The Board of Directors sets the tone at the top and takes into serious consideration the climate-related risks and opportunities across the business. Through its Executive Committee, the Board oversees the implementation of company plans and programs to address climate-related risks and the related opportunities.	Through the Management and officers of the Company, the Group continuously monitors the impact of climate change to the business. While none has been identified as material, physical acute and chronic climate-related risks could have an impact to the Group.	As part of the Group's Enterprise-wide Risk Management program, climate-related risks were identified and assessed taking into consideration the Group's industry, nature and business operations. Such climate-related risks were addressed depending on the likelihood and materiality of its impact to the business. Action plans were prepared accordingly to address those which are likely to happen and those which could have a material impact to the Group overall.	Given the business nature, the Group adopts a simplified approach in assessing and managing all business risks, climate-related ones included. The key metrics used are the probability or likelihood of the risk to happen and the potential impact to the Group as a whole. Best on industry practice, an impact of at least 10% of the Group's consolidated assets would be considered material by the Group.

Climate-related risks which may have an impact to the Group include severe weather conditions and flooding. These risks may result to a multitude chain of issues like supply chain disruption, unavailability of transportation, health risk and other issues which could greatly impact the Company's workforce or the core resource required for operating the BPO business.

[4] Adopted from the Recommendations of the Task Force on Climate-Related Financial Disclosures. The TCFD Recommendations apply to non-financial companies and financial-sector organizations, including banks, insurance companies, asset managers and asset owners.

Unavailability of electricity and data connectivity due to natural disasters will also be a risk to the Group as this could lead to hampered operations which would ultimately result to failure of service delivery.

To address the above risks, the Group ensures that plans and procedures are in place to ensure business continuity for climate-related business risks. Several initiatives include investing in a private transportation shuttle service for the Company's workforce, provision for food and sleeping quarters when necessary, inclusion of insurance and health care program and benefits for employees, and continuous monitoring of weather conditions.

The Group have redundancy hot sites in geographically dispersed office locations which serves as the Group's recovery site in the event of disaster. Multiple back-up of critical company data and redundant communication links on various internet providers were contracted to provide about 99% data connectivity. Power generator with capacity to operate all equipment at the main production site is on stand-by to ensure continuity of business in case of any short-term or prolonged power failure due to inclement weather and disturbance. The group adopted virtual and cloud solutions which would help enable the Group to work remotely.

Other climate-related business risks were addressed by obtaining applicable insurance covers to reduce the company's exposure to an acceptable and tolerable level.

Opportunities identified by the Group includes tapping the unserved markets for managed facility services and disaster recovery sites, which the company can potentially serve using underutilized company resources.

Procurement Practices

Proportion of spending on local suppliers

Disclosure	Quantity	Units
Percentage of procurement budget used for significant locations of operations that is spent on local suppliers	100	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Paxys' business does not require critical and specific supplier - dependent materials and machinery in order to operate. The Company basically requires an office space with workstations, computers, basic office supplies, electricity and internet connectivity.	Suppliers Community	The Group supports sustainable procurement by taking into consideration the social and environmental factors upon product consumption and when making procurement decisions. While cost is a major consideration in all purchases, the Company puts premium and value to innovative

Spending on local suppliers boosts local economy builds thriving community and creates jobs. **What are the Risk/s Identified?** Local suppliers may not always have the capacity to deliver or satisfy the requirements of the Company. Eco-friendly materials may not necessarily result to lower cost. **What are the Opportunity/ies Identified?** There is a growing niche for sustainable, innovative and digital products and services.		products and services which have the least environmental impact or footprint. Preference is given to local suppliers as this helps thrive the country's economy and by supporting them, it helps promotes employment and jobs, therefore aiding in reducing poverty. However, the Company ensures the that it has adequate pool or network of suppliers and only transacts with reputable suppliers in order to protect the business. Procurement policies were also in place to ensure fair, ethical and legal practices are carried out in all company procurement transactions.

Anti-corruption

Training on Anti-corruption Policies and Procedures

Disclosure	Quantity	Units
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of directors and management that have received anti-corruption training	100	%
Percentage of employees that have received anti-corruption training	100	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Proper training across the organization would result to minimal or zero incidents of corruption thereby resulting to increased stakeholder trust and confidence. Lack of training and communication on the companies policies and procedures on	Employees Suppliers Investor Government	Paxys is committed to high standards of ethical, moral, and legal conduct. The Company has a formal Code of Business Conduct and Ethics in place which includes policies on bribery and anti-corruption. The

anti-corruption creates ambiguity, misaligned corporate values, and creates an opportunity for misguided and corrupt people to commit corrupt practices.		policy covers all employees of the Company and its subsidiaries regardless of rank, position, status, or classification. These policies and procedures are cascaded to all employees and stakeholders. Regular refresher is done through internal information campaigns and trainings. The policy is periodically reviewed and updated, as necessary. It is vital that internal controls are in place to prevent and deter corrupt business practices and such policies, controls and procedures are communicated across the organization and the stakeholders not only through trainings but across multiple platforms and methods.
What are the Risk/s Identified?		
Reputational Financial Compliance and Regulatory Risk		
What are the Opportunity/ies Identified?		
The Group already have formal trainings, policies and procedures against corrupt practices. Other than these, there are no new opportunities identified related to this.		

Incidents of Corruption

Disclosure	**Quantity**	**Units**
Number of incidents in which directors were removed or disciplined for corruption	0	#
Number of incidents in which employees were dismissed or disciplined for corruption	0	#
Number of incidents when contracts with business partners were terminated due to incidents of corruption	0	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Paxys puts high regard to the integrity of its people and has zero tolerance for corrupt practices regardless of amount and magnitude involved. Corrupt practices, when not prevented and detected, could pose serious financial losses to the Company, damage reputation and even lead to serious legal regulatory and compliance issues.	Employees Investor Officers Directors	The Company does not tolerate corruption in all forms and has existing several layer of internal control mechanisms to prevent, detect and monitor potential corrupt practices within the organization across all functional roles, business processes and transactions. The tone at the top serves at the core and backbone for preventing corrupt

Proper internal controls, policies and procedures in place would generally help prevent and deter corrupt practices. **What are the Risk/s Identified?** Reputational Financial Compliance and Regulatory Risk **What are the Opportunity/ies Identified?** The Group already have formal trainings, policies and procedures against corrupt practices. Other than these, there are no new opportunities identified related to anti-corruption.		practices. Policies and procedures were implement and communicated across the organization. The Audit and Risk Management Committee of the Company requires regular reporting of possible anomalies, corruption, and internal control breakdown or weaknesses. Directors, officers and employees are encouraged to report suspected anomalies, illegal acts, malpractice and violations in the organization's Code of Discipline, Code of Ethics and Conduct and other company rules and regulations without fear of retaliation, punishment or unfair treatment thru the Company's Whistleblowing mechanism. Other policies implemented to prevent and deter corrupt practices in the organization include conflict of interest policy, insider trading policy and related party transactions policy.

ENVIRONMENT

Resource Management

The Company can operate with minimal energy requirement for business operation. Primary use for energy pertain to electricity consumed for powering up the company's office lights, air-conditioning, and computers. Water consumption is mainly for drinking and for the personal use of employees. Gasoline and diesel consumption are immaterial and not monitored exhaustively as this pertain only to the requirement for few vehicles designated as company shuttle and for personal use of select company officers. Total expenses related to energy and water consumption is immaterial to the Group.

Energy consumption within the organization:

Disclosure	Quantity	Units
Energy consumption (renewable sources)	Immaterial	GJ
Energy consumption (gasoline)	Immaterial	GJ
Energy consumption (LPG)	Immaterial	GJ
Energy consumption (diesel)	Immaterial	GJ
Energy consumption (electricity)	542,864 (annual)	kWh

Reduction of energy consumption

Disclosure	Quantity	Units
Energy reduction (gasoline)	N/A	GJ
Energy reduction (LPG)	N/A	GJ
Energy reduction (diesel)	N/A	GJ
Energy reduction (electricity)	N/A	kWh
Energy reduction (gasoline)	N/A	GJ

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Implementing energy efficient measures can significantly reduce gas emissions that contribute to climate change. Energy efficiency also provides financial benefits i.e. reduced costs and expenses.	Employees Community	The Company has minimal energy requirement in the conduct of its operations. However, it still employs basic rules and procedures to ensure efficient energy consumption: - Office equipment and vehicles are regularly maintained to ensure they are functioning efficiently. Sleep settings of all equipment are activated to save energy when inactive. - The Company make the best use of natural daylight if possible. - Employees and building occupants are well-informed about the importance of energy management. - Employees are highly encouraged to take part in the resource management efforts of the Company in both workplace and their respective homes. For its part, the Company also invested in latest energy-saving lights and inverter aircondition systems for efficiency and cost saving measures.
What are the Risk/s Identified?		
Inefficient use of energy will drive up the cost and expenses of the Company and will adversely impact the environment.		
What are the Opportunity/ies Identified?		
New technology has introduced numbers of energy saving products that the Company can make use of to achieve its consumption targets.		

Water consumption within the organization

Disclosure	Quantity	Units
Water withdrawal	N/A	Cubic meters
Water consumption	3,726	Cubic meters
Water recycled and reused	N/A	Cubic meters

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Conserving water guards the Company against rising costs and future water shortage. Lower consumption helps the Company to lessen its utility costs.	Employees Community	The Company has minimal energy requirement in the conduct of its operations. Water consumption is mainly for drinking and for the personal use of employees. However, in support of the global call for water consumption, basic rules and procedures to ensure efficient water consumption are being implemented: - Pipes and faucets are regularly checked for any leaks and are repaired immediately. - Water is turned off when not in use. - Employees are well-informed about the importance of water management. - Employees are highly encouraged to take part in the resource management efforts of the Company in both workplace and their respective homes.
What are the Risk/s Identified?		
Inefficient use of water will drive up the utility expense of the Company and will adversely impact the environment.		
What are the Opportunity/ies Identified?		
New water saving technology can be utilized by the Company for a more efficient use of power and water resources.		

The following sustainability topics and sub-topics, including the risks and opportunities associated to it, are immaterial to the Group and were removed in the report:

- Materials used by the organization
- Ecosystems and biodiversity
- Environmental impact management
  - Air emissions
  - GHG
  - Air pollutants
- Solid and Hazardous Wastes
  - Solid waste
  - Hazardous waste
  - Effluents
- Environmental compliance
  - Non-compliance with Environmental laws and regulations

SOCIAL

Employee Management

Employee Hiring and Benefits

Employee data

Disclosure	Quantity	Units
Total number of employees[5]		
a. Number of female employees	46	#
b. Number of male employees	81	#
Attrition rate[6]	24%	rate
Ratio of lowest paid employee against minimum wage	1.48	ratio

Employee benefits

List of Benefits	Y/N	% of female employees who availed for the year	% of male employees who availed for the year
SSS (coverage)	Y	100%	100%
SSS Maternity	Y	8%	N/A
SSS Sickness	Y	10%	1%
SSS EC	Y	2%	0%
SSS Salary Loan	Y	28%	27%
PhilHealth (coverage)	Y	100%	100%
PhilHealth Hospitalization	Y	6%	2%
Pag-ibig (coverage)	Y	100%	100%
Pag-ibig Salary Loan	Y	48%	38%
Parental leaves	Y	0%	0%
Vacation leaves	Y	50%	38%
Sick leaves	Y	42%	33%
Medical benefits (aside from PhilHealth))	Y	100%	100%

[5] Employees are individuals who are in an employment relationship with the organization, according to national law or its application (GRI Standards 2016 Glossary)
[6] Attrition are = (no. of new hires – no. of turnover)/(average of total no. of employees of previous year and total no. of employees of current year)

List of Benefits	Y/N	% of female employees who availed for the year	% of male employees who availed for the year
Housing assistance (aside from Pag-ibig)	N	N/A	N/A
Retirement fund (aside from SSS)	N	N/A	N/A
Further education support	N	N/A	N/A
Company stock options	N	N/A	N/A
Telecommuting	Y	10%	10%
Flexible-working Hours	Y	10%	10%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
People are one of the company's major assets. Employees who are well-compensated are more productive, positive and engaged in the business, which leads to better operational performance resulting to better service, increased business value and stakeholder trust and confidence.	The Company implements a wholistic and integrated approach in managing its human resource. Guided by applicable best industry practices and relevant labor laws and regulations, Company policies and procedures are in place from recruitment, benefits, training and retention, up to separation to ensure well-being of employees. Paxys provides competitive compensation, remuneration and benefits to its employees. Performance incentives and rewards are given to top performing employees and various employee engagement activities are held to keep employees motivated at work. Performance evaluation system is designed and implemented to provide equitable basis of rewards and promotion. Employee satisfaction feedback mechanism is also in place to aid the Human Resource Department in understanding concerns and issues of the employees.
What are the Risk/s Identified?	
Employee compensation and benefit program is one of the factors that impacts the attrition or turnover in the BPO industry. Attractive employee benefits, while vital in recruitment, retention and productivity, is increasingly becoming costly year on year.	
What are the Opportunity/ies Identified?	
Social media and data analytics provides a platform to reach out to broader audience for leverage on recruitment, building employee engagement and communication, strategic real-time listening tools for business intelligence, and expanding learning opportunities among employees.	

Employee Training and Development

Disclosure	Quantity	Units
Total training hours provided to employees		
a. Female employees	2,536	hours
b. Male employees	8,693	hours
Average training hours provided to employees		
a. Female employees	51	hours/employee
b. Male employees	99	hours/employee

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Robust training programs help attract and retain employees which serves as talent pool for the Company's succession planning. Employees who are trained and developed for their functions are more productive, efficient and effective in the discharge of their duties adding more value to the business.	The Company is committed to providing continuous learning and development to its people at all levels from directors, officers, managers and down to the staff levels. A comprehensive in-house training was established across the organization with the aim of improving the skills of employees to equip them with the necessary training for the efficient and effective discharge of their functions. Various learning programs were designed and tailored to address the specific training and educational needs of employees across all levels and functions. When necessary, employees are sent to external trainings or further studies abroad to ensure that its workforce is up-to-date with the latest skills, knowledge and best industry practices in order to perform in the best way possible.
What are the Risk/s Identified?	
Highly-trained and competent employees are in-demand not only within the BPO industry, hence, the risk of attrition is prevalent. Training and development results to additional overhead cost to the Company. Lack of training in the workplace results to poor employee performance which may impact the business operations causing financial losses or even brand and reputational risks.	
What are the Opportunity/ies Identified?	
With technology advancement and availability of social media and internet, training and development need not to be expensive.	

Labor-Management Relations

Disclosure	Quantity	Units
% of employees covered with Collective Bargaining Agreements	0	%
Number of consultations conducted with employees concerning employee-related policies	0	#

<table>
<tr><th>What is the impact and where does it occur? What is the organization’s involvement in the impact?</th><th>Management Approach</th></tr>
<tr><td>The Group does not have an existing organized labor union and collective bargaining agreement.

However, through open communication between the employees and the management, labor issues are properly managed and issues are addressed and acted upon. These processes help ensure employees are valued and heard in the organization and fosters a positive culture and good working environment.</td><td rowspan="5">Even without the collective bargaining agreements and labor unions, Paxys takes care of the needs and employment-related issues of its employees. The Group also ensures fair treatment of employees and it adopts industry standard labor practices in all its business dealings.

The Group also maintains an open communication line across the organization. Business strategies plans, and policies are communicated across the business and Department or team sessions and huddles are regularly conducted from top management and down to the staff levels.

The Company also adheres to and complies with labor laws and the rules and regulations issued by the Department of Labor and Employment.</td></tr>
<tr><th>What are the Risk/s Identified?</th></tr>
<tr><td>Poor communication at work may lead to disagreements, employee dissatisfaction, stressful working environment and ultimately may result to disruption of business operations.</td></tr>
<tr><th>What are the Opportunity/ies Identified?</th></tr>
<tr><td>Instead of labor unions, the company takes advantage of close relationship of management and employees.</td></tr>
</table>

Diversity and Equal Opportunity

Disclosure	Quantity	Units
% of female workers in the workforce	36	%
% of male workers in the workforce	64	%
Number of employees from indigenous communities and/or vulnerable sector*	10	#

*Vulnerable sector includes, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E). [7]

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Equal opportunity and diversity in the workplace reduces conflicts even between the most different team members and unite them with a common purpose rather than divide them. It also brings a wide talent of pool for the company, wide range of ideas, innovation, increased employee confidence and engagement, and reduced employee turnover.	The Company gives equal opportunity for all, regardless of the gender, race, age, ethnicity, sexual orientation, religion and civil status. The Company ensures that all employees have equal opportunities to succeed, and it prevents individuals from being discriminated against or treated differently due to certain personality or physical characteristics. The Company also adheres and complies to labor laws and the rules and regulations issued by the Department of Labor and Employment.
What are the Risk/s Identified?	
Common challenges of diversified workplace include communication barriers, conflicting beliefs and generational differences.	
What are the Opportunity/ies Identified?	
Businesses need to keep abreast of changing employer-related laws and trends, especially diversity-related changes. Organizations should regularly review internal policies and make sure they reflect the most current laws and regulations.	

[7] The Company has no available data regarding the family financial status of each employee within the organization

Workplace Conditions, Labor Standards, and Human Rights

Occupational Health and Safety

Disclosure	**Quantity**	**Units**
Safe Man-Hours	No available data	Man-hours
No. of work-related injuries	0	#
No. of work-related fatalities	0	#
No. of work-related ill-health	0	#
No. of safety drills	2	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
A safe and healthy workplace protects the employees from injury and illness and reduce employee absences and turnover. It is important for all industries to promote protection and wellness of its human capital.	The Company ensure that the workplace condition is in compliance with the Occupancy Safety and Health Standards set by the Department of Labor and Employment (DOLE) at all times. Safety and emergency drills are periodically conducted to raise preparedness in case of actual emergency disaster. Established safety procedures are in place and safety officers are assigned. The company also conducts Health and Awareness program through the Human Resource Department to encourage healthier lifestyle amongst employees. The company also ensures that appropriate health insurance are provided to all employees.
What are the Risk/s Identified?	
Lack of safety precautions in the workplace may cause on-the-job injuries and accidents. While physical hazards and work-related injuries are not common within the BPO industry, there are lifestyle-related diseases associated with workers in the BPO industry.	
What are the Opportunity/ies Identified?	
While the rapid growth of the BPO industry has created significant employment opportunities, there are health and safety concerns linked to peculiar working conditions in the industry. There are calls within the BPO industries to come up with a more improved, holistic and integrated workplace-based approach to address the issues of stress, poor diet, physical inactivity, tobacco and alcohol use, HIV/AIDS and other communicable diseases for BPO workers.	

Labor Laws and Human Rights

Disclosure	Quantity	Units
No. of legal actions or employee grievances involving forced or child labor	0	#

Do you have policies that explicitly disallows violations of labor laws and human rights (e.g. harassment, bullying) in the workplace?

Topic	Y/N	If Yes, cite reference in the company policy
Forced labor	Y	The Company adopts and complies with the government mandated laws and policies concerning forced labor, child labor and human rights.
Child labor	Y	
Human Rights	Y	

<table>
<tr><th>What is the impact and where does it occur? What is the organization's involvement in the impact?</th><th>Management Approach</th></tr>
<tr><td>Respect for human rights is a fundamental business responsibility. Human rights and labor rights are inseparable, interrelated and mutually supportive.

Compliance and respect to the existing laws and regulations on labor and human rights promotes a good working environment resulting to higher stakeholder trust and confidence.</td><td rowspan="5">The Company adheres to the rules and regulations pertaining to labor laws and human rights.

The Company does not hire and does not permit any irregularities such as forced labor and child labor within the organization. The HR Department has established qualifications for potential applicants in the Company. Strict pre-employment checks and reviews to ensure all company requirements are met prior to employment contract signing.

The Company's Code of Conduct (COC) ensures that there is order and discipline among the employees in the organization. These are established set of company policies and procedures to ensure labor and human rights of employees are protected, including specific provisions for harassment bullying.

There is also a grievance mechanism in place and violators are seriously dealt with accordingly.</td></tr>
<tr><th>What are the Risk/s Identified?</th></tr>
<tr><td>Failure to identify and respond to labor and human rights issues may lead to costly legal actions, negative publicity, reputational risk, and financial losses.</td></tr>
<tr><th>What are the Opportunity/ies Identified?</th></tr>
<tr><td>Industry specific frameworks and rules would strengthen the government's efforts in protecting labor and human rights.</td></tr>
</table>

Supply Chain Management

The Company have an existing vendor or supplier management policy but is currently focused mainly on vendor selection and accreditation, performance evaluation, and accreditation discontinuation.

Although there are no specific provisions in the policy related to sustainability topics, the Company has other existing policies which encompasses the issues on labor rights and human rights, bribery and corruption.

<table>
<tr><th>What is the impact and where does it occur? What is the organization's involvement in the impact?</th><th>Management Approach</th></tr>
<tr><td>Socially responsible product and services are not only good for the environment but builds positive brand awareness, minimized environmental impact and brings long-term profitability.

Paxys ensures that it only deals with suppliers who are compliant to the laws and regulations.</td><td rowspan="5">The Company's vendor management policies and procedures ensures that the Company only deals with reputable suppliers and reduces the risk.

The Company supports responsible sourcing and values suppliers and vendors with green operations having the least carbon footprint and compliant with the industry best standards for worker safety, environmental protection and business ethics.</td></tr>
<tr><th>What are the Risk/s Identified?</th></tr>
<tr><td>Potential investor divestment, negative publicity, reputational risks, and financial losses.</td></tr>
<tr><th>What are the Opportunity/ies Identified?</th></tr>
<tr><td>The Company would consider the inclusion of sustainability topics in the vendor management policies.</td></tr>
</table>

Relationship with Community

Significant Impacts on Local Communities

Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations)	Location	Vulnerable groups (if applicable)*	Does the particular operation have impacts on indigenous people (Y/N)?	Collective or individual rights that have been identified that or particular concern for the community	Mitigating measures (if negative) or enhancement measures (if positive)
Provides opportunity for livelihood, employment and jobs to the residents where	Laguna and Muntinlupa areas	Solo-parents, PWDs, elderlies	Y	Equal opportunity Gender equality Diversity in the workplace	These were exhaustively discussed in the Management Approach in all topics

the company operates. Though taxes paid to the local government, the Company promotes economic growth in the areas of operations.					

**Vulnerable sector includes children and youth, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E)*

For operations that are affecting IPs, indicate the total number of Free and Prior Informed Consent (FPIC) undergoing consultations and Certification Preconditions (CPs) secured and still operational and provide a copy or link to the certificates if available: _____________

Certificates	Quantity	Units
FPIC process is still undergoing	Not applicable	#
CP secured	Not applicable	#

What are the Risk/s Identified?	Management Approach
Stringent rules and regulations in the local government may turn-off potential investors. Some business tasks require highly specialized skills.	Through its business operations, the Company provides employment opportunities within the community where it operates to diverse individuals and regardless of the gender, race, age, ethnicity, sexual orientation, religion and civil status. The Company likewise welcomes and does not discriminate indigenous people, persons with disabilities and other workers from the most vulnerable sectors provided they have the basic skill necessary to perform the job. The Company ensures that all employees have equal opportunities to succeed, and it prevents individuals from being discriminated against or treated differently due to certain personality or physical characteristics.
What are the Opportunity/ies Identified?	
Information and awareness campaign to encourage vulnerable groups to continue to become more productive members of the society. Local community partnerships also provides the company a continuing talent pool for its human resource requirements.	

Customer Management

Customer Satisfaction

Disclosure	Score	Did a third party conduct the customer satisfaction study (Y/N)?
Customer satisfaction	Not qualitatively assessed	N

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Customer satisfaction score provides information to the Company on what needs to be improved or changed on way the services are delivered.	The Company's customers and clients have established process and feedback system for the Company. Tied up through KPIs and risks and rewards systems with the client. The Client provides rewards for satisfactory performance of the Company. No third-party was hired as this feedback system is already embedded in the Operations and Client agreement.
What are the Risk/s Identified?	
Lack of knowledge about customers' interests and preferences may lead to dissatisfaction which could negatively impact the revenue of the Company.	
What are the Opportunity/ies Identified?	
There are numbers of economical and efficient ways to measure customer satisfaction. Score helps the Company to identify areas for improvement and resolve issues on a timely manner.	

Health and Safety

Disclosure	Quantity	Units
No. of substantiated complaints on product or service health and safety*	Not applicable	#
No. of complaints addressed	Not applicable	#

**Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Not applicable	The services offered by the Company is primarily rendered through electronic systems.
What are the Risk/s Identified?	
Not applicable	

What are the Opportunity/ies Identified?	While health and safety of customers are of utmost importance to the Company, this is not applicable under current business operations.
Not applicable	

Marketing and labelling

Disclosure	Quantity	Units
No. of substantiated complaints on marketing and labelling*	Not applicable	#
No. of complaints addressed	Not applicable	#

*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Not applicable	The services offered by the Company is primarily rendered through electronic systems using proprietary systems and digitally secured internet connectivity. Marketing and labelling, including the related risks and opportunities, are not applicable under current business operations.
What are the Risk/s Identified?	
Not applicable	
What are the Opportunity/ies Identified?	
Not applicable	

Customer privacy

Disclosure	Quantity	Units
No. of substantiated complaints on customer privacy*	0	#
No. of complaints addressed	N/A	#
No. of customers, users and account holders whose information is used for secondary purposes	0	#

**Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Management Approach**
Unauthorized use of customer data which may lead to damages and other contractual penalties e.g. termination of contract. Proper handling of customer data would result to increased trust and confidence, better business	Customer privacy and data security is an important part of the business strategy of the Group. The operations of the business includes processing by way of conversion or transcription of third-party data, assisted by computer-enabled

value, higher profits and long-term business success. **What are the Risk/s Identified?** Leak of customer data to unauthorized party may lead to stakeholder loss of trust and confidence, legal cases, and financial losses. **What are the Opportunity/ies Identified?** Technology offers various ways to secure information like data/database encryption to improve data security measures	software, which may or may not contain sensitive information. The company is bound by strict contractual obligation to secure customer data and information. Specific physical and data security control mechanism were in place to ensure compliance with the required contractual obligation for data privacy and security as well as with the related and applicable laws and regulations within the country and the domicile country of the customers. The Company takes data privacy and security seriously. The Executive Committee of the Board have designated a Corporate Information Officer, Chief Compliance Officer, Chief Risk Officer, and Data Privacy Officer to ensure that policies and procedures are in place and cascaded down up to the operations level. The Company's policies and procedures are in compliance with the government's Data Privacy laws and regulations.

Data Security

Disclosure	Quantity	Units
No. of data breaches, including leaks, thefts and losses of data	0	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
All companies must protect its data and prevent improper use of confidential information about the Company. Listed companies must ensure that no material information shall be divulged to third party, unless data has been disclosed to the Philippine Stock Exchange and to the Security and Exchange Commission, with consent from data subject. **What are the Risk/s Identified?** Breach of sensitive data may lead to reputational risk, costly legal suits, financial losses and overall stakeholder loss of trust and confidence.	Customer privacy and data security are important parts of the business strategy of the Group. The operations of the business includes processing by way of conversion or transcription of third-party data, assisted by computer-enabled software, which may or may not contain sensitive information. The Company takes data privacy and security seriously. The Executive Committee of the Board have designated a Corporate Information Officer, Chief Compliance Officer and Chief Risk Officer, and Data Privacy Officer to ensure that policies and procedures are in place and cascaded down up to the operations level. The company is bound by strict contractual obligation to secure costumer data and information. Specific physical

What are the Opportunity/ies Identified? Technology offers various ways to secure information like data/database encryption to improve data security measures.	and data security control mechanism were in place to ensure compliance with the required contractual obligation for data privacy and security as well as with the related and applicable laws and regulations within the country and the domicile country of the customers. The Company implements the best practices in data security and privacy which include: - Overall IT governance which provides the policies, procedures and guidelines related to data privacy and security, including defined roles and responsibilities not only for the officers but across all employees in the organization - Specific data security policies and procedures - Physical security and deployment of technology for access restriction like biometrics and RFIDs on site operations - Physical and digital restriction of computers - Data encryption and data management and back-up - Network segmentation, firewalls, and installation of anti-virus software, restrictions for mobile devices and internet sites - Information security campaign

UN SUSTAINABLE DEVELOPMENT GOALS

Product or Service Contribution to UN SDGs

Key products and services and its contribution to sustainable development.

Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
Data conversion/transcription services e.g. voice to text services	The Company supports the UN values through its corporate values and business operations. <u>Industry Innovation</u> Through the use of technology, data conversion services provide increased access to information and promotes innovation in conversational artificial intelligence. <u>No poverty, Decent work and economic growth</u>	There are no known negative impact of these contributions.	

	Company has created employment opportunities in the Philippines through its operations. Gender equality and diversity	

* None/Not Applicable is not an acceptable answer. For holding companies, the services and products of its subsidiaries may be disclosed.