

**SECURITIES AND EXCHANGE COMMISSION**  
**SEC FORM 20-IS**

**INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b)**  
**OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

Preliminary Information Statement

Definitive Information Statement

2. Name of Registrant as specified in its charter

STI Education Systems Holdings, Inc.

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

Metro Manila, Philippines

4. SEC Identification Number

1746

5. BIR Tax Identification Code

000-126-856

6. Address of principal office

7th Floor, STI Holdings Center, 6764 Ayala Avenue, Makati City

Postal Code

1226

7. Registrant's telephone number, including area code

(632)844-9553

8. Date, time and place of the meeting of security holders

26 October 2018, 3:00 p.m. at 7th Floor Lobby, STI Holdings Center, 6764 Ayala Avenue, Makati City

9. Approximate date on which the Information Statement is first to be sent or given to security holders

Sep 26, 2018

10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor

N/A

Address and Telephone No.

N/A

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	9,904,806,924

13. Are any or all of registrant's securities listed on a Stock Exchange?

Yes No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange/Common Shares

*The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.*



## STI Education Systems Holdings, Inc. STI

### PSE Disclosure Form 17-5 - Information Statement for Annual or Special Stockholders' Meeting *References: SRC Rule 20 and Section 17.10 of the Revised Disclosure Rules*

<b>Date of Stockholders' Meeting</b>	Oct 26, 2018
<b>Type (Annual or Special)</b>	Annual
<b>Time</b>	3:00 p.m.
<b>Venue</b>	7th Floor Lobby, STI Holdings Center, 6764 Ayala Avenue, Makati City
<b>Record Date</b>	Sep 26, 2018

#### Inclusive Dates of Closing of Stock Transfer Books

<b>Start Date</b>	N/A
<b>End date</b>	N/A

#### Other Relevant Information

Please see attached.

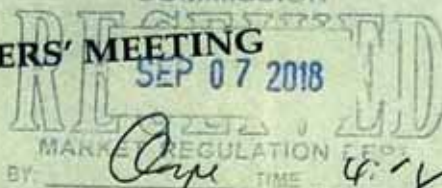
#### Filed on behalf by:

<b>Name</b>	Arsenio Cabrera, Jr.
<b>Designation</b>	Corporate Secretary





**NOTICE OF ANNUAL STOCKHOLDERS' MEETING**



**TO ALL STOCKHOLDERS:**

Please be informed that the Annual Stockholders' Meeting of **STI Education Systems Holdings, Inc.** ("STI ESH"), shall be held on 26 October at 3:00 p.m. at 7<sup>th</sup> Floor Lobby, STI Holdings Center, 6764 Ayala Avenue, Makati City, for the following purposes:

1. Call to Order
2. Certificate of Notice and Quorum
3. Approval of the Minutes of the 29 September 2017 Annual Stockholders' Meeting
4. Management Report
5. Approval of Audited Financial Statements as of 31 March 2018
6. Ratification of all legal acts, resolutions and proceedings of the Board of Directors and of Management, done in the ordinary course of business from 29 September 2017 up to 26 October 2018
7. Election of Directors
8. Appointment of External Auditor
9. Adjournment

The Board of Directors of STI ESH has fixed the **RECORD DATE** for stockholders entitled to vote at this annual meeting on 26 September 2018.

Stockholders who will not be able to attend this meeting may designate their respective proxies and send the proxy forms to the Office of the Corporate Secretary not later than 15 October 2018.

Registration starts at 1:00 p.m. on the date of the scheduled meeting. For your convenience in registering your attendance, please have some form of identification, such as your Professional I.D., Passport or Driver's license.

Very truly yours,

**ARSENIO C. CABRERA, JR.**  
Corporate Secretary



**AGENDA OF 2018 ANNUAL STOCKHOLDERS' MEETING**

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the 29 September 2017 Annual Stockholders' Meeting
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5. Approval of Audited Financial Statements as of 31 March 2018
6. Ratification of all legal acts, resolutions and proceedings of the Board of Directors and of Management, done in the ordinary course of business from 29 September 2017 up to 26 October 2018
7. Election of Directors
8. Appointment of External Auditors
9. Adjournment

SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 20-IS  
INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE

SECURITIES AND EXCHANGE  
COMMISSION

SEP 07 2018

1. Check the appropriate box:

- Preliminary Information Statement  
 Definitive Information Statement

2. Name of Registrant as specified in its charter STI Education Systems Holdings, Inc.

3. Metro Manila, Philippines

Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number 1746

5. BIR Tax Identification Code 000-126-853

6. 7<sup>th</sup> Floor, STI Holdings Center, 6764 Ayala Avenue, Makati City 1226

Address of principal office

Postal Code

7. Registrant's telephone number, including area code (632) 844-9553

8. 26 October 2018, 3:00 p.m. at 7/F Lobby, STI Holdings Center, 6764 Ayala Avenue, Makati City

Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders 26 September 2018

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class

Number of Shares of Common Stock  
Outstanding or Amount of Debt Outstanding

Common Stock 9,904,806,924

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes  No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Philippine Stock Exchange/Common Shares

## PART I

### INFORMATION REQUIRED IN INFORMATION STATEMENT

#### A. GENERAL INFORMATION

##### Item 1. Date, time and place of meeting of security holders

Date of Meeting	:	26 October 2018
Time of Meeting	:	3:00 p.m.
Place of Meeting	:	7/F Lobby, STI Holdings Center 6764 Ayala Avenue, Makati City
Registrant's Mailing Address	:	7/F STI Holdings Center 6764 Ayala Avenue, Makati City
Approximate Date on Which the Information Statement is First Sent Or Given to Security Holders	:	26 September 2018

##### Item 2. Dissenters' Right of Appraisal

There are no corporate matters or action that will entitle a stockholder to exercise a Right of Appraisal as provided in Title X of the Corporation Code.

However, any Stockholder of the Company shall have the right to dissent and demand payment of the fair value of his shares in the following instances, as provided by the Corporation Code:

- (1) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening the term of corporate existence (Section 81);
- (2) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets (Section. 81)
- (3) In case of merger or consolidation (Section 81); and
- (4) In case of investments in another corporation, business or purpose (Section 42).

The appraisal right may be exercised by a dissenting stockholder who shall have voted against the proposed corporate action in the manner provided below:

- (1) The dissenting stockholder shall make a written demand on the corporation for payment of the fair value of his shares within 30 days after the date on which the vote was taken. The failure of the stockholder to make the demand within the 30-day period shall be deemed a waiver of his appraisal right;
- (2) If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of the corresponding certificate(s) of stock within 10 days after demanding payment for his shares, the fair value thereof, provided the Company has unrestricted retained earnings; and

- (3) Upon payment of the agreed or awarded price, the stockholder shall transfer his shares to the corporation.

**Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

- (1) No director or officer of the Company since the beginning of the last fiscal year, nominee for election as director, or associate of the foregoing persons, have any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than election to office.
- (2) No director of the Company has informed it in writing that he/she intends to oppose any action to be taken by the Company at the meeting.

**Market Price and Dividends of Registrant's Common Equity and Related Stockholder Matters**

(1) Market Information

The Company's common stock is traded on the PSE under the stock symbol "STI". As of the date of this Definitive Information Statement, the Company has 9,904,806,924 shares outstanding.

As of 4 September 2018, the high share price of the Company was ₱0.86 and the low share price was ₱0.82.

The Company's public float as of 31 July 2018 is 3,533,558,942 shares equivalent to 35.68% of the total issued and outstanding shares of the Company.

The following table sets forth the Company's high and low intra-day sales prices per share for the past two years and the first and second quarters of 2018:

	High	Low
<b>2018</b>		
Second Quarter	1.55	1.11
First Quarter	1.65	1.30
<b>2017</b>		
Fourth Quarter	1.93	1.49
Third Quarter	1.69	1.19
Second Quarter	1.57	1.02
First Quarter	1.23	0.95
<b>2016</b>		
Fourth Quarter	1.02	0.65
Third Quarter	0.68	0.57
Second Quarter	0.72	0.56
First Quarter	0.59	0.36

(2) Holders

As of 31 August 2018, there were 1,259 shareholders of the Company's outstanding capital stock. The Company has common shares only.

The following table sets forth the top 20 shareholders of the Company's common stock, the number of shares held, and the percentage of total shares outstanding held by each as of 31 August 2018.



NAME OF STOCKHOLDER	NUMBER OF SHARES	PERCENTAGE OF OWNERSHIP
PCD NOMINEE CORP (FILIPINO)	2,398,936,147 <sup>1</sup>	24.220%
PCD NOMINEE CORP (NON-FILIPINO)	1,982,322,604	20.014%
PRUDENT RESOURCES, INC.	1,614,264,964	16.298%
TANCO, EUSEBIO H.	1,253,666,793	12.657%
BIOLIM HOLDINGS AND MANAGEMENT CORP. (FORMERLY: RESCOM DEVELOPERS, INC.)	794,343,934	8.020%
EUJO PHILIPPINES, INC.	763,873,130	7.712%
TANTIVY HOLDINGS, INC. (FORMERLY: INSURANCE BUILDERS, INC.)	626,776,992	6.328%
STI EDUCATION SERVICES GROUP, INC.	397,908,895	4.017%
MANILA BAY SPINNING MILLS, INC.	47,583,562	0.480%
TANCO, ROSIE L.	13,000,000	0.131%
VITAL VENTURES MANAGEMENT CORPORATION	2,800,000	0.028%
YU, JUAN G. YU OR JOHN PETER C.	1,300,000	0.013%
CASA CATALINA CORPORATION	1,000,000	0.010%
HTG TECHNOLOGIES, INC.	1,000,000	0.010%
EDAN CORPORATION	861,350	0.000%
YU, JUAN G. YU OR JOHN PHILIP	600,000	0.006%
LERIO CABALLERO CASTIGADOR AND/OR VICTORINA P. CASTIGADOR	399,000	0.004%
LELEN VALDERRAMA ITF YASMIN AYN VALDERRAMA	300,000	0.003%
LELEN VALDERRAMA ITF YADIN AYN VALDERRAMA	300,000	0.003%
LELEN VALDERRAMA ITF GERENT ARN VALDERRAMA	300,000	0.003%

### (3) Cash Dividends

On 5 November 2015, cash dividends amounting to ₱0.02 per share were paid to stockholders of record as of 12 October 2015.

On 10 November 2016, cash dividends amounting to ₱0.02 per share were paid to stockholders of record as of 14 October 2016.

On 13 November 2017, cash dividends amounting to P0.02 per share were paid to stockholders of record as of 16 October 2017.

In the meeting of the Board of Directors of the Company held on 15 February 2018, the Board adopted a revised policy on the declaration of dividends starting with Fiscal Year 2017-2018 in order to (1) clarify the dividend declaration policy of not less than 25% of the Company's core net income from the previous fiscal year; and (2) provide the definition of the core net income of the Company.

The Board approved a dividend declaration policy of not less than 25% of the core net income of the Company from the previous fiscal year, subject to compliance with the requirements of applicable laws and regulations, statutory limitations and/or restrictions, terms and conditions which may be imposed on the Company by lenders or other financial institutions, and the Company's investment plans and financial condition.

<sup>1</sup> Eusebio H. Tanco is the beneficial owner of 213,351,082 shares. Prudent Resources, Inc. is the beneficial owner of 5,335,000 shares. Biolim Holdings and Management Corp. (Formerly: Rescom Developers, Inc.) is the beneficial owner of 1,005,000 shares. Eujo Philippines, Inc. is the beneficial owner of 16,160,000 shares. STI Education Services Group, Inc. is the beneficial owner of 102,524,000 shares. Tantivy Holdings, Inc. (Formerly: Insurance Builders, Inc.) is the beneficial owner of 3,000,000 shares.

Core net income is defined as consolidated net income after income tax derived from the Company's main business-education and other recurring income.

The amount of dividends will be reviewed periodically by the Board in light of the Company's earnings, financial conditions, cash flows, capital requirements and other considerations, while maintaining a level of capitalization that is commercially sound and sufficient to ensure that the Company can operate on a standalone basis.

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

- The level of the Company's earnings, cash flow, return on equity and retained earnings;
- Its results for and its financial condition at the end of the year in respect of which the dividend is to be paid and its expected financial performance;
- The projected levels of capital expenditures and other investment programs;
- Restrictions on payments of dividends that may be imposed on it by any of its financing arrangements and current or prospective debt service requirements; and
- Such other factors as the Board deems appropriate.

(4) Recent Sales of Unregistered or Exempt Securities

There has been no sale of unregistered or exempt securities for the past three (3) years.

**B. CONTROL AND COMPENSATION INFORMATION**

**Item 4. Voting Securities and Principal Holders Thereof**

(1) Voting securities entitled to be voted at the meeting as of 6 September 2018

Title of Each Class	Number of Shares Outstanding	Number of Votes
Common Stock	9,904,806,924	One (1) vote per share

(2) Record date

Only stockholders of record on the books of the Company at the close of business on 26 September 2018 will be entitled to vote at the Annual Meeting.

(3) Election of directors and voting rights (Cumulative Voting)

In the election of the directors, each stockholder may vote the shares registered in his name in person or by proxy for as many persons as there are directors, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided that the total number of

votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of directors to be elected.

(4) Security Ownership of Certain Record/Beneficial Owners and Management

(a) Security Ownership of Certain Record/Beneficial Owners as of 31 August 2018

As of 31 August 2018, the following stockholders are the only owners of more than 5% of the Company's voting capital stock, whether directly or indirectly, as record owner or beneficial owner.

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record owner	Citizenship	No. of Shares Held	Percent
Common	PCD Nominee Corporation 37/F Tower I, Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City		Filipino	2,398,936,147 <sup>2</sup>	24.220%
Common	PCD Nominee 37/F Tower I, Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City		Non-Filipino	1,982,322,604 <sup>3</sup>	20.14%
Common	Prudent Resources, Inc. 7/F STI Holdings Center, 6764 Ayala Avenue, Makati City	Mr. Eusebio H. Tanco, the Chairman and President of Prudent Resources, Inc. is authorized to vote its shares in the Company.	Filipino (Direct)  (Indirect- thru PCD Filipino)  Total	1,614,264,964  5,335,000 ----- 1,619,599,964 =====	16.30%  .05% ----- 16.35% =====
Common	Mr. Eusebio H. Tanco (Chairman of the Board) (Direct and Indirect shares through PCD Nominee Corporation) 543 Fordham Street, Wack-Wack Village, Mandaluyong City	Mr. Eusebio H. Tanco	Filipino (Direct)  (Indirect- thru PCD Filipino)  Total	1,253,666,793  213,351,082 ----- 1,467,017,875 =====	12.66%  2.15% ----- 14.81% =====

<sup>2</sup> Eusebio H. Tanco is the beneficial owner of 213,531,082 shares. Prudent Resources, Inc. is the beneficial owner of 5,335,000 shares. Eujo Philippines, Inc. is the beneficial owner of 16,160,000 shares. STI Education Services Group, Inc. is the beneficial owner of 102,524,000 shares. Tantivy Holdings, Inc. (Formerly, Insurance Builders, Inc.) is the beneficial owner of 3,000,000 shares. Biolim Holdings and Management Corp. (formerly Rescom Developers, Inc.) is the beneficial owner of 1,005,000 shares.

<sup>3</sup> Dunross Investment Ltd is the beneficial owner of 528,522,000 shares or 5.34%. Contact Person is Mr. Anders Matson; Address: 17, Neofytou Nikolaidi Ave. & Kilkis Ave. S.P. Business Center, 3<sup>rd</sup> Floor, Office 307, Paphos, Cyprus

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record owner	Citizenship	No. of Shares Held	Percent
Common	Biolim Holdings and Management Corp. (formerly Rescom Developers, Inc.) 7/F STI Holdings Center, 6764 Ayala Avenue, Makati City	Mr. Eusebio H. Tanco, the President of Biolim Holdings and Management Corp. (formerly Rescom Developers, Inc.) is authorized to vote its shares in the Company.	Filipino (Direct)	794,343,934	8.02%
			(Indirect- thru PCD Filipino)	1,005,000	.01%
				795,348,934	8.03%
			Total	=====	=====
Common	Eujo Philippines, Inc. (Direct and Indirect shares through PCD Nominee Corporation) 7/F STI Holdings Center, 6764 Ayala Avenue, Makati City	Mr. Eusebio H. Tanco, the President of Eujo Philippines, Inc. is authorized to vote its shares in the Company.	Filipino (Direct)	763,873,130	7.71%
			(Indirect- thru PCD Filipino)	16,160,000	0.16%
				780,033,130	7.87%
			Total	=====	=====
Common	Tantivy Holdings, Inc. (Formerly, Insurance Builders, Inc.) (Direct and Indirect shares through PCD Nominee Corporation) 7/F STI Holdings Center, 6764 Ayala Avenue, Makati City	Mr. Eusebio H. Tanco, the President of Tantivy Holdings, Inc. (Formerly, Insurance Builders, Inc.) is authorized to vote its shares in the Company.	Filipino (Direct)	626,776,992	6.33%
			(Indirect- thru PCD Filipino)	3,000,000	0.03%
				629,776,992	6.36%
			Total	=====	=====
Common	STI Education Services Group, Inc. STI Academic Center Ortigas-Cainta, Ortigas Avenue Extension, Cainta, 1900 Rizal	Mr. Monico V. Jacob, the President of STI, is authorized to vote the shares of STI ESG in the Company	Filipino (Direct)	397,908,895	4.02%
			(Indirect- thru PCD Filipino)	102,524,000	1.03%
				500,432,895	5.05%
			Total	=====	=====

Note: PCD Nominee Corporation is a wholly-owned subsidiary of the Philippine Central Depository, Inc. (PCD), and is the registered owner of the shares in the records of the Company's transfer agent. The participants of the PCD (with respect to securities in the principal accounts) or the clients of such participants (with respect to securities in the participants' client accounts) are, as far as the PCD and PCD Nominee Corporation are concerned, the presumed beneficial owners of such lodged shares. PCD Nominee Corporation merely holds legal title (and not beneficial title) to the Company's lodged shares to facilitate the book-entry trading and settlement of the Company's shares. Except as disclosed above, no natural person or juridical entity whose shares are lodged in the name of PCD Nominee Corporation is known to the Company to be directly or indirectly the record or beneficial owner of more than five percent (5%) of the Company's voting securities.

(b) Security Ownership of Management as of 31 August 2018

The following table sets forth as of 31 August 2018, the beneficial ownership of each director and executive officer of the Company:

Title of Class	Name of Beneficial Owner	Amount & Nature of Beneficial Ownership		Citizenship	Percent of Class
Common	Eusebio H. Tanco (Director and Chairman of the Board)	1,253,666,793	Direct	Filipino	12.66%
		213,351,082	Indirect – thru PCD		2.15%
		1,467,017,875			
		=====	Total		=====
Common	Monico V. Jacob (Director, President and CEO)	1	Direct	Filipino	0.00%
		33,784,056	Indirect – thru PCD		0.34%
		33,784,057			
		=====	Total		=====

Title of Class	Name of Beneficial Owner	Amount & Nature of Beneficial Ownership		Citizenship	Percent of Class
Common	Yolanda M. Bautista (Treasurer & Chief Finance Officer)	1 5,000,000 ----- 5,000,001 =====	Direct Indirect – thru PCD  Total	Filipino	0.00% 0.05% ----- 0.05% =====
Common	Arsenio C. Cabrera, Jr. (Corporate Secretary)	6,500,000	Indirect – thru PCD	Filipino	0.07%
Common	Joseph Augustin L. Tanco (Director and VP for Investor Relations)	1 2,000,000 ----- 2,000,001 =====	Direct Indirect – thru PCD  Total	Filipino	0.00% 0.02% ----- 0.02% =====
Common	Paolo Martin Bautista (Director and Chief Investment Officer and Head of Corporate Strategy)	3,250,000	Indirect – thru PCD	Filipino	0.03%
Common	Ma. Vanessa Rose L. Tanco (Director)	1 558,000 ----- 558,001 =====	Direct Indirect – thru PCD	Filipino	0.00% 0.01% ----- 0.01% =====
Common	Martin K. Tanco (Director)	53,119,000	Indirect – thru PCD	Filipino	0.54%
Common	Rainerio M. Borja (Director)	1,000,000	Indirect – thru PCD	Filipino	0.01%
Common	Teodoro L. Locsin, Jr. (Director)	1,000	Direct	Filipino	0.00%
Common	Jesli A. Lapus (Independent Director)	6,500,000	Indirect – thru PCD	Filipino	0.07%
Common	Robert G. Vergara (Independent Director)	1,000	Direct	Filipino	0.00%
Common	Franchini Vina Z. Cordova	65,000	Direct	Filipino	0.00%
Common	Directors and Officers as a Group	1,578,295,935	Direct and Indirect	Filipino	15.94%

(c) Voting Trust Holders of 5% Or More

As of 6 September 2018, no person holds at least 5% or more of a class under a voting trust or similar agreement.

(d) Changes in Control

There has been no change of control in the Company since 1 April 2014.

**Item 5. Directors and Executive Officers**

(1) Certain Relationships and Related Transactions

(a) Directors and Executive Officers

The Company's Articles of Incorporation provides for eleven (11) members of the Board.

The term of office of the directors of the Company is one (1) year and they are to serve as such until the election and qualification of their successors.

The following are the incumbent members of the Board of Directors:

- (1) Eusebio H. Tanco
- (2) Monico V. Jacob
- (3) Joseph Augustin L. Tanco
- (4) Ma. Vanessa Rose L. Tanco
- (5) Martin K. Tanco
- (6) Rainerio M. Borja
- (7) Paolo Martin O. Bautista
- (8) Teodoro L. Locsin, Jr.
- (9) Jesli A. Lapus
- (10) Robert G. Vergara

All of the foregoing incumbent directors have been nominated to the Board for the ensuing year. Messrs. Robert G. Vergara and Jesli A. Lapus as well as Justice Presbitero J. Velasco, Jr. have been nominated as independent directors by Eximious Holdings, Inc. (formerly Capital Managers & Advisors, Inc.) ("EHI"), a stockholder of the Company. EHI has no business or professional relationship with Messrs. Vergara and Lapus and with Justice Velasco.

Pursuant to Rule 38 of the Securities Regulation Code and Article IV of the Company's By-Laws, the nomination of all of the members of the Company's Board of Directors, including independent directors, shall be conducted by the Corporate Governance Committee prior to the annual stockholders' meeting in accordance with the following procedure:

- (1) All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity of the would-be nominees and shall be submitted to the Corporate Governance Committee and the Corporate Secretary.
- (2) The Corporate Governance Committee shall pre-screen the qualifications and prepare a Final List of all Candidates.
- (3) After the nomination, the Corporate Governance Committee shall prepare a Final List of Candidates to be submitted to the Board of Directors, which shall contain all the information regarding the background and experience of the nominees required to be ascertained and made known under the Securities Regulation Code and relevant rules and regulations.
- (4) Said Final List of Candidates shall be disclosed in the reports required by law, rules and regulations to be submitted to the Securities Exchange Commission, Philippine Stock Exchange and all stockholders.
- (5) Only nominees whose names appear on the Final List of Candidates shall be eligible for election as directors. No other nominations shall be entertained after the Final List of Candidates shall have been prepared.

The Chairman of the Corporate Governance Committee is Mr. Jesli A. Lapus. Mr. Robert G. Vergara and Atty. Arsenio C. Cabrera are members of the Corporate Governance Committee.

The following are the Final List of Candidates for directors as determined by the Company's Nomination Committee:

Candidate for Nomination as Director	Nominating Stockholder	Relationship	Citizenship
Eusebio H. Tanco	Eximious Holdings, Inc. ("EHI")	Chairman	Filipino
Monico V. Jacob	EHI	President	Filipino
Joseph Augustin L. Tanco	EHI	Director	Filipino
Ma. Vanessa Rose L. Tanco	EHI	N/A	Filipino
Martin K. Tanco	EHI	N/A	Filipino
Rainerio M. Borja	EHI	N/A	Filipino
Paolo Martin O. Bautista	EHI	N/A	Filipino
Teodoro L. Locsin, Jr.	EHI	N/A	Indian
Jesli A. Lapus	EHI	N/A	Filipino
Robert G. Vergara	EHI	N/A	Filipino
Justice Presbitero J. Velasco, Jr.	EHI	N/A	Filipino

Summary of Term of Office of Directors:

- (1) Eusebio H. Tanco – director since 17 March 2010 up to the present;
- (2) Monico V. Jacob – director since 17 March 2010 up to the present
- (3) Joseph Augustin L. Tanco – director since 27 October 2010 up to the present
- (4) Ma. Vanessa Rose L. Tanco – director since 27 October 2010 up to the present
- (5) Martin K. Tanco – director since 19 December 2012 up to the present
- (6) Rainerio M. Borja – director since 19 December 2012 up to the present
- (7) Paolo Martin O. Bautista – director since 19 December 2012 up to the present
- (8) Teodoro L. Locsin, Jr. – director since 2 February 2015 up to the present
- (9) Jesli A. Lapus –Independent director from 4 October 2013 up to the present
- (10) Robert G. Vergara – independent director since 27 July 2017 up to the present
- (11) Presbitero J. Velasco, Jr. – to be nominated for election as an independent director during the 26 October 2018 Annual Stockholders' Meeting

The corresponding ages, citizenships, business experiences and directorships held for the past five (5) years of the incumbent directors who have been nominated to the Board for the ensuing year are set forth below:

**Eusebio H. Tanco, 68, Filipino, Chairman of the Board, Executive Director**

Mr. Tanco has been Chairman of STI Holdings since 17 March 2010. He is also the Chairman of the Executive Committee of STI Holdings.

Mr. Tanco is Chairman of the Board and President of Prudent Resources, Inc., and Prime Power Holdings Corporation. He is the Chairman of the Executive Committee and Director of STI ESG and the Chairman of Mactan Electric Company, Philippines First Insurance Co. Inc., Venture Securities Inc., International Hardwood & Veneer Corp, GROW Vite, Inc., Delos Santos-STI College, STI West Negros University, and Eximious Holdings, Inc. (formerly, Capital Managers and Advisors, Inc.) He is Vice-Chairman and President of Asian Terminals, Inc.

Mr. Tanco is President of Total Consolidated Asset Management, Inc., Eujo Phils, Inc., Cement Center Inc., First Optima Realty Corp, Biolim Holdings and Management Corp (formerly Rescom Developers

Inc.), Tantivy Holdings, Inc. (formerly, Insurance Builders, Inc.), Bloom with Looms Logistics, Inc. (formerly STMI Logistics, Inc.), Marbay Homes Inc., Global Resource for Outsourced Workers, Inc., Amina, Inc., and CEO of Classic Finance Inc.

Mr. Tanco is also a director in PhilPlans First, Inc., Maestro Holdings, Inc. (formerly STI Investments, Inc.), Philippine Life Financial Assurance Corp., Manila Bay Spinning Mills, Inc., United Coconut Chemicals, Inc., MB Paseo, Philippine Health Educators, Inc., iACADEMY, PhilhealthCare, Inc., Philippine Racing Club, Inc. and Leisure and Resorts World Corporation.

Mr. Tanco is a director of the Philippine Stock Exchange. He is also Chairman of the Philippine-Thailand Business Council and the Philippines-UAE Business Council. He likewise sits as a member of the Board of Trustees of Philippines, Inc. and member of the Philippine Chamber of Commerce and Industry.

Mr. Tanco earned his Master of Science in Economics degree from the London School of Economics and Political Science and his Bachelor of Science degree in Economics from the Ateneo de Manila University. He was also awarded a Doctorate of Humanities degree, honoris causa, from the Palawan State University.

**Monico V. Jacob, 73, Filipino, President and CEO, Executive Director**

Mr. Jacob has been the President and CEO of STI Holdings since 17 March 2010. He is likewise a member of the Executive Committee of STI Holdings.

Mr. Jacob is the Vice-Chairman and CEO of STI Education Services Group, Inc., and President of STI West Negros University. He is also the President of Eximious Holdings, Inc. (formerly, Capital Managers and Advisors, Inc.), Maestro Holdings, Inc. (formerly STI Investments, Inc.) and Tantivy Holdings, Inc. (formerly, Insurance Builders, Inc.)

Mr. Jacob is the Chairman of Philippine Life Financial Assurance Corporation, Philhealthcare, Inc., Total Consolidated Asset Management, Inc., Global Resource for Outsourced Workers, Inc., and Rosehills Memorial Phils., Inc.

Mr. Jacob is also a non-Executive Director in Asian Terminals, Inc., and an Independent Director in Jollibee Foods Corp., Rockwell Land Corp., and Lopez Holdings Corp., all publicly-listed companies. He also serves as a member of the board of directors of De Los Santos Medical Center and Information and Communications Technology (iACADEMY), Inc.

Prior to his present positions, Mr. Jacob was the Chairman and CEO of Petron Corporation, and the Philippine National Oil Company (PNOC) and all of its subsidiaries. He also served as the General Manager of the National Housing Authority (NHA), and Chief Executive Officer of the Home Development Mutual Fund. He was also an Associate Commissioner for the Securities and Exchange Commission in 1986.

Prior to government, he was a Partner of the law firm Jacob Acaban Corvera Valdez and Del Castillo and was an active trial lawyer. Today, he is a partner in the law firm of Jacob & Jacob. His areas of specialization are energy, corporate law, corporate recovery and rehabilitation work, including receivership and restructuring advisory for companies.

Mr. Jacob is a member of the Management Association of the Philippines (MAP) of which he was President for 1998. He is also a member of the Integrated Bar of the Philippines.



Mr. Jacob finished his Bachelor of Arts degree with a Major in Liberal Arts from the Ateneo de Naga University in 1966 and his Bachelor of Laws degree from the Ateneo de Manila University in 1971.

**Joseph Augustin L. Tanco, 37, Filipino, Executive Director**

Mr. Tanco has been a Director of STI Holdings since 27 October 2010. He is likewise the Vice President for Investor Relations.

Mr. Tanco is currently the President and Chief Executive Officer of Maestro Holdings, Inc., Philippine Life Financial Assurance Corporation, PhilhealthCare, Inc. and Comm&Sense, Inc. He founded Comm&Sense, Inc., an integrated marketing and communications agency offering comprehensive services in the areas of creative design, event conceptualization and management, public relations and promotions, in 2005.

Mr. Tanco serves as Director and Treasurer of PhilPlans First, Inc., Director and member of the Nomination and Election Committee of STI Education Services Group, Inc., Director and Vice President of Eujo Phils. Inc., Director of Maestro Holdings, Inc. (formerly STI Investments, Inc.), iAcademy, PhilsFirst Insurance Corporation, STI West Negros University, Eximious Holdings, Inc. (formerly, Capital Managers and Advisors, Inc.), Prime Power Holdings Corporation, Global Resource for Outsourced Workers (GROW), Venture Securities, Inc., Bloom with Looms Logistics, Inc. (formerly Southern Textiles Mills, Inc.) and Biolim Holdings & Management Corporation (formerly Rescom Developers, Inc.).

Furthermore, Mr. Tanco is an active member of the Junior Chamber International Philippines (JCI) where he was Chapter President of JCI Ortigas in 2012. He was Area Director for Individual for Metro Area 2 and National Chairman for Nothing but Nets in 2013 and National Chairman for The Outstanding Young Men (TOYM) in 2015. He also became a mentor for BS Entrepreneurship at the University of Asia and the Pacific in 2012.

Mr. Tanco is a graduate of the University of Asia and the Pacific with a Bachelor of Science degree in Entrepreneurial Management. He obtained his Master in Business Administration from the Ateneo Graduate School of Business.

**Ma. Vanessa Rose L. Tanco, 40, Filipino, Non-Executive Director**

Ms. Tanco has been a Director of STI Holdings since 27 October 2010.

Ms. Tanco also holds directorships at STI West Negros University, STI ESG, PhilPlans First, Inc., and Philhealthcare, Inc. Currently, she is the President and CEO of Information and Communications Technology Academy, Inc. or popularly known as iACADEMY.

Ms. Tanco obtained her Master's degree in Business Administration at the University of Southern California, and her Bachelor of Science degree in Legal Management at Ateneo de Manila University.

**Martin K. Tanco, 52, Filipino, Non-Executive Director**

Mr. Tanco has been a Director of STI Holdings since 19 December 2012. He is likewise a member of the Executive and Audit Committees of STI Holdings.

Mr. Tanco is the Director for Investment of Philplans First, Inc. He is the President of the Philfirst Condominium Association and Vice President of Manila Bay Thread Corporation (formerly Coats Manila Bay).

Mr. Tanco earned his Bachelor of Science Degree in Electrical Engineering from the University of Southern California. He obtained his Master of Science degree in Electrical Engineering and Master in Business Administration from the University of Southern California.

**Paolo Martin O. Bautista, 49, Filipino, Executive Director**

Mr. Bautista has been a Director of STI Holdings since 19 December 2012. He is likewise the Chief Investment Officer, Head of Corporate Strategy and a member of the Audit Committee of STI Holdings.

Mr. Bautista is also a director of STI Education Services Group, Inc.

Mr. Bautista is an advisor to the Investment Committee of PhilPlans. He has over 20 years' experience in the areas of corporate finance, mergers and acquisition, debt and equity capital markets, credit risk management and securities law. Prior to joining STI Holdings, he was a director at Citigroup Global Markets and a Vice President at Investment Banking Division of Credit Suisse.

Mr. Bautista obtained his Bachelor of Arts degree, Bachelor of Laws degree and Juris Doctor from the Ateneo de Manila University and obtained a Master of Science degree in Management from the Arthur D. Little School of Management, Cambridge, MA.

**Rainerio M. Borja, 56, Filipino, Non-Executive Director**

Mr. Borja has been a Director of STI Holdings since 19 December 2012. He is likewise a member of the Executive Committee of STI Holdings.

Mr. Borja serves as a Director of STI ESG, PhilPlans, Inc. and Total Consolidated Asset Management Inc. He is also Chairman of the Board of Techzone Inc. and 88Gren Inc.

Mr. Borja is the President of the Asia region for Alorica, comprising more than 34,000 people in the Philippines, as well as delivery centers in Australia and China, for a total of 24 sites. Under Mr. Borja's leadership, the Asia teams provide distinct capabilities to offer low-cost, high quality solutions to clients across the globe.

Prior to this role, Mr. Borja was President of the Philippines and Australia for Expert Global Solutions, Inc. (EGS) for four years prior to EGS' acquisition by Alorica in June 2016.

Before joining EGS in 2012, Mr. Borja spent 12 years as President of Aegis PeopleSupport Philippines, a start-up company that he helped grow to more than 13,000 employees. In 2004, the company achieved a major milestone by doing an Initial Public Offering (IPO) in the United States, and being listed in NASDAQ as the only Business Process Outsourcing (BPO) company with its entire operations handled in the Philippines. Mr. Borja also established the expansion of BPO to Philippine provinces, as well as to other regions, such as San Jose, Costa Rica.

Often credited as the "man behind the success of the call center and BPO industry" in the country, Mr. Borja is one of the founders and former chairman of the Information Technology and Business Process Association of the Philippines (IBPAP), formerly the Business Processing Association of the

Philippines (BPA/P). He continues to support the industry by taking on leadership roles and sitting on the Board of Directors for both IBPAP and the Contact Center Association of the Philippines (CCAP). His opinions and contributions are highly valued by government and industry officials in the formulation of legislations and policies that govern the country's Information and Communications Technology (ICT) and BPO industry. Being one of the country's BPO industry ambassadors who supported the industry's phenomenal growth to now being one of the country's major economic contributors, Mr. Borja was the first recipient of the Individual ICT Contributor Award in the Philippines in 2007.

Mr. Borja obtained his Bachelor of Science degree at the De La Salle University and Masters of Science in Economics units from the De La Salle Graduate School of Business and Economics.

**Teodoro L. Locsin, Jr., 69, Filipino, Non-Executive Director**

Mr. Teodoro L. Locsin, Jr. was elected as Director of STI Holdings at the regular meeting of the Board of Directors of the Company held on 2 February 2015.

Ambassador Locsin currently serves as the Philippine Permanent Representative to the United Nations. He has also been an independent director of The Medical City since 2005 and Asian Terminals, Inc. since 2010 and a member of the Board of Governors of iACADEMY. He is also the Chairman of the Audit Committee and member of the Executive Committee of Asian Terminals, Inc.

Ambassador Locsin served as member of the House of Representatives from 2001 to 2010. He is an editorial writer, television host and speechwriter of former Presidents Corazon C. Aquino, Joseph E. Estrada and Gloria M. Arroyo. He also served as a Minister of Information during President Aquino's term.

Mr. Locsin, Jr. worked at Angara Abello Concepcion Regala and Cruz Law Offices and he served as the executive assistant to the Chairman of Ayala Corporation and Bank of the Philippine Islands, Mr. Enrique Zobel.

Mr. Locsin, Jr. obtained his Bachelor of Laws from the Ateneo de Manila University and Master of Laws from Harvard University.

A copy of the consent letter issued by the Department of Foreign Affairs (the "DFA") in 2017 stating that the DFA grants Ambassador Locsin permission to continue with his directorships in Philippine companies is attached hereto as Annex "A".

**Jesli A. Lapus, 68, Filipino, Independent Director**

Mr. Lapus was elected as an Independent Director of STI Holdings at the Annual Stockholders Meeting held on 4 October 2013. He is likewise the Chairman of the Corporate Governance Committee and member of the Audit Committee of STI Holdings.

Mr. Lapus is currently Chairman and Independent Director of STI Education Services Group, Inc.; Independent Director of Metropolitan Bank & Trust Company and Philippine Life Financial Assurance Corporation. He is a Governor of iACADEMY; Chairman of the Trust Banking Group of Metropolitan Bank and Trust Company, LBP Service Corporation, and Asian Institute of Management–Center for Tourism. He is also a Member of the Investment Committee of Philplans First, Inc. and Advisory Board Member of Radiowealth Finance Company, Inc.

A multi-awarded executive in the private sector (i.e. manufacturing, financial services and international trade), Mr. Lapus has successfully managed and turned around firms and a universal bank in attaining industry leaderships. He was Managing Director of Triumph International (Phils.) Inc., President of Pacific Products, Inc., CFO of the RAMCAR Group of Companies and formerly connected with Sycip Gorres Velayo & Co.

With a solid track record as a prominent professional executive in the private sector behind him, Mr. Lapus has the distinction of having served in the cabinets of three (3) Philippine Presidents namely: President Gloria Macapagal-Arroyo, President Fidel Ramos and President Corazon Aquino in the following capacities: Secretary, Department of Trade and Industry (2010); Secretary, Department of Education (2006-2010); President and CEO, The Land Bank of the Philippines (1992-1998); Undersecretary, Department of Agrarian Reform (1987-89).

Mr. Lapus earned his Doctor of Public Administration (honoris causa) from Polytechnic University of the Philippines; Master in Business Management from Asian Institute of Management; Investment Appraisal and Management from Harvard University, USA; Management of Transfer of Technology from INSEAD, France; Project Management from BITS, Sweden and Personal Financial Planning in UCLA, USA.

The Certification of Independent Director of Mr. Lapus is attached hereto as Annex "B".

**Robert G. Vergara, 57, Filipino, Independent Director**

Mr. Vergara has been an Independent Director of STI Holdings since 27 July 2017. He is the Chairman of the Audit Committee and a member of the Audit Committee of STI Holdings.

Mr. Vergara served as the President and General Manager of the Government Service Insurance System from September 2010 to October 2016.

Mr. Vergara was the Managing Director and Founding Partner of Cannizaro (Hong Kong) Limited from October 2006 to September 2010. He was also a Limited Partner in Cannizaro Capital Partners LLP from October 2006 to September 2010. From 2002 to 2006, Mr. Vergara was the Managing Director of Lionhart (Hong Kong) Ltd.

Mr. Vergara was a Principal in Morgan Stanley Dean Witter Asia Ltd. from 1997-2001. He also served as the Managing Director of IFM Asia Ltd. from 1990 to 1997.

Mr. Vergara obtained his Master in Business Administration from Harvard Graduate School of Business Administration. He graduated Magna Cum Laude from Ateneo De Manila University with Bachelor of Science degrees in Management Engineering and Mathematics.

The Certification of Independent Director of Mr. Vergara is attached hereto as Annex "B".

**Presbitero J. Velasco, Jr., 70, Filipino, Independent Director**

Justice Velasco has been nominated to serve as an Independent Director of STI Holdings during the 26 October 2018 Annual Stockholders' Meeting.

Justice Velasco was a Senior Associate Justice of the Supreme Court of the Philippines. He was appointed to the Supreme Court on 31 March 2006. He was the Chairman of the Third Division as

well as the Chairman of the House of Representatives Electoral Tribunal. He also served as a member of the Presidential Electoral Tribunal.

Prior to his appointment to the Supreme Court, Justice Velasco engaged in private law practice for 20 years. During this period, he served the Integrated Bar of the Philippines in various capacities, including as its National President in 1987.

Justice Velasco joined the public sector in 1993 as a regular member of the Judicial and Bar Council. He served as the Undersecretary of the Department of Justice from 1995 to 1988 and was appointed to the Court of Appeals in 1998.

Justice Velasco obtained his Bachelor of Arts degree in Political Science and Bachelor of Laws from the University of the Philippines.

Justice Velasco will submit his Certification of Independent Director within 30 days after his election as an independent director of the Corporation.

**Yolanda M. Bautista, 66, Filipino, Treasurer**

Ms. Bautista has served as the Treasurer of STI Holdings since 17 March 2010. She is likewise a member of the Executive Committee of STI Holdings. She resigned as director of STI Holdings on 10 December 2013. Her resignation as Director of the Company was not due to any disagreement with STI Holdings on any matter relating to its operations, policies or practices.

Ms. Bautista is Chairman and President of Corporate Reference, Inc., Lakeview Realty, Inc. and Yellow Meadows Business Ventures, Inc.

Ms. Bautista serves as Director and Treasurer of Eximious Holdings, Inc. (formerly, Capital Managers and Advisors, Inc.), Banclife Insurance Co., Inc., Tantivy Holdings, Inc. (formerly, Insurance Builders, Inc.), DLS-STI College, Inc., and Information and Communications Technology Academy (iAcademy), Inc. She is also the Group Chief Financial Officer of Philippine Life Financial Assurance Corporation and Philhealthcare, Inc. as well as the Chief Financial Officer and Treasurer of STI ESG and STI West Negros University. Ms. Bautista is a Director of Attenborough Holdings Corp., Philippine Healthcare Educators, Inc., GROW Inc., Grow Vite Staffing Services, Inc. and Bloom with Looms Logistics, Inc. (formerly Southern Textiles Mills, Inc.) She serves as Treasurer of Aberlour Holding Company, Daven Holdings, Inc., Harbourside Holding Corporation, Maestro Holdings, Inc. (formerly STI Investments, Inc.), Marray Holdings, Inc., Kusang Loob Foundation, Inc., SG Holdings, Inc., Philippines First Condominium Corporation, Quantum Analytix, Inc., P & O Management Services Phils., Inc., TechGlobal Data Center, Inc., Techzone Condominium Corporation and Techzone Philippines, Inc. She is also Assistant Treasurer of Total Consolidated Asset Management, Inc. and Neschester Corporation.

Ms. Bautista is a Certified Public Accountant. She graduated Magna Cum Laude from the University of Sto. Thomas with a Bachelor of Science degree in Commerce, major in Accounting.

**Arsenio C. Cabrera, Jr., 58, Filipino, Corporate Secretary**

Atty. Arsenio C. Cabrera, Jr. was elected Corporate Secretary of STI Holdings on 17 March 2010. He is also the current Corporate Information Officer of the Company and a member of the Corporate Governance Committee of the Company.

Atty. Cabrera is a Managing Partner of Herrera Teehankee & Cabrera Law Offices. He is currently General Counsel and Corporate Information Officer of STI Education Services Group, Inc. He also serves as Corporate Secretary of Araval, Inc., BOIE Drug, Inc., BOIE, Incorporated, BOIE Prime, Inc., Bountiful Geomines, Inc., Calatagan Bay Realty, Inc., Canlubang Golf and Country Club, Inc., Classic Finance, Inc., Coinage, Inc., Comm & Sense, Inc., DLS-STI Colleges, Inc., Eximious Holdings, Inc. (formerly, Capital Managers and Advisors, Inc.), GEOGRACE Resources Philippines, Inc., Gurango Software Corporation, Heritage Park Management, Inc., Lorenzo Shipping Corporation, Maestro Holdings, Inc., Masbate13 Philippines, Inc., Mina Tierra Gracia, Inc., Megacore Holdings, Inc., NiHAO Mineral Resources International, Inc., Oregalore, Inc., Palisades Condominium Corporation, Philippine American Drug Company, Philippine First Condominium Corporation, Philippines First Insurance Co., Inc., Philippine Life Assurance Financial Corporation, Philhealthcare, Inc., Philplans First, Inc., Renaissance Condominium Corporation, Rosehills Memorial Management Philippines, Inc., Sinoma Energy Conservation (Philippines) Waste Heat Recovery Co., Inc., Sonak Holdings, Inc., STI West Negros University, Inc., TechZone Philippines, Inc., Techzone Condominium Corporation, Total Consolidated Asset Management, Inc., Trend Developers, Inc., Venture Securities, Inc., Villa Development Corporation and WVC Development Corporation.

Atty. Cabrera holds a Bachelor of Laws (Second Honors) and a Bachelor of Science in Legal Management from the Ateneo De Manila University.

**Anna Carmina S. Herrera, 43, Filipino, Assistant Corporate Secretary**

Atty. Anna Carmina S. Herrera was elected Assistant Corporate Secretary of the Company on 17 March 2010.

Atty. Herrera is a Senior Associate of Herrera Teehankee and Cabrera Law Offices. She also performs the role of Corporate Secretary of STI College Batangas, Inc., STI College of Kalookan, Inc., STI Dagupan, Inc., STI Diamond College, Inc. and STI Tuguegarao, Inc. She also serves as Assistant Corporate Secretary in a number of other corporations: Amica Corporation, Salcedo Auctions, Inc., Comm&Sense, Inc., Banclife Insurance Co., Inc., Lorenzo Shipping Corporation, Palisades Condominium Corporation, Philhealthcare, Inc., Philippines First Insurance Co., Inc., Philippine First Condominium Corporation, Philippine Life Financial Assurance Corporation, All Asia Asset Management, Inc., Attenborough Holdings, Inc., Venture Securities, Inc. and Dunes and Eagle Land Development Corporation.

Atty. Herrera received her Bachelor of Laws degree from the University of the Philippines in 2000.

(b) Significant Employees

In general, the Company values its human resources. It expects the employees to do their share in achieving the Company's set objectives. There is no person in the Company who is not an executive officer but is expected to make significant contribution in the business of the Company.

(c) Family Relationships

Mr. Joseph Augustin L. Tanco is the son of Mr. Eusebio H. Tanco. Ms. Ma. Vanessa Rose L. Tanco is the daughter of Mr. Eusebio H. Tanco.

Mr. Martin Tanco and Mr. Eusebio H. Tanco are cousins.

There are no other family relationships up to the 4<sup>th</sup> civil degree, either by consanguinity or affinity among the current Directors other than those already disclosed in this report.

(d) Involvement in Certain Legal Proceedings

None of the above named directors and executive officers of the Company have been involved in any of the following events for the past five (5) years and up to the date of this SEC Form 20-IS:

- (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (2) any conviction by final judgment;
- (3) being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
- (4) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

(2) Certain Relationships and Related Transactions

The Company has the following major transactions with related parties:

**Consultancy Agreement with STI ESG**

The Company entered into an agreement with STI ESG on the rendering of advisory services starting 1 January 2013.

**Consultancy Agreement with STI WNU**

The Company entered into an agreement with STI WNU on the rendering of advisory services starting 1 January 2015.

**Agreement with Comm & Sense, Inc.**

On 17 February 2015, a Service Level Agreement between the Company and Comm & Sense, Inc. owned by Mr. Joseph Augustin L. Tanco, Director and Vice President for Investor Relations of STI Holdings, was executed. Comm & Sense is in charge of the conceptualization and execution of media interviews, development of editorial requirements of the Company, media relations strategy, media invitation and follow-ups, and media monitoring. They are in charge of the Press Releases for the Corporation, development of story angles, writing and editing of articles.

## **Attenborough Holdings Corporation (“AHC”)**

Since February 2015, STI Holdings owns 100% of AHC (see Note 3 of the Audited Consolidated Financial Statements).

AHC is a holding company which is a party to the Joint Venture Agreement and Shareholders’ Agreement among the Parent Company, Philippine Women’s University (“PWU”) and Unlad Resources Development Corporation (“Unlad”). Under the Agreements, AHC is set to own up to 20% of Unlad. AHC is also a party to the Omnibus Agreement it executed with the Parent Company and Unlad (see Note 3 of the Audited Consolidated Financial Statements).

On 1 March 2016, AHC executed a Deed of Assignment wherein AHC assigned to STI Holdings its loan to Unlad, including capitalized foreclosure expenses, amounting to Php66.7 Million for a cash consideration of PPhp73.8 million (see Note 32 of the Audited Consolidated Financial Statements).

On 22 March 2016, AHC became a party to an arrangement for the settlement of the loans and advances, which included the said receivables. As of 31 March 2016, the loans and advances arising from the Agreements have been fully settled.

## **Acquisition of Neschester Corporation**

On 2 August 2016, STI Holdings subscribed to all of the unissued authorized capital stock of Neschester Corporation (“Neschester”) totaling 670,000 common shares of stock (the “Subscribed Shares”) of Neschester at a subscription price of Php200 Million. STI Holdings also purchased all of the issued shares of Neschester owned by the former stockholders of said corporation 550,000 common shares (the “Sale Shares”) at an aggregate purchase price of Php173.2 million. As a result of STI Holdings’ subscription to the Subscribed Shares and the purchase by STI Holdings of the Sale Shares, STI Holdings now owns one hundred percent (100%) of the issued, outstanding and authorized capital stock of Neschester.

The major asset of Neschester is a parcel of land in Makati City with an area of 2,332.5 square meters. iACADEMY had its groundbreaking ceremony on 20 September 2016 on this parcel of land which would be the site of its Yakal campus. Land development and building construction started in December 2016. The unveiling and blessing of the new iACADEMY Nexus campus were held in February 2018.

On 7 September 2017, the Board of Directors (“BOD”) of Neschester and the Board of Governors of iACADEMY approved the merger of the two companies with iACADEMY as the surviving corporation. The stockholders of both companies confirmed, ratified and approved the merger on the same date. The Plan of Merger between iACADEMY and Neschester and the related increase in the authorized capital stock of iACADEMY were filed with the SEC on 24 January 2018 and 30 January 2018, respectively. On 10 April 2018, the SEC approved the Plan of Merger and the increase in authorized capital stock of iACADEMY.

## **Acquisition of iACADEMY**

On 27 September 2016, STI Holdings entered into a deed of sale with STI ESG wherein the Parent Company acquired from STI ESG 100% ownership in iACADEMY. As a result, iACADEMY became a direct wholly-owned subsidiary of STI Holdings. The Company’s acquisition of iACADEMY is accounted for as a business combination under common control and management opted to use the pooling of interests method. The carrying value of non-controlling interests in iACADEMY amounting



to Php1.7 Million million was reallocated to equity attributable to the equity holders of the Parent Company and recorded as part of "other equity reserve".

On 7 September 2017, the Board of Governors ("BOG") of iACADEMY and Board of Directors ("BOD") of Neschester approved the merger of the companies with iACADEMY as the surviving corporation. The stockholders of both companies confirmed, ratified and approved the merger on the same date. The Plan of Merger was filed with the SEC on 24 January 2018.

On the same date, 7 September 2017, at separate meetings at the principal office of iACADEMY, the BOG and stockholders of iACADEMY approved the increase in its authorized capital stock from Php500 Million to Php1,000.0 Million. The purpose of the increase in authorized capital stock is to issue sufficient shares to STI Holdings, the parent company of Neschester Corporation, pursuant to the plan of merger.

The application for the increase in authorized capital stock was filed with the SEC on 30 January 2018. The increase in authorized capital stock was approved by the SEC on 10 April 2018.

On 11 May 2018, iACADEMY issued 494,896,693 shares to STI Holdings in exchange for the net assets of Neschester as a result of the merger.

To date, there are no complaints received by the Company regarding related-party transactions.

For further details, refer to Note 29, Related Party Transactions, of the Audited Consolidated Financial Statements and the Management Discussion and Analysis of Financial Condition of Results of Operations in the SEC Form 17-Q for the quarter ended 30 June 2018.

### **Transactions with Promoters**

There are no transactions with promoters within the past five (5) years.

#### **(3) Disagreement with a Director**

No director has resigned or declined to stand for re-election to the Board of Directors since the date of the last annual stockholders' meeting because of a disagreement with the Company on any matter relating to the Company's operations, policies or practices.

### **Item 6. Compensation of Directors and Executive Officers**

(1) During the 28 June 2010 meeting of the Board of Directors, the Board approved a resolution increasing the per diems of the directors from ₱10,000.00 to ₱15,000.00 per board meeting. The directors are paid ₱15,000.00 per committee meeting attended by them. There is no arrangement for compensation of directors.

From FY 2014-2015 up to 2017-2018, the CEO and top four (4) executive officers as a group, did not receive compensation from the Company. There is no employment contract between the Company and any of its executive officers.

(2) The following table summarizes the aggregate compensation for the fiscal years ended 31 March, 2015-2016 and 2016-2017 and 2017-2018. The amounts set forth in the table below have been prepared based on what the Company paid its directors and named executive officers as a group and other officers for the fiscal years ended 31 March 2015-2016, 2016-2017 and 2017-2018 and what the Company expects to pay for the fiscal year ended 31 March 2018-2019.

The compensation for board members comprises per diems.

#### ANNUAL COMPENSATION

Name and principal Position	Fiscal Year Ended 31 March	Salary (£)	Bonus (£)	Other annual compensation (£)
All other Officers as a Group	2015-2016	4,757,533.41	-	-
	2016-2017	2,720,354.74	-	-
	2017-2018	2,678,685.20	-	-
	2018-2019	2,678,685.20 <sup>1</sup>	-	-
All Named Executive Officers <sup>2</sup> and Board of Directors as a Group	2015-2016	-	-	564,705.92
	2016-2017	-	-	511,764.74
	2017-2018	-	-	1,262,745.20
	2018-2019	-	-	1,262,745.20 <sup>1</sup>

Notes:

<sup>1</sup> Figures are estimated amounts.

<sup>2</sup> Named executives include: Eusebio H. Tanco (Chairman of the Board), Monico V. Jacob (President and CEO), Joseph Augustin L. Tanco (Vice President, Investor Relations), Yolanda M. Bautista (Treasurer) and Atty. Arsenio Cabrera, Jr. (Corporate Secretary).

(3) There are no actions to be taken with regard to any bonus, profit sharing, or other compensation plan, contract or arrangement in which any director, nominee for election as a director, or executive officer of the Company will participate.

(4) There are no actions to be taken with regard to any pension or retirement plan in which any such person will participate.

(5) There are no actions to be taken with regard to the granting or extension to any such person of any option, warrant or right to purchase any securities.

#### Item 7. Independent Public Accountants

(1) The accounting firm of Sycip Gorres Velayo & Co. ("SGV") has been the Company's External Auditors for the past years (2010 up to the present). They were reappointed in the Annual Stockholders' Meeting held on 29 September 2017, as external auditors for the ensuing fiscal year.

A representative of SGV is expected to be present at the Annual Meeting of the Stockholders and will have the opportunity to make a statement if he or she so desires. The representative will also be available to respond to appropriate questions from the stockholders.

Pursuant to SRC Rule 68 (3) (b) (iv), as amended (Rotation of External Auditors), the Company has engaged Mr. Benjamin N. Villacorte of SGV as the Partner-in-charge of the Company. This is his third year of engagement for STI Holdings.

SGV & Co. shall be recommended for reappointment as external auditor of the Corporation during the Annual Stockholders' Meeting on 26 October 2018.

- (2) There has not been any disagreement between the Company and said accounting firm with regard to any matter relating to accounting principles or practices, financial statement disclosures or auditing scope or procedure.

As stated in the 31 March 2018 "Statement of Management Responsibility for Financial Statements", SGV is the appointed independent auditors of STI Holdings. They have examined the financial statements of the Company in accordance with Philippine Standards on Auditing and have expressed their opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

The Company's Audit Committee reviews and approves the scope of audit work of the external auditor and the amount of audit fees for a given year. With respect to services rendered by the external auditor other than the audit of financial statements, the scope of and payment for the same are subject to review and approval by the management.

Mr. Johnip G. Cua, Independent Director, served as the Chairman of the Audit Committee until 27 June 2018. Messrs. Jesli A. Lapus, Robert G. Vergara, Martin K. Tanco and Paolo Martin O. Bautista are its Members.

The Company engaged SGV for the annual audit covering the period from 1 April 2017 to 31 March 2018 for Php1,210,000.00. The engagement letter dated 26 February 2018 for the year-end audit was received by the Company on the same date.

The following information pertains to their fees and charges over the last two fiscal years (amounts in thousands):

	2017-2018	2016-2017
Audit Fees	₱1,210	₱1,100
Tax Fees	-	-
All Other Fees	₱556*	₱246

\*Represents professional fees paid for the 2017 Corporate Governance Seminar attended by all the members of the Board and officers of STI Holdings and its group amounting to P140,000, transfer pricing services amounting to P330,000 and for general tax advisory fees amounting to P85,837.50.

## **Item 8. Compensation Plans**

No action is to be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

## **C. ISSUANCE AND EXCHANGE OF SECURITIES**

### **Item 9. Authorization or Issuance of Securities Other Than For Exchange**

No action will be taken with respect to the authorization or issuance of any securities otherwise for exchange for outstanding securities of the Company.

### **Item 10. Modification or Exchange of Securities**

There is no action to be taken with respect to the modification of any class of securities of the Company, or the issuance or authorization for issuance of one class of securities of the Company in exchange for outstanding securities of another class.

**Item 12. Mergers, Consolidation, Acquisition and Similar Matters**

No action will be taken with respect to any of the following: (a) the merger or consolidation of the Company into or with any other person or of any other person into or with the Company; (b) the acquisition by the Company or any of its security holders of securities of another person; (c) the acquisition by the Company of any other ongoing business or of the assets thereof; (d) the sale or other transfer of all or substantially all of the assets of the Company; or (e) the liquidation or dissolution of the Company.

**Item 13. Acquisition or Disposition of Property**

No action will be taken with respect to the acquisition or disposition by the Company of any property.

**Item 14. Restatement of Accounts**

No action will be taken with respect to the restatement of any asset, capital or surplus account of the Company.

**D. OTHER MATTERS**

**Item 15. Action with Respect to Reports**

The Board of Directors of the Company recommends a vote for confirmation, ratification and approval of the minutes of the 29 September 2017 Annual Stockholders' Meeting. The Minutes of the 29 September 2017 Annual Stockholders' Meeting contained the following items:

1. Call to Order
2. Certificate of Notice and Quorum
3. Approval of the Minutes of the 30 September 2016 Annual Shareholders' Meeting
4. Presentation of Management Report
5. Approval of Audited Financial Statements as of 31 March 2017
6. Ratification of Legal Acts, Proceedings and Resolutions of the Board of Directors and of Management from 30 September 2016 up to 29 September 2017
7. Ratification of legal acts, proceedings and resolutions of the Board of Directors and of Management
8. Election of Directors
9. Appointment of External Auditor
10. Adjournment

**Item 16. Matters Not Required to be Submitted**

The Board of Directors and Management have the power to act as agents of the Company based on statute, charter, by-laws or in delegation of authority to an officer from the acts of the Board, formally expressed or implied from a habit or custom of doing business. In this regard, where an officer has been entrusted with the general management and control of the Company's business, that officer is considered to possess an implied authority to enter into any contract or do any other act which is necessary or appropriate for the conduct of the ordinary business of the Company.

The Board of Directors recommends a vote for approval, confirmation and ratification of all acts and resolutions of the Board of Directors and of Management since the Annual Stockholders' Meeting on 29 September 2017 up to 26 October 2018. Said acts and resolutions of the Board of Directors and of Management since the Annual Stockholders' Meeting on 29 September 2017 up to 26 October 2018 include, among others: (a) the appointment of officers; (b) the opening of bank accounts and the appointment of signatories; (c) execution of contracts; (d) the approval of the dividend policy of the Corporation; and (e) the approval of Audited Financial Statements as of 31 March 2018.

Once the ratification has been given, all acts or transactions entered into by the Board of Directors and of Management since the Annual Stockholders' Meeting on 29 September 2017 up to the present become finally and absolutely binding and neither the Company nor individual stockholders nor strangers can afterwards sue to set them aside or otherwise attack their validity.

**Item 17. Amendment of Charter, By-laws or Other Documents**

No action will be taken at the Annual Stockholders' Meeting for any amendment of the Company's Articles of Incorporation, By-laws or other charter documents.

**Item 18. Other Proposed Action**

There is no action to be taken at the Annual Stockholders' Meeting with respect to any matter not specifically referred to above.

**Item 19. Voting Procedures**

(1) Vote required

Each common share entitles the holder to one vote. At each meeting of the stockholders, each stockholder entitled to vote on a particular question or matter shall be entitled to vote for each share of stock standing in his name in the books of the Company as of record date.

Pursuant to the By-Laws of the Company, stockholders owning a majority of all of the issued and outstanding stock of the Company present or represented by proxy and entitled to vote, shall form a quorum for the transaction of business and the vote of stockholders representing a majority of a quorum shall be required to approve any action submitted to the stockholders for approval.

(2) Method

The By-Laws provide that the voting must be by ballot or viva voce in the event no contest is raised at the sole discretion of the Chairman of the meeting.

Moreover, "every question [except the election of Director] submitted to a meeting shall be decided in the first instance by a show of hands, and in the case of an equality of votes, whether for the election of Directors, or otherwise, the same shall be decided by drawing of lots or in such other lawful manner as may be agreed upon in such meeting. Any person may demand a poll, and such poll shall be taken in such manner as the Chairman of the meeting directs."

The Secretary of the meeting, upon motion duly made and seconded, is instructed to count all votes represented at the meeting in favor of the nominees. Cumulative voting shall be followed.

The Company will seek the approval of the following:

- (1) Approval of the Minutes of the Annual Stockholders' Meeting held on 29 September 2017
- (2) Ratification of all acts of the Board of Directors and of Management from 29 September 2017 up to 26 October 2018
- (3) Election of eleven (11) members of the Board of Directors
- (4) Approval of the Audited Financial Statements as of 31 March 2018
- (5) Election of Directors
- (6) Election of external auditor

#### **Discussion on Compliance with Leading Practices on Corporate Governance**

The 2017 Annual Corporate Governance Report ("2017 ACGR") of STI Holdings was submitted to the SEC and PSE on 30 May 2018 and posted in the Company's Official Website <http://www.stiholdings.com/> on the same date. This is pursuant to SEC Memorandum Circular No. 15, Series of 2017 on the submission of the 2017 I-ACGR of all Publicly Listed Companies.

The Company did not deviate from the provisions of the Amended Manual on Corporate Governance. It has adopted the leading practices and principles of corporate transparency to ensure its full compliance.

The Company is exerting all efforts to further strengthen compliance to principles and practices of good corporate governance. Once in a year, it organizes an in-house corporate governance seminar for all the directors and key officers of STI Holdings and its subsidiaries and affiliate companies.

The 2017 Manual on Corporate Governance of the Company was submitted to the SEC and PSE on 31 May 2017 and posted in the Company's Official Website <http://www.stiholdings.com/> on the same date. This is pursuant to SEC Memorandum Circular No. 19 dated 22 November 2016, series of 2016.

The Company's Board of Directors and Management, employees and stockholders believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort to create awareness within the organization.

The purpose of the Company is to maximize the organization's long-term success, creating sustainable value for its stockholders, stakeholders and the nation.

**STI EDUCATION SYSTEMS HOLDINGS, INC., AS REGISTRANT, WILL PROVIDE WITHOUT CHARGE, UPON WRITTEN REQUEST, A COPY OF THE REGISTRANT'S ANNUAL REPORT ON SEC FORM 17-A. SUCH WRITTEN REQUESTS SHOULD BE DIRECTED TO THE OFFICE OF THE CORPORATE SECRETARY, 5/F SGV II, BUILDING, 6758 AYALA AVENUE, MAKATI CITY, PHILIPPINES.**

**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on 6 September 2018.

**STI EDUCATION SYSTEMS HOLDINGS, INC.**  
Issuer

**ARSENIO C. CABRERA, JR.**  
Corporate Secretary

## MANAGEMENT REPORT

### Group History and Structure

#### *STI Education Systems Holdings, Inc.*

STI Education Systems Holdings, Inc. (“STI Holdings” or the “Parent Company”) was originally established in 1928 as the Philippine branch office of Theo H. Davies & Co., a Hawaiian corporation. It was reincorporated as a Philippine corporation in 1946 as part of the Jardine-Matheson group and was listed in the Philippine Stock Exchange on 12 October 1976. STI Holdings was then sold to Filipino investors in 2006. In March 2010, it became part of the Tanco Group of Companies. STI Holdings completed its follow-on offering of 2.9 Billion shares in November 2012, comprising of primary and secondary issues. Today, it is a holding company with investments in three large educational institutions and is also the owner of Attenborough Holdings Corporation (“AHC”) which was a party to the various agreements with Philippine Women’s University (“PWU”) and Unlad Resources and Development Corporation (“Unlad”). It used to be the owner of Neschester Corporation (“Neschester”) prior to the merger of the latter with Information and Communications Technology Academy, Inc. (“iACADEMY”) in April 2018. Its three subsidiaries involved in education are STI Education Services Group, Inc. (“STI ESG”), STI West Negros University, Inc. (“STI WNU”) and iACADEMY.

- STI ESG was founded on 21 August 1983 to address the Information Technology (“IT”) education needs of the Philippines. It evolved from its wholly-owned training centers to granting franchises to several locations in Metro Manila. In 1995, STI ESG was granted a permit by the Commission on Higher Education (“CHED”) to operate colleges. It started to roll out the four-year college programs in 1996. From offering various degrees related to Computer Science, STI ESG showed its strength beyond IT by expanding the existing programs to bachelor’s degrees in the fields of Business Administration, Computer Engineering, Hospitality Management, Tourism Management, Accountancy, Communications and Multimedia Arts, among others. STI ESG is also offering Senior High School (“SHS”).

STI ESG’s network of schools totals to 75 schools with 38 owned schools and 37 franchised schools comprising of 65 colleges and 10 education centers.

In recent years, STI ESG embarked on expansion and capital improvement projects as it encouraged schools to move from rented space into school-owned stand-alone campuses. A number of franchised schools likewise started their own facilities expansion programs. To date, STI ESG has 15 wholly-owned campuses with newly constructed/renovated buildings while 12 of the franchised schools constructed/renovated their own buildings and upgraded their facilities.

STI ESG has a total student capacity of 131,923 students, with 76,538 pertaining to owned schools and 55,385 for franchised schools.

- STI WNU was founded on 14 February 1948. The campus sits on a 3.1 hectare property in the heart of Bacolod City. STI WNU was granted its university status by CHED on 11 February 2008. STI Holdings acquired 99.5% ownership of the university on 1 October 2013. Since then, STI WNU’s facilities have been undergoing continuous upgrade.

The university offers primary, junior and senior high school, tertiary and postgraduate courses. Tertiary courses include Engineering, Education, Criminology, Business courses such



as Accountancy, Management Accounting and Business Administration, Hospitality and Tourism Management, Information System and Technology, Computer Science and Maritime Training Courses required by the Maritime Industry Authority (“MARINA”) for officers and crew on board Philippine and/or foreign registered ships operating in Philippine and/or international waters. Post-graduate courses include Master’s degrees in Business Administration, Public Administration, Nursing and Education, and Doctorate degrees in Public Administration and Educational Management.

STI WNU’s facilities can accommodate 12,000 students. The classrooms are available for its primary, secondary, tertiary and post-graduate students. There is also ample space for its Maritime Training Center.

- iACADEMY is the premier school in the Group that offers courses in animation, multimedia arts and design, fashion design and technology, software engineering, game development, web development, marketing management, financial management and real estate management. It also offers Senior High School. It started in 2002 as a wholly-owned subsidiary of STI ESG until its spin-off when it became a 100% owned subsidiary of STI Holdings in September 2016. The school’s first campus is at iACADEMY Plaza in Makati – the Central Business District of Metro Manila.

In April 2016, CHED granted iACADEMY a Government Authority (“GA”) to operate as a Transnational Education (“TNE”) provider for the Master in Business Administration (“MBA”) program in partnership with DePaul University, Chicago, Illinois, United States of America, as the degree granting institution.

The GA is valid up to 26 April 2018, and shall be subject to revocation if iACADEMY fails to operate in accordance with the laws of the Republic of the Philippines and/or fails to maintain the prescribed standards of instruction and/or fails to comply with the rules and regulations pertaining to the organization, administration and supervision of private/public HEIs in the Philippines. This GA applies only to the iACADEMY Plaza campus. The MBA program was not offered last school year due to space constraints as the surge of senior high school students took the priority lane. iACADEMY has already requested CHED for the extension of the GA. As at report date, CHED is processing iACADEMY’s request on this matter.

On 7 September 2017, the Board of Governors (“BOG”) of iACADEMY approved the merger of iACADEMY and Neschester, with iACADEMY as the surviving entity. The stockholders of both companies confirmed, ratified and approved the merger on the same date. The Plan of Merger between iACADEMY and Neschester was filed with the SEC on 24 January 2018 and was approved on 10 April 2018. In addition, on 7 September 2017, the Stockholders and BOG of iACADEMY also approved the increase in authorized capital stock from Php500.0 million to Php1.0 billion. The increase in authorized capital stock was likewise approved by SEC on 10 April 2018. On 11 May 2018, iACADEMY issued 494,896,693 shares to STI Holdings in exchange for the net assets of Neschester as a result of the merger.

- Neschester is a real estate company whose major asset is a parcel of land in Makati City with an area of 2,332.5 sq. m. In August 2016, STI Holdings acquired 100% ownership of Neschester. As discussed in the preceding paragraph, Neschester was merged with iACADEMY on 10 April 2018.

On 20 September 2016, iACADEMY had its groundbreaking ceremony on the parcel of land owned by Neschester. It is now the site of its Yakal campus housing both Senior High School and college students. iACADEMY's Yakal campus building was launched as iACADEMY Nexus on 12 February 2018. Nexus has a student capacity of 2,500.

- AHC is a holding company which is a party to the Joint Venture Agreement and Shareholders' Agreement ("Agreements") among the Parent Company, PWU and Unlad. It granted advances amounting to ₱65.0 million to Unlad by virtue of these Agreements. AHC assigned these receivables to the Parent Company on 1 March 2016.

On 22 March 2016, AHC became a party to an arrangement for the settlement of the loans and advances, which included the said receivables. As of 31 March 2016, the loans and advances arising from the Agreements have been fully settled.

### **Market for Company's Common Equity and Related Stockholder Matters**

#### (1) Market Information

The Company's common stock is traded on the PSE under the stock symbol "STI". As of the date of this Report, the Company has 9,904,806,924 shares outstanding.

As of 4 September 2018, the high share price of the Company was ₱0.86 and the low share price was ₱0.82.

The Company's public float as of 31 July 2018 is 3,533,558,942 shares equivalent to 35.68% of the total issued and outstanding shares of the Company.

The following table sets forth the Company's high and low intra-day sales prices per share for the past two years and the first and second quarters of 2018:

	<b>High</b>	<b>Low</b>
<b>2018</b>		
Second Quarter	1.55	1.11
First Quarter	1.65	1.30
<b>2017</b>		
Fourth Quarter	1.93	1.49
Third Quarter	1.69	1.19
Second Quarter	1.57	1.02
First Quarter	1.23	0.95
<b>2016</b>		
Fourth Quarter	1.02	0.65
Third Quarter	0.68	0.57
Second Quarter	0.72	0.56
First Quarter	0.59	0.36

#### (2) Holders

As of 31 August 2018, there were 1,259 shareholders of the Company's outstanding capital stock. The Company has common shares only.

The following table sets forth the top 20 shareholders of the Company's common stock, the number of shares held, and the percentage of total shares outstanding held by each as of 31 August 2018.

NAME OF STOCKHOLDER	NUMBER OF SHARES	PERCENTAGE OF OWNERSHIP
PCD NOMINEE CORP (FILIPINO)	2,398,936,147 <sup>1</sup>	24.220%
PCD NOMINEE CORP (NON-FILIPINO)	1,982,322,604	20.014%
PRUDENT RESOURCES, INC.	1,614,264,964	16.298%
TANCO, EUSEBIO H.	1,253,666,793	12.657%
BIOLIM HOLDINGS AND MANAGEMENT CORP. (FORMERLY: RESCOM DEVELOPERS, INC.)	794,343,934	8.020%
EUJO PHILIPPINES, INC.	763,873,130	7.712%
TANTIVY HOLDINGS, INC. (FORMERLY: INSURANCE BUILDERS, INC.)	626,776,992	6.328%
STI EDUCATION SERVICES GROUP, INC.	397,908,895	4.017%
MANILA BAY SPINNING MILLS, INC.	47,583,562	0.480%
TANCO, ROSIE L.	13,000,000	0.131%
VITAL VENTURES MANAGEMENT CORPORATION	2,800,000	0.028%
YU, JUAN G. YU OR JOHN PETER C.	1,300,000	0.013%
CASA CATALINA CORPORATION	1,000,000	0.010%
HTG TECHNOLOGIES, INC.	1,000,000	0.010%
EDAN CORPORATION	861,350	0.000%
YU, JUAN G. YU OR JOHN PHILIP	600,000	0.006%
LERIO CABALLERO CASTIGADOR AND/OR VICTORINA P. CASTIGADOR	399,000	0.004%
LELEN VALDERRAMA ITF YASMIN AYN VALDERRAMA	300,000	0.003%
LELEN VALDERRAMA ITF YADIN AYN VALDERRAMA	300,000	0.003%
LELEN VALDERRAMA ITF GERENT ARN VALDERRAMA	300,000	0.003%

### (3) Cash Dividends

On 5 November 2015, cash dividends amounting to ₱0.02 per share were paid to stockholders of record as of 12 October 2015.

On 10 November 2016, cash dividends amounting to ₱0.02 per share were paid to stockholders of record as of 14 October 2016.

On 13 November 2017, cash dividends amounting to P0.02 per share were paid to stockholders of record as of 16 October 2017.

In the meeting of the Board of Directors of the Company held on 15 February 2018, the Board adopted a revised policy on the declaration of dividends starting with Fiscal Year 2017-2018 in order to (1) clarify the dividend declaration policy of not less than 25% of the Company's core net income from the previous fiscal year; and (2) provide the definition of the core net income of the Company.

The Board approved a dividend declaration policy of not less than 25% of the core net income of the Company from the previous fiscal year, subject to compliance with the requirements of applicable laws and regulations, statutory limitations and/or restrictions, terms and conditions which may be imposed on the Company by lenders or other financial institutions, and the Company's investment plans and financial condition.

<sup>1</sup> Eusebio H. Tanco is the beneficial owner of 213,351,082 shares. Prudent Resources, Inc. is the beneficial owner of 5,335,000 shares. Biolim Holdings and Management Corp. (Formerly: Rescom Developers, Inc.) is the beneficial owner of 1,005,000 shares. Eujo Philippines, Inc. is the beneficial owner of 16,160,000 shares. STI Education Services Group, Inc. is the beneficial owner of 102,524,000 shares. Tantivy Holdings, Inc. (Formerly: Insurance Builders, Inc.) is the beneficial owner of 3,000,000 shares.

Core net income is defined as consolidated net income after income tax derived from the Company's main business-education and other recurring income.

The amount of dividends will be reviewed periodically by the Board in light of the Company's earnings, financial conditions, cash flows, capital requirements and other considerations, while maintaining a level of capitalization that is commercially sound and sufficient to ensure that the Company can operate on a standalone basis.

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

- The level of the Company's earnings, cash flow, return on equity and retained earnings;
- Its results for and its financial condition at the end of the year in respect of which the dividend is to be paid and its expected financial performance;
- The projected levels of capital expenditures and other investment programs;
- Restrictions on payments of dividends that may be imposed on it by any of its financing arrangements and current or prospective debt service requirements; and
- Such other factors as the Board deems appropriate.

(4) Recent Sales of Unregistered or Exempt Securities

There has been no sale of unregistered or exempt securities for the past three (3) years.

## **Management's Discussion and Analysis of Financial Conditions and Results of Operations**

This discussion summarizes the significant factors affecting the financial condition and operating results of STI Holdings and its subsidiaries (hereafter collectively referred to as the "Group") for the fiscal years ended 31 March 2018, 2017 and 2016 as well as the three months ended 30 June 2018 and 2017. The following discussion should be read in conjunction with the attached audited consolidated financial statements of the Company as of and for the period ended 31 March 2018 and 30 June 2018 and for all the other periods presented.

### **Financial Condition**

#### **Three months ended June 30, 2018 vs. three months ended June 30, 2017**

The Group's total assets as at June 30, 2018 amounted to ₱15,894.6 million, 10% or ₱1,478.8 million higher than the balance as at March 31, 2018. This was largely due to the increase in receivables, mostly pertaining to receivables for tuition and other school fees as well as the increase in property and equipment as construction projects continued in full swing. Cash balances also increased. Cash and cash equivalents increased by 17% or ₱309.5 million as collections were received from students for tuition and other school fees.

Total receivables amounted to ₱1,282.6 million, up by ₱764.6 million from ₱518.0 million as of March 31, 2018, since the June 30, 2018 balance is composed mostly of amounts expected to be collected as payment for tuition and other school fees from students and from DepEd for the remaining months of the current school term. Students who qualified for the DepEd Voucher Program are entitled to the government subsidy in amounts ranging from ₱8,750 to ₱22,500 per

student per year. Under the Voucher Program, DepEd pays directly the schools where these students enrolled. Inventories increased by 18% or ₱25.1 million as the schools raised their inventory level of uniforms and textbooks for SY 2018-2019.

Property and equipment, net of accumulated depreciation, increased by ₱413.3 million from the March 31, 2018 balance of ₱8,426.8 million as STI ESG's construction projects continued in full swing and iACADEMY's Nexus campus was substantially completed.

Deferred tax assets rose by 43% or ₱14.2 million due to taxes applicable to tuition and other school fees collected in advance. Following statutory regulations, tuition and other school fees collected in advance are taxed at the time of receipt.

Pension assets as at June 30, 2018 amounted to ₱29.1 million or 46% lower than balance as at March 31, 2018 largely due to the decline in value of equity shares forming part of pension assets.

Total current liabilities increased by ₱1,213.1 million to ₱2,403.8 million as at June 30, 2018 from ₱1,190.7 million as at March 31, 2018, mainly due to the ₱1,102.8 million increase in unearned tuition and other school fees. Unearned revenues will be recognized as income over the remaining period of the related school term.

Total equity slightly decreased by 1% or ₱103.8 million.

### **March 31, 2018 vs. 2017**

The Group's total assets as at March 31, 2018 increased by ₱363.5 million to ₱14,415.8 million from last year's ₱14,052.3 million. This is due to the ₱1,551.3 million increase in property and equipment partially offset by the ₱1,341.2 million decrease in cash and cash equivalents. Eight floors of iACADEMY's Yakal campus were fully occupied as at March 31, 2018 while the remaining six floors are due for completion by mid-July of this year. Construction of this Yakal campus was funded through internally generated funds and a term loan from China Bank.

Cash and cash equivalents decreased by ₱1,341.2 million from last year's ₱3,198.7 million to ₱1,857.5 million as at March 31, 2018 as a result of continued capital outlays on expansion projects of STI ESG which were funded by the proceeds of the bond offer, as well as the payment of bank loans and interest payments made by STI ESG on its bonds.

Receivables, which consist mainly of receivables for tuition and other school fees, increased by ₱74.9 million or 17%. The balance is composed of amounts expected to be collected from students and from the Department of Education ("DepEd"). Receivables from students increased by ₱36.8 million. Outstanding receivables from DepEd for the SHS qualified voucher recipients amounted to ₱110.1 million as at March 31, 2018, posting an increase of ₱58.9 million from the March 31, 2017 balance. On October 23, 2017, DepEd released DepEd Order No. 54 or the "Guidelines on the Implementation of the SHS Voucher Program for SY 2017-2018". This DepEd order states that vouchers will now be paid once every school year instead of the original twice-a-year payment. The vouchers are expected to be collected within 8-12 weeks from date of submission of billing statements to DepEd.

Inventories increased by 13% or ₱16.0 million substantially due to increase in stock of Senior High School ("SHS") uniforms in preparation for the coming School Year ("SY") 2018-2019.

Prepaid expenses and other current assets decreased by ₱13.2 million or 9% from ₱149.0 million to ₱135.8 million. This is largely due to the reclassification of input VAT amounting to ₱46.8 million from prepaid taxes to "Land" under "Property and Equipment", thus forming part of its acquisition

cost. As a background, in January 2017, STI ESG purchased three parcels of land along EDSA, Pasay City with a combined land area of 3,911 square meters. This will be the site of the nine-storey STI Academic Center Pasay-EDSA with roof deck, where the existing students of STI Taft, a separate corporate entity then, will eventually transfer. On August 30, 2017, SEC approved the merger of STI Taft and STI ESG, with STI ESG as the surviving entity. With the approval of the merger, the related input tax on the purchase of the said EDSA properties amounting to ₱46.8 million, was reclassified as part of the acquisition cost of land. In another development, STI ESG entered into a contract to sell in January 2018 for the acquisition of a lot situated at Barangay San Rafael, Iloilo City for ₱183.05 million. STI ESG paid 30% down payment inclusive of VAT and related taxes, net of ₱0.2 million reservation fee, amounting to ₱67.5 million in the same month. STI ESG, as a result, recognized input tax amounting to ₱22.0 million. This lot is earmarked as the future site of STI Iloilo. These transactions, partially offset by real property taxes on investment properties and business taxes paid by STI ESG covering the period January to December 2018, brought down Prepaid taxes by ₱17.0 million compared to ₱122.7 million balance as at March 31, 2017. Prepaid subscriptions and licenses pertain substantially to Microsoft subscriptions, Adobe Acrobat subscription, Sophos firewall and licenses for various software obtained by iACADEMY for its student activities, which are amortized over twelve months from date of subscription. Prepaid licenses increased by ₱9.8 million primarily due to prepayment of Microsoft subscriptions covering the period February 2018 to January 2019.

The noncurrent asset held for sale amounting to ₱716.6 million represents the carrying value of STI ESG's 20% ownership in Maestro Holdings, Inc ("Maestro Holdings"). The operating subsidiaries of Maestro Holdings are PhilPlans First, Inc. ("PhilPlans"), PhilhealthCare, Inc. and Philippine Life Financial Assurance Corporation ("PhilLife"). On June 27, 2017, STI ESG's BOD approved the disposal of this 20% stake in Maestro Holdings. Final negotiations for the sale are ongoing. As such, said investment account was reclassified from noncurrent to current asset. Further, with the reclassification as noncurrent asset held for sale, STI ESG ceased the use of the equity method of accounting for the investment in Maestro Holdings as at June 30, 2017.

Property and equipment, net of accumulated depreciation, climbed by 23% or ₱1,551.2 million from ₱6,875.6 million to ₱8,426.8 million as at March 31, 2017 and March 31, 2018, respectively. As part of the continued expansion projects, STI ESG acquired parcels of land in Lipa and Legazpi amounting to ₱99.1 million and ₱76.4 million, respectively, inclusive of taxes and registration fees. These acquisitions were funded by the proceeds from the bond offer. The cost of acquisition of EDSA properties increased likewise with the reclassification of input tax amounting to ₱46.8 million as part of the cost of land. The renovation costs of STI Sta. Maria and the fit out work on a newly constructed building, which was leased to be the new site of STI Malaybalay, also contributed to the increase. The total related contract costs amounted to ₱69.0 million, inclusive of materials, equipment, furniture and fixtures, cost of labor and overhead and all other costs necessary for the completion of these projects. The construction projects in Sta. Maria and Malaybalay were completed in January 2018. The construction in-progress account likewise increased significantly as the construction projects for the new sites of STI Lipa, STI Sta. Mesa, STI Pasay-EDSA and a green field school in San Jose del Monte continued in full swing. The construction project in Lipa is expected to be completed by end of July 2018 while the rest are expected to be completed in November 2018 or in time for the second semester.

As at March 31, 2018, the building, machineries and equipment and construction in-progress account include costs incurred for the land development and building of iACADEMY's Yakal campus. The building opened and was launched as iACADEMY Nexus on February 12, 2018. Of the fourteen floors in the building, eight floors are now utilized as classrooms, office and parking of iACADEMY. The rest of the six floors are being completed and finishing should be done by mid-July

of this year. The cost allocated to these floors is still recognized as construction in progress with a balance of ₱23.7 million as at March 31, 2018.

STI ESG reclassified its investments in Maestro Holdings amounting to ₱716.6 million as “Noncurrent Asset Available for Sale” in June 2017 and presented the same under the current assets portion of the consolidated Statements of Financial Position. “Investments in and advances to associates and joint ventures” consequently decreased by the same amount. Equity share in net losses amounting to ₱222.0 million recognized during the period also contributed to the decrease in the “Investments in and advances to associates and joint ventures” account.

Available for Sale Financial Assets increased by ₱16.5 million from ₱51.6 million to ₱68.1 million as at March 31, 2017 and March 31, 2018, respectively. Deposit for the purchase of proprietary shares in a development in Batangas amounting to ₱16.1 million was reclassified from Other Noncurrent Assets to Available-for-sale Financial Assets in December 2017.

Pension assets amounted to ₱53.5 million from ₱2.8 million as at March 31, 2017 with the recognition of the remeasurement gains on the improved valuation of the equity shares which form part of the plan assets for the year ended March 31, 2018.

Goodwill, intangible and other noncurrent assets increased by ₱134.3 million to ₱561.5 million as at March 31, 2018 largely due to additional ₱136.3 million noncurrent advances to suppliers/contractors in connection with construction activities for the period.

On May 23, 2017, STI Sta. Maria entered into a Deed of Assignment with Halili Reyes Educational Institution, Inc. (“HREI”) whereby HREI assigned, transferred and conveyed in a manner absolute and irrevocable, and free and clear of all liens and encumbrances, to STI Sta. Maria all its rights, title and interest in its school’s assets and liabilities for a price of ₱20.0 million. The assignment of the net assets shall retroact to April 1, 2017. Consequently, the ₱18.0 million initial deposits made which were previously recognized under “Deposits for asset acquisitions” were applied and STI Sta. Maria paid the remaining balance of ₱2.0 million. The purchase price consideration was allocated to the assets and liabilities based on the fair values at the date of acquisition resulting in goodwill amounting to ₱1.8 million.

Accounts payable and other current liabilities increased by ₱322.2 million largely due to the additional payables recognized by iACADEMY and by STI ESG in relation to construction works on the former’s Yakal campus and in various STI ESG campuses.

Short-term loans and current portion of interest-bearing loans and borrowings under the Corporate Notes Facility with China Bank decreased by ₱645.4 million net of reclassification amounting to ₱167.4 million from noncurrent portion of the Corporate Notes Facility to current

STI ESG’s short-term loan balance amounted to ₱545.0 million and nil as at March 31, 2017 and March 31, 2018, respectively. STI ESG availed of loans from Bank of the Philippine Islands amounting to ₱240.0 million in October 2017 and made payments aggregating to ₱785.0 million for the year ended March 31, 2018. The loans are subject to interest rates ranging from 3.20% to 3.75%. The proceeds from these loans were used for working capital requirements.

On the other hand, iACADEMY made its first drawdown on September 29, 2017 from the ₱800.0 million term loan facility arranged with China Banking Corporation to fully settle the ₱200.0 million bridge loan used for the construction of its Yakal campus.

In addition, STI ESG and STI WNU remitted principal payments to China Bank amounting to ₱40.8 million and ₱27.0 million, respectively.

Noncurrent portion of interest bearing borrowings increased by a net amount of ₱154.8 million resulting from the reclassification of ₱167.4 million to current liability and iACADEMY's recognition of ₱330.0 million drawdown from its term loan facility less ₱7.8 million deferred transaction costs.

Current portion and noncurrent portion of obligations under finance lease increased by ₱1.5 million and ₱7.5 million, respectively, as at March 31, 2018 with the acquisition of property and equipment under finance lease.

Unearned tuition and other school fees increased by 49% or ₱49.1 million from ₱100.3 million as at March 31, 2017 to ₱149.4 million as at March 31, 2018, substantially attributed to advance payments of tuition and other school fees of incoming students for SY 2018-2019. The unearned revenue will be recognized as income over the incoming school term of the STI ESG schools and STI WNU and over the remaining months of iACADEMY's school term.

Income tax payable decreased to ₱17.5 million as at March 31, 2018 from ₱19.6 million last March 31, 2017 due to lower taxable income.

STI ESG listed its ₱3 Billion Series 7-year Bonds due 2024 and Series 10-year Bonds due 2027 on the PDEX secondary market on March 23, 2017. This is the first tranche of its ₱5 Billion fixed rate bonds program under its 3-year shelf registration with the SEC. The Bonds carry coupon rates of 5.8085% and 6.3756% for the 7-year and 10-year tenors, respectively. Interest payments are payable quarterly in arrears on June 23, September 23, December 23, and March 23 or the next business day if such dates fall on a non-banking day, of each year commencing on June 23, 2017, until and including the relevant maturity date. The Bonds Payable is carried in the books at ₱2,951.9 million and ₱2,947.0 million as at March 31, 2018 and 2017, respectively, net of deferred finance charges representing bond issue costs with carrying value of ₱48.1 million and ₱53.0 million, as at March 31, 2018 and 2017, respectively.

Pension liabilities decreased by 12% to ₱42.5 million as of March 31, 2018 due to the impact of remeasurement unrealized gains recognized based on actuarial reports.

Other noncurrent liabilities decreased by ₱12.6 million as advanced rent and rental deposits amounting to ₱4.8 million were applied against receivables from former lessees of STI ESG because of pre-termination of lease contracts. In addition, STI Novaliches' noncurrent liability to STI Diamond, as a result of conveyance of the latter's net assets to the former in August 2016, now has a present value of ₱50.1 million, net of current portion of ₱7.1 million, as at March 31, 2018.

As at March 31, 2018, Cumulative actuarial gain increased by ₱52.3 million from ₱44.4 million to ₱96.7 million as at March 31, 2017 and 2018, respectively, due to the impact of unrealized remeasurement gains recognized from improved market value of the investment in equity securities of the pension plan assets.

The Group's unrealized mark-to-market gains on their available-for-sale financial assets increased by ₱0.4 million largely due to the higher market value of the Manulife shares held by STI ESG.

Other comprehensive income associated with the noncurrent asset held for sale shown in the equity side of the audited consolidated statements of financial position amounting to ₱90.6 million represents STI ESG's cumulative share in Maestro Holdings' unrealized mark-to-market gain on available-for-sale financial assets, cumulative actuarial gain on pension liabilities, remeasurement



loss on life insurance reserves and other equity reserve, net of the non-controlling interests in STI ESG, up to June 30, 2017, which is the date of reclassification.

The Group's share in associates' unrealized mark-to-market loss on their available-for-sale financial assets of ₱16.2 million reported as at March 31, 2017 decreased substantially as at March 31, 2018. This amount as at March 31, 2017 corresponds to the unrealized mark-to-market losses attributable to the 20% investment share in Maestro Holdings and is part of the reclassification made in June 2017.

The Group's share in associates' cumulative actuarial gain declined from ₱0.7 million as at March 31, 2017 to ₱0.2 million as at March 31, 2018. The balance shown as at March 31, 2018 does not include any amount pertaining to the reclassified noncurrent asset held for sale.

The Group's share in associates' remeasurement losses on life insurance reserves is the result of the retrospective application of the change in the valuation methodology of PhilLife's life insurance reserves for traditional products from Net Premium Valuation ("NPV") to Gross Premium Valuation ("GPV") in accordance with Insurance Commission Circular Letters 2016-66 and 2017-36, "Valuation for Life Insurance Policy Reserves" effective starting January 1, 2017. The balance of ₱18.1 million as at March 31, 2017 corresponds to the 20% investment share in Maestro Holdings and is part of the reclassification made in June 2017.

The Group's share in associates' other equity reserve of ₱0.7 million reported as at March 31, 2017 likewise corresponds to the 20% investment share in Maestro Holdings and is part of the reclassification made in June 2017.

Retained earnings increased by ₱307.9 million as a result of this year's net income earned less dividends declared.

### **March 31, 2017 vs. 2016 (as restated)**

The Group's total assets as at March 31, 2017 increased by ₱3,725.2 million to ₱14,052.3 million from previous year's ₱10,327.1 million. This is mainly due to the substantial increase in cash and cash equivalents representing the proceeds of fixed rate bonds issued by STI ESG amounting to ₱3 billion. Property and equipment also increased by ₱1,265.1 million as STI ESG acquired EDSA, Pasay City properties, future site of STI Academic Center Pasay-EDSA for ₱552.4 million. Initial construction works amounting to ₱241.8 million were recorded by iACADEMY on its Yakal campus.

Cash and cash equivalents stood at ₱3,198.7 million as at March 31, 2017, almost 5x the level as of March 31, 2016. The increase was contributed partly by cash generated from operations as well as the proceeds from the retail bond offering in March 2017.

Receivables, which consist mainly of receivables from students, increased by ₱138.7 million or 46%. The balance is composed of amounts expected to be collected as payment for tuition and other school fees from students and from the DepEd. Students who qualified for the DepEd Voucher Program are entitled to the government subsidy in amounts ranging from ₱8,750 to ₱22,500 per student per year. Under the Voucher Program, DepEd pays directly the schools where these students enrolled.

Inventories increased by 211% or ₱83.9 million as the schools increased their stock of uniforms and textbooks for SHS students in preparation for the enrollment in SY 2017-2018.

Prepaid expenses and other current assets increased by 56% or ₱53.7 million, net of the input value added tax (“VAT”) applied to pay for output VAT on the rent collected by STI ESG in 2017. Input VAT amounting to ₱7.0 million and ₱46.8 million were recognized by iACADEMY in relation to its building construction in Yakal, Makati City and by STI ESG on the purchase of its EDSA, Pasay City properties, respectively. Neschester also recorded ₱13.7 million input VAT as at March 31, 2017. Prepaid rent as of March 31, 2017 includes advance payments made for the lease of land for STI Calamba and STI Global City.

Property and equipment rose by ₱1,265.1 million net of depreciation expense in 2017. This is largely attributed to the acquisition by STI ESG of EDSA, Pasay City properties amounting to ₱552.4 million and the construction costs as well as school equipment, furniture and fixtures purchased for STI College Las Piñas, which was completed in July 2016. Land owned by Neschester, which will be used as the site of iACADEMY’s Yakal campus, was recorded at ₱359.5 million. Meanwhile, initial construction costs on said Yakal property reached ₱241.8 million as at March 31, 2017.

Investments in and advances to associates and joint ventures decreased by ₱395.0 million as an associate registered declines in the market value of its investment in equities. The increase in the market value of the service assets of an associate softened the decline in profit. Inter-company receivables are generally settled in cash.

Deferred tax assets increased by ₱3.2 million mainly due to the ₱2.7 million deferred tax assets of Neschester.

Pension assets amounting to ₱2.8 million was recognized in 2017 resulting from remeasurement gains due to the improved valuation of the equity shares in the plan assets for the period.

Goodwill, intangible and other noncurrent assets increased by ₱34.8 million, mainly due to deposits made for acquisition of properties in the province of Batangas for the future site of STI Lipa.

Accounts payable and other current liabilities declined by 23% or ₱136.3 million largely due to full payments made to contractors with the completion of the major construction projects as well as to the Bureau of Internal Revenue for taxes due.

STI ESG availed of short term loans in 2017 amounting to ₱1,793.0 million with interest rates ranging from 3.25%-3.75%. Total payments within the said year amounted to ₱1,248.0 million. iACADEMY likewise obtained a short-term loan from a local bank amounting to ₱200.0 million. The loan is subject to 3.75% interest per annum and is due on July 14, 2017. As at March 31, 2017, STI ESG and iACADEMY registered outstanding short-term loan balance of ₱545.0 million and ₱200.0 million, respectively. The short-term loans were availed for working capital purposes and partly to finance STI ESG's acquisition of three parcels of land in EDSA, Pasay City and iACADEMY's construction of its Yakal campus.

Payments made in 2017 for long term interest-bearing loans reduced both current and non-current portions by ₱49.0 million and ₱117.8 million, respectively.

Payments were also made for finance lease obligations, bringing down the balance payable by ₱0.2 million and ₱0.6 million, respectively, for current and non-current portions.

Unearned tuition and other school fees increased by ₱46.2 million from ₱54.1 million as at March 31, 2016 to ₱100.3 million as at March 31, 2017. The increase is primarily due to the change in school year implemented by iACADEMY such that June marked the end of school year for both

tertiary and senior high school instead of March. The unearned revenue will be recognized as income over the remaining months of the school term.

Income tax payable declined by ₱26.9 million largely due to the ₱34.5 million paid by the Parent Company in July 2016. However, STI ESG registered increases in its income taxes payable reflecting the increased enrollment resulting to higher taxable income as compared to previous period.

STI ESG listed its ₱3 Billion Series 7-year Bonds due 2024 and Series 10-year Bonds due 2027 on the PDEX secondary market on March 23, 2017. This is the first tranche of its ₱5 Billion fixed rate bonds program under its 3-year shelf registration with the SEC. The Bonds carry coupon rates of 5.8085% and 6.3756% for the 7-year and 10-year tenors, respectively. Interest payments are payable quarterly in arrears on June 23, September 23, December 23, and March 23 or the next business day if such dates fall on a non-banking day, of each year commencing on June 23, 2017, until and including the relevant Maturity dates. The Bonds Payable are carried in the books at ₱2,947.0 million, net of deferred finance charges, representing the bond issue costs, with carrying value of ₱53.0 million as at March 31, 2017.

Pension liabilities decreased by 34% to ₱48.1 million as of March 31, 2017 due to recognition of remeasurement unrealized gains recognized based on actuarial reports.

Other noncurrent liabilities increased by ₱88.0 million as advanced rent and rental deposits were received by STI ESG on its investment properties. In addition, accounts payable to STI Diamond recorded at its present value of ₱57.1 million, net of current portion of ₱3.7 million, was recognized upon the conveyance of its net assets to STI Novaliches in August 2016.

As at March 31, 2017, the Group's cumulative actuarial gain increased by ₱28.7 million due to the impact of unrealized gains arising from improved market value of investment in equity securities of the pension plan assets.

In the same manner, the Group's share in associates' cumulative actuarial gain as at March 31, 2017 improved to ₱0.7 million from previous year's cumulative actuarial loss of ₱18.0 million, based on associates' actuarial reports for the year.

Unrealized mark-to-market loss on the Group's available-for-sale financial assets of ₱0.4 million as of March 31, 2016 improved to unrealized mark-to-market gain on available-for-sale financial assets amounting to ₱0.5 million as of March 31, 2017 substantially due to the higher market value of the Manulife shares held by STI ESG.

On the other hand, the Group's share in its associates' unrealized mark-to-market gains on their available-for-sale financial assets amounting to ₱130.1 million as of March 31, 2016 declined to register unrealized mark-to-market losses of ₱16.2 million as of March 31, 2017 due to lower market value of certain equities held by an associate.

The equity conversion of STI ESG's advances of ₱49.0 million to STI Taft, which resulted in the dilution of non-controlling interests, gave rise to additional ₱11.3 million on the equity reserve account. This was partially offset by the impact of the acquisition by STI Holdings of iACADEMY from STI ESG on the equity reserve account amounting to ₱1.7 million.

The Group's share in associates' remeasurement losses on life insurance reserves amounted to ₱18.1 million as at March 31, 2017 as compared to ₱14.1 million as at March 31, 2016. Valuation methodology of PhilLife's life insurance reserves for traditional products was changed from Net

Premium Valuation (“NPV”) to Gross Premium Valuation (“GPV”) in accordance with Insurance Commission Circular Letters 2016-66 and 2017-36, “Valuation for Life Insurance Policy Reserves” effective starting January 1, 2017.

The Group recognized its share in associates’ equity reserve amounting to ₱0.7 million as at March 31, 2017. This arose when Maestro Holdings invested additional capital in PhilLife, thus diluting its non-controlling interest.

Retained earnings increased by 9% or ₱362.2 million as a result of the net income earned in 2017 less dividends declared.

## **Results of Operations**

### **Three months ended June 30, 2018 vs. three months ended June 30, 2017**

For the three months ended June 30, 2018, the Group generated gross revenues of ₱460.3 million, lower by 6% or ₱27.8 million from same period last year of ₱488.1 million. Gross profit likewise decreased by ₱49.2 million or 18% year-on-year.

The Group’s operations yielded a loss of ₱74.1 million for the three-month period ended June 30, 2018 from same period last year’s operating income of ₱28.6 million. Earnings before interest, taxes, depreciation and amortization or EBITDA, computed as net income excluding provision for income tax, depreciation and amortization, equity in net losses of associates and joint ventures, interest expense and interest income, similarly declined by ₱91.5 million to ₱66.0 million from last year’s ₱157.5 million. EBITDA margin for the three-month period decreased from 32% last year to 14% this year.

Net loss for the period amounted to ₱80.1 million as against same period last year’s net loss of ₱216.9 million, due to the equity share in net losses of an associate recognized for the three-month period ended June 30, 2017.

### **Years ended March 31, 2018 vs. 2017**

The steady increase in the number of enrollees in STI ESG owned and franchised schools, as well as in iACADEMY and STI WNU, resulted in revenue growth of 5% or ₱149.7 million, reaching ₱3,082.7 million for the fiscal year ended March 31, 2018.

The enrollment at the start of the SY of the schools under STI Holdings are as follows:

	SY 2017-2018	SY 2016-2017	Increase (Decrease)	
			Enrollees	Percentage
<b>STI ESG</b>				
Owned schools	54,366	52,687	1,679	3.2%
Franchised schools	42,165	43,592	(1,427)	(3.3)%
	96,531	96,279	252	0.3%
<b>iACADEMY</b>	1,728	1,375	353	26%
<b>STI WNU</b>	6,772	6,073	699	12%
<b>Total Enrollees</b>	<b>105,031</b>	<b>103,727</b>	<b>1,304</b>	<b>1%</b>

Grouping the students in terms of government regulatory agencies supervising the programs, wherein CHED pertains to students enrolled in tertiary and post-graduate programs, TESDA students are those enrolled in technical-vocational programs while DepEd pertains to primary and secondary education including SHS, following are the numbers:

<b>SY 2017-2018</b>				
	<b>CHED</b>	<b>TESDA</b>	<b>DEPED*</b>	<b>TOTAL</b>
<b>STI ESG</b>	40,147	2,191	54,193	96,531
<b>iACADEMY</b>	783	-	945	1,728
<b>STI WNU</b>	3,336	-	3,436	6,772
<b>Total</b>	<b>44,266</b>	<b>2,191</b>	<b>58,574</b>	<b>105,031</b>
Proportion of CHED:TESDA:DepEd	<b>42%</b>	<b>2%</b>	<b>56%</b>	<b>100%</b>
<b>SY 2016-2017</b>				
	<b>CHED</b>	<b>TESDA</b>	<b>DEPED*</b>	<b>TOTAL</b>
<b>STI ESG</b>	53,016	5,692	37,571	96,279
<b>iACADEMY</b>	945	-	430	1,375
<b>STI WNU</b>	3,989	-	2,084	6,073
<b>Total</b>	<b>57,950</b>	<b>5,692</b>	<b>40,085</b>	<b>103,727</b>
Proportion of CHED:TESDA:DepEd	<b>56%</b>	<b>5%</b>	<b>39%</b>	<b>100%</b>

\* For STI ESG and iACADEMY, these represent the number of enrolled SHS students while for STI WNU, this is the total of 2,496 SHS students and the 940 students enrolled in basic education for SY 2017-2018 and 1,205 SHS students and the 879 students enrolled in basic education for SY 2016-2017.

Tuition and other school fees for the year increased by ₱73.8 million or 3%. While there was only a 1% increase in the total number of students of the Group from 103,727 last year to 105,031 students this year, the related increase in revenues is higher.

Revenues from educational services and royalty fees increased by ₱9.2 million and by ₱1.4 million, respectively, mainly due to the increased collections of the franchised schools. Revenues from educational services are derived as a percentage of the tuition and other school fees actually collected by the franchised schools from their students and DepEd.

Sale of educational materials and supplies increased by ₱24.8 million or 16% largely due to increased sale of SHS textbooks.

Other revenues increased by 182% or ₱40.6 million from ₱22.2 million last year to ₱62.8 million this year, substantially due to fees for the use of the enrolment and e-Learning Management systems.

Cost of educational services increased by 7% or ₱58.2 million from ₱823.9 million last year to ₱882.1 million this year mainly due to costs associated with the operation of STI Sta. Maria which was consolidated this year with the costs of the Group. STI Sta. Maria became a 100% STI ESG subsidiary in April 2017. In addition, faculty salaries and benefits increased by 8% or ₱25.9 million attributed to the salaries of instructors who handled the remedial classes of SHS students in April and May 2017 and due to salary alignment of SHS teachers who passed the Licensure Examination for Teachers

("LET") and tertiary instructors who earned their Master's degrees. Depreciation and amortization increased by ₱21.7 million substantially attributed to the impact of depreciation recognized for the STI Las Piñas campus building, completed in July 2016, as well as other completed construction and renovation projects. STI ESG also held the first K to 12 program Grade 12 graduation which increased the commencement costs from ₱16.9 million last year to ₱34.6 million or by ₱17.7 million this year. Software maintenance cost increased by ₱6.2 million due to cloud services of PLDT for connectivity and data storage cost of the enrollment system, as database was moved from onsite premise servers to cloud. The cost increases were partially offset by the decrease of ₱4.5 million in cost of student activities and programs due to a February 2017 CHED Memorandum on the imposition of a moratorium on field trips and other similar activities covered under CHED Memorandum No. 17 Series of 2012. This moratorium was lifted during SY 2017-18. Thus, STI ESG plans to bring back and continue these annual activities of the students in the coming school years.

Cost of educational materials and supplies sold increased by ₱11.1 million, largely due to increased sale of textbooks, net of the rebates received from the acquisition of these textbooks amounting to ₱5.5 million.

Gross profit increased by ₱80.5 million from ₱1,988.2 million last year to ₱2,068.7 million this year. The gross profit margin, however, slightly decreased by 1 percentage point, from 68% to 67%. The decrease is largely due to the mix of students that the Group has. In SY 2016-2017, the proportion of students is 56:5:39 where the CHED students accounted for 56% of total student population as against the SHS students' share of 39%. This SY 2017-2018, the proportion is 42:2:56 where CHED students account for 42% and SHS students make up 56% of total student population. The Group's experience is that higher revenues and higher margins are derived from CHED students. The new batch of CHED first year students is expected to come starting SY 2018-2019.

General and administrative expenses increased by 12% or ₱128.2 million from ₱1,066.1 million last year to ₱1,194.3 million this year. Personnel costs increased by ₱22.4 million or 7% as plantilla positions were filled up and salary increases given to deserving employees. Costs of security, janitorial and other outside services increased by ₱20.9 million due to the consolidation of operations of STI Sta. Maria as well as additional costs incurred by STI Las Piñas and various other schools for additional security and janitorial personnel. Further, security guards posted in the Parent Company's Quezon City and Davao properties resulted in additional ₱7.5 million cost. Professional fees increased by ₱17.9 million largely due to expenses incurred in relation to the merger of STI Taft and STI Dagupan with STI ESG, special audits in connection with the disposal of Maestro Holdings, and various legal and labor-related cases. Light and water expenses increased substantially by ₱16.4 million due to the cost incurred by STI Sta. Maria which is consolidated this year, and higher expenses recognized by the schools for the year compared to last year, as the average rate per kilowatt-hour of electricity increased. Advertising and promotions expense increased by ₱13.1 million as the marketing campaign for both SHS and Tertiary programs were intensified. Following STI ESG's Receivables Impairment policy, STI Sta. Maria recognized impairment expense amounting to ₱7.4 million on its outstanding receivables from its students as of March 31, 2018. This contributed substantially to the ₱11.6 million increase in Provision for doubtful accounts of the Group. Taxes and licenses increased by ₱8.0 million due to real property taxes on investment properties.

The Group's operating income, that is, income before other income and expenses and income tax, thus declined by 5% from ₱922.1 million last year to ₱874.3 million this year.

Equity in net loss of associates and joint ventures amounting to ₱222.0 million for the year ended March 31, 2018 pertains largely to the share of STI ESG in the loss of Maestro Holdings up to end of June 2017. With the reclassification of the carrying value of STI ESG's 20% ownership in Maestro Holdings to noncurrent asset held for sale, STI ESG ceased the use of the equity method of accounting for its investment in Maestro Holdings as at June 27, 2017. By way of explanation, this loss arose from the decision of PhilPlans to fully recognize the mandated discount interest rate imposed by the Insurance Commission ("IC") on the reserves of pre-need companies. The IC is the government regulatory agency supervising pre-need companies. In November 2012, the IC issued Circular Letter 23-2012 relating to the Valuation of Transitory Pre-need Reserves. The IC mandated a gradual decrease in the discount interest rate to be used for valuing the reserves to provide regulatory leeway for the compliance to this circular. The old basket of plans previously approved by the SEC when the pre-need companies were under its supervision were using higher discount rate. The circular mandated that for the years 2012 to 2016, the discount interest rate shall be 8%; for 2017, 7.25%; for 2018, 6.5% and for 2019 onwards 6%. In July 2017, PhilPlans opted to have an early adoption of the 6% discount interest rate starting January 2017. This means bigger allocation to pre-need reserves from its trust funds, thus recognizing a higher expense item.

Further, Maestro Holdings has restated its prior year financial statements to reflect, among others, the following adjustments: (a) with the completion of the correction in its system process, PhilPlans has recognized the plan benefits expense pertaining to education plan contracts with maturity dates from July to December on their proper maturity dates; (b) in compliance with IC Circular Letters 2016-66 and 2017-36, PhilLife changed the methodology in the determination of legal policy reserves in its life insurance contracts from net premium valuation to gross premium valuation; (c) recognition of fair value decline below cost of certain AFS equity securities to profit or loss.

Accordingly, the Group has made the necessary adjustments to recognize its share in the restated net earnings and comprehensive income of Maestro Holdings. The consolidated financial statements for the fiscal years ended March 31, 2017 and March 31, 2016 have been restated to reflect these adjustments.

Rental income increased by ₱3.2 million or 3% due to the substantial occupancy of the investment properties owned by STI ESG.

Interest expenses on loans increased by 177% or ₱140.2 million year-on-year mainly due to interest incurred on STI ESG's bond issue charged to expense, net of borrowing costs capitalized as part of the cost of the related capital expenditure based on accounting standards in the recognition of borrowing costs. Interest on STI WNU's loan was also charged to expense as construction projects were already completed.

Interest income rose by ₱23.6 million mainly due to interest earned from short-term placements of the proceeds from STI ESG's bond issue. Dividend and other income increased by ₱1.3 million representing increase in dividends received from De Los Santos Medical Center (formerly De Los Santos General Hospital).

STI Diamond and STI Novaliches executed in August 2016, a deed of assignment transferring the net assets of the former to the latter for a transfer price of ₱75.65 million payable in five (5) years. As a result, the management contract between STI ESG and STI Diamond was terminated and residual interest has been transferred. With this, STI Diamond was derecognized as a subsidiary of STI ESG for an amount equal to the present value of the related transfer price of ₱60.8 million which is presented as "Effect of derecognition of a subsidiary" in the audited consolidated statements of comprehensive income of the Group for the year ended March 31, 2017.

Provision for income tax declined by 22% due to lower taxable income for the current period as compared to same period last year.

Net income decreased by ₱55.6 million from ₱558.4 million last year to ₱502.8 million for the current year largely due to the substantial increase in interest expenses charged to operations.

Fair values of the Group's investment in available-for-sale financial assets decreased by ₱0.4 million from unrealized gain of ₱0.8 million last year to unrealized gain of ₱0.4 million this year. The unrealized mark-to-market gains of ₱0.4 million this year is substantially attributed to the higher market value of the Manulife shares held by STI ESG while the ₱0.9 million fair value adjustment last year includes unrealized gains from Manulife as well as other club shares held by STI ESG.

The Group's share in associates' unrealized mark-to-market loss on available-for-sale financial assets amounting to ₱148.3 million last year, improved to ₱125.0 million unrealized mark-to-market gain on available-for-sale financial assets this year, as an associate recognized fair value gains on its investment in equities. This also includes STI ESG's share for the period ended June 30, 2017 in the restated unrealized mark-to-market gain on available-for-sale financial assets of Maestro Holdings amounting to ₱125.0 million resulting from the improved market value of certain AFS equity securities under profit or loss (see discussions in foregoing paragraphs).

STI ESG, STI WNU and iACADEMY reported total remeasurement gains on pension liability of ₱53.0 million this year, net of income tax effect, substantially due to the higher market value of the investment in equity securities forming part of the pension plan assets of STI ESG.

The Group's share in associates' remeasurement gain on pension liability declined by ₱18.8 million from ₱19.0 million last year to ₱0.2 million this year, as several associates posted lower actuarial adjustments this year.

The Group's share in associates' remeasurement loss on life insurance reserves of ₱4.0 million last year improved to remeasurement gain of ₱0.2 million this year.

Overall, other comprehensive loss of ₱103.5 million last year turned to ₱178.7 million other comprehensive income this year, reflecting an improvement in the market conditions in the equities market compared to last year.

The Group posted total comprehensive income of ₱681.5 million this year as compared to ₱455.0 million in 2017.

Earnings before interest, taxes, depreciation and amortization or EBITDA, computed as net income excluding provision for income tax, depreciation and amortization, equity in net losses of associates and joint ventures, interest expense, interest income, and effect of derecognition of a subsidiary, slightly decreased by 1% or ₱20.2 million to ₱1,392.4 million from last year's ₱1,412.6 million. EBITDA margin likewise declined from 48% last year to 45% this year.

Core income, computed as the consolidated net income after income tax derived from the Group's main business of education and other recurring income, amounted to ₱724.8 million for the year ended March 31, 2018 compared to the same period last year of ₱863.2 million.

#### **Years ended March 31, 2017 vs. 2016**



The continuous increase in number of enrollees in STI ESG owned and franchised schools propelled revenue growth by 14% or ₱356.2 million, reaching ₱2,933.0 million in total revenues this year.

The student enrollment of the schools under STI Holdings are as follows:

	SY 2016-2017	SY 2015-2016	Increase (Decrease)	
			Enrollees	Percentage
<b>STI Network</b>				
Owned schools	52,687	42,878	9,809	23%
Franchised schools	43,592	34,767	8,825	25%
	96,279	77,645	18,634	24%
<b>iACADEMY</b>	1,375	994	381	38%
<b>STI WNU</b>	6,073	6,091	(18)	0%
<b>Total Enrollees</b>	<b>103,727</b>	<b>84,730</b>	<b>18,997</b>	<b>22%</b>

Grouping the students in terms of government regulatory agencies supervising the programs, wherein CHED pertains to students enrolled in tertiary and post-graduate programs, Technical Education and Skills Development Authority (“TESDA”) students are those enrolled in technical-vocational programs while DepEd pertains to primary and secondary education including SHS, following are the numbers:

	SY 2016-2017			
	CHED	TESDA	DEPED*	TOTAL
<b>STI ESG</b>	53,016	5,692	37,571	96,279
<b>iACADEMY</b>	945	-	430	1,375
<b>STI WNU</b>	3,989		2,084	6,073
<b>Total</b>	57,950	5,692	40,085	103,727

Proportion of CHED:TESDA:DepEd	<b>56%</b>	<b>5%</b>	<b>39%</b>	<b>100%</b>
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	SY 2015-2016			
	CHED	TESDA	DEPED*	TOTAL
<b>STI ESG</b>	66,445	9,623	1,577	77,645
<b>iACADEMY</b>	994	-	-	994
<b>STI WNU</b>	4,803	198	1,090	6,091
<b>Total</b>	<b>72,242</b>	<b>9,821</b>	<b>2,667</b>	<b>84,730</b>

Proportion of CHED:TESDA:DepEd	<b>85%</b>	<b>12%</b>	<b>3%</b>	<b>100%</b>
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\* For STI ESG and iACADEMY, these represent the number of enrolled SHS students while for STI WNU, this is the total of 1,205 SHS students and the 879 students enrolled in basic education for SY 2016-2017 and 201 SHS students and 889 students in basic education for SY 2015-2016.

Tuition and other school fees increased by ₱264.0 million or 12% from last year's ₱2,274.9 million to ₱2,538.9 million this year, due to the increase in the student enrollment by 22% or 18,997. While there was a remarkable increase in the total number of students of the Group from 84,730 last year to 103,727 students this year or an increase of 22%, the related increase in revenues is lower. The revenue per student from a CHED enrollee is higher than the revenue per student from a DepEd enrollee. With the start of the K to 12 program for Grade 11 students, the number of CHED freshmen enrollees of the Group declined.

Revenues from educational services and royalty fees increased by ₱14.9 million and by ₱3.2 million, respectively, mainly due to the increased collections of the franchised schools. Revenues from educational services are derived as a percentage of the tuition and other school fees actually collected by the franchised schools from their students and DepEd. The voucher portion of the tuition fees of SHS qualified voucher recipients was substantially collected from DepEd as of March 31, 2017.

Sale of educational materials and supplies increased by ₱80.5 million or 110% largely due to increased sale of SHS uniforms and textbooks.

Other income decreased by 22% or ₱6.4 million from ₱28.6 million last year to ₱22.2 million this year. Accounts receivable already written off amounting to ₱3.7 million were collected by iACADEMY last year.

Cost of educational services increased by 10% or ₱74.1 million from ₱749.8 million last year to ₱823.9 million this year mainly due to higher expenses directly associated with the increased number of students. Faculty salaries and benefits increased by ₱36.6 million largely due to the hiring of additional faculty members to handle the enrollment in SHS.

Cost of educational materials and supplies sold increased by ₱65.9 million or 120% concomitant with the increase in sales of uniforms and textbooks.

General and administrative expenses decreased by ₱3.0 million from ₱1,069.1 million last year to ₱1,066.1 million this year. The highest decline was registered by advertising and promotion costs at ₱43.7 million decrease year-on-year. Most of the marketing activities for SHS were done in the months of October to November 2015 during the DepEd-mandated early registration period for SHS, unlike previously when such marketing costs were incurred in the months of April to May for tertiary. Taxes and licenses expense rose by ₱14.2 million primarily due to documentary stamp taxes paid on short term loans availed during the year and higher business taxes associated with the increase in gross receipts. Capital gains tax was also paid in relation to the sale of iACADEMY from STI ESG to STI Holdings. Personnel costs increased by ₱9.9 million as plantilla positions were filled up and salary increases were given to deserving employees along with salary adjustments resulting from the job evaluation conducted in STI WNU. Outsourced services for security and janitorial functions also increased by ₱9.1 million. Depreciation and amortization expenses rose by ₱5.1 million as depreciation was recorded for the completed STI Las Piñas campus.

Excess of consideration received from collection of receivables amounting to ₱553.4 million was recognized last year, representing the difference between the fair market value of the properties acquired vs. the recorded balance of the noncurrent receivables from PWU and Unlad as of the time of the settlement.

Disposal of school equipment resulted to net gain of ₱0.1 million this year compared to a net loss of ₱0.5 million last year.

Interest expenses increased by ₱16.0 million largely due to the interest charges on short term loans availed for working capital purposes and for the acquisition of STI ESG's EDSA, Pasay City properties.

STI Diamond and STI Novaliches executed in August 2016, a deed of assignment transferring the net assets of the former to the latter for a transfer price of ₱75.65 million payable in five (5) years. As a result, the management contract between STI ESG and STI Diamond was terminated. With this, STI Diamond was derecognized as a subsidiary of STI ESG for an amount equal to the present value of the related transfer price of ₱60.8 million.

Rental income increased by ₱48.3 million or 77% due to the substantial occupancy of the investment properties owned by STI ESG.

Interest income declined from ₱5.8 million in 2016 to ₱4.9 million in 2017 as bank interest rates on short-term placements remained low and cash balances were used to fully pay construction costs and other related capital expenditures.

Equity in net earnings of associates and joint ventures decreased from earnings of ₱35.0 million last year to loss of ₱158.5 million this year as some associates incurred increased expenses this year and other associates recognized further declines in the value of their investments in equities.

Dividend income slightly increased by ₱0.4 million.

Provision for income tax decreased by ₱127.4 million due to corresponding decrease in taxable income.

Net income after tax is ₱644.0 million, a decrease of ₱428.7 million from last year's ₱1.1 billion largely due to the gain of ₱553.4 million recognized last year resulting from the dacion of real estate properties in Quezon City and Davao in settlement for non current receivables.

The Group's share in associates' unrealized mark-to-market loss on available-for-sale financial assets amounted to ₱171.9 million this year, an improvement of ₱130.2 million from last year, as an associate recognized lower fair value losses on its investment in equities.

Fair values of the Group's investment in available-for-sale financial assets improved from an unrealized loss of ₱0.4 million last year to unrealized gain of ₱0.8 million this year due to favorable market conditions.

The Group's share in associates' remeasurement gain on pension liability improved by ₱18.4 million from ₱0.6 million last year to ₱19.0 million as several associates posted positive actuarial adjustments.

Likewise, the Group generated remeasurement gain on pension liability of ₱29.0 million this year compared to last year's remeasurement loss of ₱4.8 million, both figures net of income tax effect, largely due to the higher market value of the investment in equity securities of the pension plan assets.

In total, other comprehensive loss declined by ₱183.6 million, reflecting an improvement in the market conditions in the equities market compared to last year. The Group posted total comprehensive income of ₱521.0 million this year as compared to ₱766.0 million in 2016.

Earnings before interest, taxes, depreciation and amortization or EBITDA, computed as net income excluding provision for income tax, depreciation and amortization, equity in net earnings (losses) of associates and joint ventures, interest expense, interest income, effect of derecognition of a subsidiary, and excess of consideration received from collection of receivables, increased by 25% or ₱286.1 million to ₱1,412.6 million from last year's ₱1,126.5 million. EBITDA margin likewise improved from 44% last year to 48% this year.

### Financial Highlights and Key Performance Indicators

	March 31		Increase (Decrease)	
	2018	2017	Amount	%
<i>(in millions except margins, financial ratios and earnings per share)</i>				
<b>Condensed Statements of Financial Position</b>				
Total assets	14,415.8	14,052.3	363.5	3
Current assets	3,367.4	3,914.4	(547.0)	(14)
Cash and cash equivalents	1,857.5	3,198.7	(1,341.2)	(42)
Equity attributable to equity holders of the parent	8,705.4	8,221.1	484.3	6
Total liabilities	5,613.4	5,740.0	(126.6)	(2)
Current liabilities	1,190.7	1,465.5	(274.8)	(19)
<b>Financial ratios</b>				
Debt-to-equity ratio <sup>(1)</sup>	0.62	0.68	(0.06)	(9)
Current ratio <sup>(2)</sup>	2.83	2.67	0.16	6
Asset to equity ratio <sup>(3)</sup>	1.64	1.69	(0.05)	(3)
<b>Condensed Statements of Income</b>				
Revenues	3,082.7	2,933.0	149.7	5
Direct costs <sup>(4)</sup>	1,014.0	944.8	69.2	7
Gross profit	2,068.7	1,988.2	80.5	4
Operating profit	874.3	922.1	(47.8)	(5)
Other income (expenses) - net	(293.7)	(264.4)	(29.3)	(11)
Income before income tax	580.6	657.7	(77.1)	(12)
Net income	502.8	558.4	(55.6)	(10)
EBITDA <sup>(5)</sup>	1,392.4	1,412.6	(20.2)	(1)
Core income <sup>(6)</sup>	724.8	863.2	(138.4)	(16)
Net income attributable to equity holders of the parent company	496.0	550.2	(54.2)	(10)
Earnings per share <sup>(7)</sup>	0.050	0.055	(0.005)	(9)

### Condensed Statements of Cash Flows

Net cash from operating activities	1,375.5	942.0	433.5	46%
Net cash used in investing activities	(1,780.1)	(1,655.0)	(125.1)	(8%)
Net cash provided by (used in) financing activities	(936.6)	3,246.9	(4,183.5)	(129%)

### Financial Soundness Indicators

	Year ended March 31		Increase (Decrease)	
	2018	2017	Amount	%
<b>Liquidity Ratios</b>				
Current ratio <sup>(2)</sup>	2.83	2.67	0.16	6
Quick ratio <sup>(8)</sup>	1.99	2.49	(0.50)	(20)
Cash ratio <sup>(9)</sup>	1.56	2.18	(0.62)	(28)
<b>Solvency ratios</b>				
Debt-to-equity ratio <sup>(1)</sup>	0.62	0.68	(0.06)	(9)
Asset to equity ratio <sup>(3)</sup>	1.64	1.69	(0.05)	(3)
Interest coverage ratio <sup>(10)</sup>	3.65	9.30	(5.65)	(61)
Debt service cover ratio <sup>(11)</sup>	3.25	1.33	1.92	144
<b>Profitability ratios</b>				
EBITDA margin <sup>(12)</sup>	45%	48%	(3)	(6)
Gross profit margin <sup>(13)</sup>	67%	68%	(1)	(1)
Operating profit margin <sup>(14)</sup>	28%	31%	(3)	(10)
Net profit margin <sup>(15)</sup>	16%	19%	(3)	(16)
Return on equity <sup>(16)</sup>	6%	7%	(1)	(14)
Return on assets <sup>(17)</sup>	4%	5%	(1)	(20)

<sup>(1)</sup> Debt-to-equity ratio is measured as total liabilities excluding unearned tuition and other school fees divided by total equity

<sup>(2)</sup> Current ratio is measured as current assets divided by current liabilities.

<sup>(3)</sup> Asset to equity ratio is measured as total assets divided by total equity.

<sup>(4)</sup> Direct costs is calculated by adding the costs of educational services and educational materials and supplies sold.

<sup>(5)</sup> EBITDA is Net income excluding provision for income tax, interest expense, depreciation and amortization, equity in net earnings (losses) of associates and joint ventures, interest income, and nonrecurring gains/losses such as effect of derecognition of a subsidiary.

<sup>(6)</sup> Core income is computed as consolidated net income after income tax derived from the Group's main business – education and other recurring income.

<sup>(7)</sup> Earnings per share is measured as net income attributable to equity holders of the parent company divided by the weighted average number of outstanding common shares

<sup>(8)</sup> Quick ratio is measured as current assets less inventories, prepayments and noncurrent asset held for sale divided by current liabilities.

<sup>(9)</sup> Cash ratio is measured as cash and cash equivalents divided by current liabilities.

- <sup>(10)</sup> Interest coverage ratio is measured as Net income excluding provision for income tax and interest expense divided by interest expense.
- <sup>(11)</sup> Debt service cover ratio is measured as EBITDA divided by total principal and interest due for the next 12 months.
- <sup>(12)</sup> EBITDA margin is measured as EBITDA divided by total revenues.
- <sup>(13)</sup> Gross profit margin is measured as gross profit divided by total revenues.
- <sup>(14)</sup> Operating profit margin is measured as operating profit divided by total revenues.
- <sup>(15)</sup> Net profit margin is measured as net income after income tax divided by total revenues.
- <sup>(16)</sup> Return on equity is measured as net income attributable to equity holders of the parent company divided by average equity attributable to equity holders of the parent company.
- <sup>(17)</sup> Return on assets is measured as net income divided by average total assets.

### **Material Changes in Balance Sheet Accounts**

Cash and cash equivalents increased by 17% or ₱309.5 million from ₱1,857.5 million to ₱2,167.0 million as at March 31, 2018 and June 30, 2018, respectively, as collections were received from students for tuition and other school fees.

Receivables increased by ₱764.6 million or 148%. Receivables from students increased by ₱485.5 million, largely pertaining to tuition and other school fees. The receivables from students are expected to be collected over the remaining months of the related school term. Outstanding receivables from DepEd for the SHS qualified voucher recipients amounted to ₱367.6 million as at June 30, 2018, posting an increase of ₱257.5 million from the March 31, 2018 balance.

Inventories increased by 18% or ₱25.1 million. This is mainly attributed to the buildup of the inventory of textbooks for SHS students and the new sets of tertiary uniforms for SY 2018-2019.

Prepaid expenses and other current assets increased by 6% or ₱8.4 million due to prepayment of insurance which mostly covers the period April 2018 to March 2019 or in line with the school calendar and are recognized as expense over the remaining months of the respective contracts.

Property and equipment, net of accumulated depreciation, increased by 5% or ₱413.3 million from the March 31, 2018 balance of ₱8,426.8 million to ₱8,840.1 million as at June 30, 2018 as construction projects continued in full swing. The construction in-progress account includes costs related to the construction of school buildings, which will be the new sites of STI Lipa, STI Sta. Mesa, STI Pasay-EDSA and STI San Jose del Monte. The construction of ground level up to fourth floor of the STI Lipa project was completed in July 2018; remaining works from the fifth floor up to the roof-deck and so with the rest of the other buildings in the sites mentioned above are expected to be completed in November 2018 or in time for the second semester.

As at June 30, 2018, the building, machineries and equipment and construction in-progress account include costs incurred for the land development and building of iACADEMY's Yakal campus. The building opened and was launched as iACADEMY Nexus on February 12, 2018 and is now operational.

Deferred tax assets rose by 43% or ₱14.2 million due to taxes applicable to tuition and other school fees collected in advance. Following statutory regulations, tuition and other school fees, which are collected in advance are subject to income tax upon receipt.

Pension assets as at June 30, 2018 amounted to ₱29.1 million or 46% lower than the balance as at March 31, 2018 largely due to the decline in value of equity shares forming part of pension assets.

Goodwill, intangible and other noncurrent assets decreased by ₱22.9 million, mainly due to the reclassification of the noncurrent advances to suppliers/contractors to Property and Equipment as STI ESG recognized the cost of construction works based on the percentage of completion of the projects as at June 30, 2018.

Accounts payable and other current liabilities increased by ₱107.3 million or 14% substantially due to obligations to contractors in relation to construction works in various STI ESG campuses. This was partially offset by payments made by iACADEMY to its contractors for completed portions of its Nexus building and for delivered furniture, office and school equipment.

Unearned tuition and other school fees increased substantially by ₱1,102.8 million from ₱149.4 million as at March 31 to ₱1,252.2 million as at June 30, 2018. The unearned revenue will be recognized as income over the remaining months of the school term. Income tax payable increased by 20% to ₱21.0 million as at June 30, 2018 from ₱17.5 million last March 31 reflecting the increase in taxable income as tuition fees and rent collected in advance are taxable in full upon receipt.

Both current and noncurrent portions of obligations under finance lease declined by ₱0.5 million and ₱1.7 million, respectively, due to payments made during the period.

Interest-bearing loans and borrowings, net of current portion, increased by ₱370.2 million, net of deferred finance charges, as iACADEMY made its third and fourth drawdowns on its term loan facility with China Banking Corporation.

Pension liabilities slightly decreased by 5% or ₱2.0 million to ₱40.4 million as at June 30, 2018 due to payments made mostly by STI WNU to employees who retired during the period.

Other noncurrent liabilities increased by ₱1.7 million representing advance rent and security deposits received from new lease agreements.

Cumulative actuarial gain decreased by ₱20.4 million from ₱96.7 million to ₱76.3 million, as at March 31, 2018 and June 30, 2018, respectively, due to the impact of unrealized remeasurement loss recognized from the decline in market value of investment in equity securities of the pension plan assets.

Other equity reserve declined by ₱2.7 million reflecting the impact of the merger between iACADEMY and Neschester on the Parent Company accounts.

Unrealized mark-to-market gain on available-for-sale financial assets amounting to ₱0.8 million as at March 31, 2018 registered ₱0.7 million as at June 30, 2018, due to the lower market value of the Manulife shares held by STI ESG.

Retained earnings decreased by 2% due to the net loss recorded for the three-month period ended June 30, 2018.

### **Material Changes in Income Statement Accounts**

Total revenues reached ₱460.3 million during the three-month period ended June 30, 2018, a decrease of ₱27.8 million from same period last year.

Tuition and other school fees for the period declined by ₱26.4 million or 8%. This is due to low turnout of college freshmen enrollees for the June class opening. The free college education program of the government under the Universal Access to Quality Tertiary Education Act started this school year. Some public HEIs start classes in August. There are Grade 12 graduates who, for various reasons, are not able to enrol in these SUCs and LUCs. It is this batch of college entrants that is being targeted by the August campaign of STI ESG.

Revenues from educational services and royalty fees both slightly decreased by 1%. Revenues from educational services are derived as a percentage of the tuition and other school fees actually collected by the franchised schools from their students and from DepEd.

Other revenues increased by ₱1.8 million for the three-month period ended June 30, 2018 as compared to the same period last year due to forfeiture of reservation fees collected in prior years.

Sale of educational materials and supplies decreased by 3% largely due to lower sale of textbooks.

Cost of educational services increased by 10% or ₱15.7 million from ₱156.6 million for the three-month period ended June 30 last year to ₱172.3 million for the same period this year, largely due to the ₱9.7 million depreciation expense recognized by iACADEMY on its Nexus campus. Escalation on rental rates as lease agreements were renewed increased direct rent expense by ₱1.8 million. Instructors' salaries and benefits decreased by ₱2.3 million due to reduced number of faculty members concomitant with the lower turn out of enrollees.

Cost of educational materials and supplies sold increased by 10% due to substantial increases in the price of textbooks.

General and administrative expenses increased by 22% from ₱243.2 million to ₱296.7 million for the three-month periods ended June 30, 2017 and 2018, respectively. The highest increase was registered by advertising and promotions costs which increased year-on-year by ₱36.1 million as the marketing campaign for both SHS and Tertiary programs were intensified in time for the opening of classes for SY 2018-2019. Costs of security, janitorial and other outside services increased by ₱6.3 million due to security guards posted in the Parent Company's Quezon City and Davao properties as well as in iACADEMY's Nexus campus.

The Group's operating income, that is, income before other income and expenses and income tax, decreased to ₱74.1 million loss for the three-month period ended June 30, 2018 from last year's income of ₱28.6 million for the same period. The Group's first quarter results represent the revenues earned by STI ESG and STI WNU for the month of June only, which is the start of school year of these two schools for SY 2018-2019 and the months of April and May and a few days in June for iACADEMY completing its third term for SY 2017-2018. This is due to the seasonality of operations of these educational institutions.

Equity in net losses of associates and joint ventures amounting to ₱223.1 million for the three-month period ended June 30, 2017 pertains largely to the share of STI ESG in the loss of PhilPlans First, Inc. ("PhilPlans") arising from the latter's full recognition of the mandated discount interest rate imposed by the Insurance Commission ("IC") on the reserves of pre-need companies. The IC is the government regulatory agency supervising pre-need companies. In November 2012, the IC issued Circular Letter 23-2012 relating to the Valuation of Transitory Pre-need Reserves. The IC mandated a gradual decrease in the discount interest rate to be used for valuing the reserves to provide regulatory leeway for the compliance to this circular. The old basket of plans previously approved by the SEC when the pre-need companies were under its supervision were using a higher



discount rate. The circular mandated that for the years 2012-2016, the discount interest rate shall be 8%; for 2017, 7.25%; for 2018, 6.5% and for 2019 onwards, 6%. In July 2017, PhilPlans opted to have an early adoption of the 6% discount interest rate starting January 2017. This means bigger allocation to pre-need reserves from its trust funds, thus recognizing a higher expense item.

The equity in net losses of associates and joint ventures amounting to ₱0.9 million for the period April 1 to June 30, 2018 does not include any share in the operations of PhilPlans or any of the other subsidiaries of Maestro Holdings, Inc. (“Maestro”) after STI ESG’s Board of Directors (“BOD”) approved the disposal of its 20% stake in Maestro on June 27, 2017. With this decision to dispose of the Maestro investment, STI ESG’s investment in Maestro was reclassified to Noncurrent asset held for sale under the current assets portion of the Statements of Financial Position. With this, STI ESG ceased the use of the equity method of accounting for its investment in Maestro on June 30, 2017.

Interest expenses decreased by ₱7.6 million year-on-year, from ₱61.3 million to ₱53.7 million as short-term loans of STI ESG were fully settled as at March 31, 2018 and amortization payments on long-term loans of STI ESG and STI WNU aggregating ₱67.8 million were made in July 2017 and January 2018.

Interest income rose by ₱1.7 million mainly due to interest earned from short-term placements of the proceeds of STI ESG’s bonds which are not deployed to date.

Benefit from income tax amounting to ₱8.4 million was recognized as at June 30, 2018 associated with the net loss recognized for the period.

Net loss of ₱80.1 million was recorded for the first three months this year, as against a net loss for the same period last year of ₱216.9 million. Last year’s loss is largely due to the Group’s equity share in the net losses of associates and joint ventures.

### **Financial Risk Disclosure**

The Group’s present activities expose it to liquidity risk, credit risk, interest rate risk and capital risk.

Liquidity risk – Liquidity risk relates to the possibility that the Group may encounter difficulties in raising funds to meet its currently maturing commitments. The Group’s liquidity profile is managed to be able to finance its operations and capital expenditures and other financial obligations. To cover its financing requirements, the Group uses internally-generated funds and interest-bearing loans and borrowings. As part of its liquidity risk management program, the Group regularly evaluates the projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives.

Any excess funds are primarily invested in short-dated and principal-protected bank products that provide flexibility of withdrawing the funds anytime. The Group regularly evaluates available financial products and monitors market conditions for opportunities to enhance yields at acceptable risk levels.

The Group’s current liabilities are mostly made up of trade liabilities with 30 to 60-day payment terms and current portion of interest-bearing loans and borrowings that are expected to mature within one year after reporting date. On the other hand, the biggest components of the Group’s current assets are cash and cash equivalents, receivables from students and DepEd and advances to associates and joint ventures with credit terms of 30 days.

In relation to the Group's long-term loan, the debt service cover ratio, as a bank requirement, is also monitored on a regular basis to keep it at a level acceptable to the Group, to the lender bank and to STI ESG's bondholders. The debt service cover ratio is equivalent to the consolidated EBITDA for the last twelve months divided by total principal and interest due in the next twelve months. The Group's policy is to keep the debt service cover ratio not lower than 1.10:1.00.

As at June 30, 2018 and June 30, 2017, the Group's debt service cover ratio is 2.95:1.00 and 1.37:1.00, respectively.

Credit risk – Credit risk is the risk that the Group will incur a loss arising from students, franchisees or counterparties that fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk that the Group is willing to accept for each counterparty and by monitoring expenses in relation to such limits.

It is the Group's policy to require students to pay all their tuition and other incidental fees before they can get their report cards and other credentials. Receivable balances are monitored such that exposure to bad debts is minimal.

Interest rate risk - Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's long-term loans and bonds. While the Group's long-term debt has a floating interest rate, the Group elected to have the interest rate repriced every year, thus minimizing the exposure to market changes in interest rates. The interest rates for the STI ESG bonds are, however, fixed for the 7-year bonds and the 10-year bonds.

The Group's exposure to interest rate risk also includes its cash and cash equivalents balance. Interest rates for the Group's cash deposits are at prevailing interest rates. Due to the magnitude of the deposits, significant change in interest rate may also affect the consolidated statements of comprehensive income.

Capital Risk- The Group aims to achieve an optimal capital structure to reduce its cost of capital in pursuit of its business objectives, which include maintaining healthy capital ratios and strong credit ratings, maximizing shareholder value and providing benefits to other stakeholders. The Group likewise aims to ensure that cash is available to support its operations and all other projects undertaken by the Group and to maintain funds on a long-term basis.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group is not subject to externally imposed capital requirements.

The Group monitors capital using the debt-to-equity ratio, which is computed as the total of current and noncurrent liabilities less unearned tuition and other school fees, divided by total equity. The Group monitors its debt-to-equity ratio to keep it at a level acceptable to the companies in the Group, to the lender bank and to STI ESG's bondholders. The Group's policy is to keep the debt-to-equity ratio at a level not exceeding 1.50:1.00.

As at June 30, 2018 and 2017, the Group's debt-to-equity ratio is 0.68:1.00. As at March 31, 2018, the Group's debt-to-equity ratio is 0.62:1.00.

## **Agreements/Commitments and Contingencies/Other Matters**

- a. There are no changes in accounting estimates used in the preparation of the audited consolidated financial statements and in the preparation of unaudited interim condensed consolidated reports for the current and prior financial periods.
- b. Except as provided in Note 33 of the Notes to the Audited Consolidated Financial Statements and in Note 21 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements attached as part of “Exhibits and Schedules”, the Group has no other financial and capital commitments.
- c. On June 3, 2013, STI ESG executed a deed of pledge on all of its shares in De Los Santos Medical Center (formerly De Los Santos General Hospital) in favor of Neptune Stroika Holdings, Inc., a wholly-owned subsidiary of Metro Pacific Investments Corporation (“MPIC”), to cover the indemnity obligations of STI ESG enumerated in its investment agreement entered into in 2013 with MPIC. The carrying value of the investment in De Los Medical Center amounted to ₱25.9 million as at June 30, 2018 and March 31, 2018.
- d. There are no material events and uncertainties known to management that would address the past and would have an impact on future operations of the Group.
- e. There are no known trends, demands, commitments, events of uncertainties that will have an impact on the Group’s liquidity except for the contingencies and commitments enumerated in Note 33 of the Notes to Audited Consolidated Financial Statements.
- f. The various loan agreements entered into by STI ESG, STI WNU and iACADEMY and the issuance of fixed rate bonds by STI ESG provide certain restrictions and conditions with respect to, among others, change in majority ownership and management and maintenance of financial ratios. STI ESG, STI WNU and iACADEMY are fully compliant with all the covenants of the loan agreements. Please see Notes 18, 34 and 35 of the Notes to Audited Consolidated Financial Statements of the Company. There are no other events that will trigger direct or contingent financial obligations that are material to the Group, including any default or acceleration of an obligation.
- g. There are no significant elements of income or loss that did not arise from the Group’s continuing operations.
- h. The Group’s business is linked to the academic cycle. The academic cycle which is one academic year starts in the month of June and ends in the month of March, except for iACADEMY where the academic year starts in July for the tertiary level and August for the SHS and with both levels ending in June of each year. The core business and revenues of the Group, which are mainly from tuition and other school fees, are recognized as income over the corresponding academic year to which they pertain.
- i. On March 23, 2017, STI ESG listed its ₱3.0 Billion Series 7-year Bonds due 2024 and Series 10-year Bonds due 2027 on the PDEX secondary market. The ₱3.0 billion bond issue is the first tranche of STI ESG’s ₱5.0 billion fixed rate bonds program under its 3-year shelf registration with the SEC. The Bonds carry coupon rates of 5.8085% and 6.3756% for the 7-year and 10-year tenors, respectively. Interest payments are payable quarterly in arrears on June 23, September 23, December 23, and March 23 or the next business day if such dates fall on a non-banking day, of each year commencing on June 23, 2017, until and including the relevant maturity dates (see Note 19 of the Audited Consolidated Financial Statements ).

- j. On April 21, 2017, STI ESG, Mr. Tony Tan Caktiong (“TTC”), STI Tanauan, and Injap Investments, Inc. (“Injap”), referred collectively as the Joint Venture Parties, entered into an agreement to transform STI Tanauan into a Joint Venture Company which shall operate a farm-to-table school that offers courses ranging from farm production to food services.

The Joint Venture Parties also agreed to increase STI Tanauan’s authorized capital stock to an amount that will be agreed by the Joint Venture Parties in a separate agreement. As agreed by the Joint Venture Parties, the increase in the authorized capital stock will be made through STI Tanauan’s declaration of stock dividends to STI ESG based on STI Tanauan’s unrestricted retained earnings as of March 31, 2017 and cash payments by the Joint Venture Parties.

Additional amendments shall be made to STI Tanauan’s Articles of Incorporation and By-Laws to implement the intent of the parties under the Joint Venture Agreement.

The equity sharing in the Joint Venture Company will be 60%, 25% and 15% for STI ESG, TTC and Injap, respectively.

On June 21, 2017, in separate meetings, the stockholders and the BOD of STI Tanauan approved the increase in the authorized capital stock of the corporation from ₱1.0 million divided into 10,000 shares with a par value of ₱100 to ₱75.0 million divided into 750,000 shares with a par value of ₱100. The increase will be funded through the declaration of stock dividends and cash subscriptions by the shareholders. In the same meeting, the stockholders and the BOD approved the declaration of 150,000 shares as stock dividends with an aggregate par value of ₱15.0 million to be distributed to stockholders of record as of March 31, 2017 based on the unrestricted retained earnings of STI Tanauan as shown in its audited financial statements as of March 31, 2017.

On January 24, 2018 STI ESG subscribed to and fully paid for 35,000 shares at a subscription price of ₱495.0 per share for a total of ₱17.3 million.

On February 26, 2018, STI Tanauan applied with the SEC to increase its authorized capital stock from ₱1.0 million to ₱75.0 million.

On March 2, 2018, the SEC approved the increase and issued the Certificate of Approval on Increase of Capital Stock.

On March 3, 2018, STI Tanauan issued to STI ESG stock dividends of 150,000 shares and 35,000 shares as subscribed by the latter.

- k. On August 1, 2017, STI ESG entered into a Memorandum of Understanding with Royal Caribbean Cruises Ltd. (“RCL”) for the creation of the RCL-STI Cruise Talent Development Centre that will follow RCL standards in providing training for hospitality jobs on cruise ships. This facility will produce more Filipino seafaring talents ready to take on thousands of new hotel roles on cruise ships. Discussions on the execution of a Definitive Agreement are ongoing.
- l. On September 29, 2017, the BOD of the Parent Company adopted a policy on the declaration of dividends starting with Fiscal Year 2017-2018. The BOD approved a dividend declaration policy of not less than 25% of the core income of the Parent Company from the previous fiscal year, subject to compliance with the requirements of applicable laws and regulations, statutory limitations and/ or restrictions, terms and conditions which may be imposed on the Parent

Company by lenders or other financial institutions, and the Parent Company's investment plans and financial condition (see Note 21).

- m. In January 2018, STI ESG entered into a contract to sell with Heva Management and Development Corporation for the acquisition of a lot in Iloilo City with a total area of 2,615 square meters for a price of ₱183.0 million plus value added tax, less applicable taxes. STI ESG made a down payment amounting to ₱67.5 million in January 2018, net of the ₱200.0 thousand reservation fee paid on November 29, 2017 (see Note 16). The remaining balance in the amount of ₱128.1 million shall be paid in eighteen equal monthly installments, without interest, of ₱7.1 million starting January 2018 up to June 2019. The lot will be the future site of STI Iloilo.

#### SEC FORM 17-A

**A COPY OF THE COMPANY'S ANNUAL REPORT ON SEC FORM 17-A WILL BE PROVIDED, WITHOUT ANY CHARGE, TO ANY STOCKHOLDER OF THE COMPANY UPON WRITTEN REQUEST ADDRESSED TO: ATTY. ARSENIO C. CABRERA, JR., CORPORATE SECRETARY, 5<sup>th</sup> FLOOR, SGV II BUILDING, 6758 AYALA AVENUE, MAKATI CITY, METRO MANILA, PHILIPPINES 1229.**

#### SIGNATURE

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

**STI EDUCATION SYSTEMS HOLDINGS, INC.**

Issuer

**ARSENIO C. CABRERA, JR.**  
Corporate Secretary

Date: 6 September 2018



DEPARTMENT OF FOREIGN AFFAIRS  
KAGAWARAN NG UGNAYANG PANLABAS

ANNEX " A "

23 August 2017

**Ambassador Teodoro L. Locsin Jr.**  
556 5th Avenue  
New York, New York 10036  
U.S.A.

Dear Ambassador Locsin,

This is to formally confirm that the undersigned has no objection and hereby grants his permission allowing you to continue with your directorship(s) and/or corporate positions in Philippine companies for as long as this does not impede the effective discharge of your duties as Ambassador.

Very truly yours,

**ALAN PETER S. CAYETANO**  
Secretary of Foreign Affairs

## CERTIFICATION OF INDEPENDENT DIRECTOR

I, **JESLI A. LAPUS**, Filipino, of legal age, with residence address at #3 Galaxy Street, Bel-Air Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of STI Education Systems Holdings, Inc. and have been an independent director since 4 October 2013 to present.
2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

<u>Company/Organizations</u>	<u>Position/Relationship</u>	<u>Period of Service</u>
STI Education Services Group, Inc.	Chairman/Independent Director	5 September 2013 to present
Philippine Life Financial Assurance Corporation	Independent Director	1 June 2012 to present
Information and Communications Technology Academy, Inc.	Member - Board of Governors/ Independent Director	9 December 2010 to present
Attenborough Holdings Corporation	Independent Director	11 March 2015 to present
PhilPlans First, Inc.	Member - Investment Committee	7 June 2011 to present
Metropolitan Bank and Trust Company	Independent Director	August 2010 to present
LBP Service Corporation	Chairman	May 2012 to present
Radiowealth Finance Co., Inc.	Advisory Board Member	2013 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of STI Education Systems Holdings, Inc., as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to the directors/officers/substantial shareholders of STI Education Systems Holdings, Inc. other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I am not in government service nor affiliated with a government agency or GOCC.
7. I shall inform the Corporate Secretary of STI Education Systems Holdings, Inc. of any changes in the above-mentioned information within five (5) days from its occurrence.

IN WITNESS WHEREOF, I have executed this Certificate of Independent Directors on this \_\_\_ day of SEP 05 2018 2018 at Makati City.

  
**JESLI A. LAPUS**


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

**SEP 05 2018**

SUBSCRIBED AND SWORN to before me this \_\_\_ day of \_\_\_\_\_  
 2018 at Makati City, affiant personally appeared to me and exhibited to me his  
 Passport No. EB9885998 issued on 26 December 2013 at DFA Manila.

Doc. No. 338 ;  
 Page No. 69 ;  
 Book No. II ;  
 Series of 2018.



  
**LE IRIS T. LUCIDO**  
 Notary Public for Makati City  
 Appointment No. M-389  
 Until 31 December 2018  
 5/F SGV II Building,  
 6758 Ayala Avenue, Makati City  
 Roll of Attorneys No. 64413  
 PTR No. 6628743 / Makati / 11 January 2018  
 IBP LM No. 013826 / Batangas / Lifetime Member  
 MCLE Compliance No. V-0020003  
 NBI No. L230GLNS58-MA18411949



## CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ROBERT G. VERGARA**, Filipino, of legal age, with residence address at 1489 Carissa St. Dasmariñas Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of STI Education Systems Holdings, Inc. and have been an independent director since 27 July 2017.
2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

<u>Company/Organizations</u>	<u>Position/Relationship</u>	<u>Period of Service</u>
STI Education Services Group, Inc.	Independent Director	27 July 2017 to present
Cabanatuan Electric Corporation	Director	26 <sup>th</sup> June 2010
SEA CREST Fund	Director	30 <sup>th</sup> March 2009
Vergara Advisory Management, Inc.	Director	June 2018

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of STI Education Systems Holdings, Inc. as provided for in Section 38 of the Securities and Exchange Code and its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to the directors/officers/substantial shareholders of STI Education Systems Holdings, Inc. other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.
5. Except for the Petition for Review pending before the Court of Appeals entitled "Jesus I. Santos vs. Roberto G. Vergara and Mario Aguja" which is docketed as CA-G.R. SP No. 146124, and to the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I am not in government service nor affiliated with a government agency or GOCC.
7. I shall inform the Corporate Secretary of STI Education Systems Holdings, Inc. of any changes in the abovementioned information within five (5) days from its occurrence.





SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **30 June 2018**
2. SEC Identification No. **1746**
3. BIR Tax Identification No. **000-126-853**
4. Exact name of registrant as specified in its charter **STI EDUCATION SYSTEMS HOLDINGS, INC.**
5. Province, Country or other Jurisdiction of incorporation or organization **Philippines**
6. (SEC Use Only) Industry Classification Code \_\_\_\_\_
7. Address of Philippine Office **7/F STI Holdings Center  
6764 Ayala Avenue  
Makati City, 1226**
8. Registrant's Telephone No. including Area Code **(632) 844-9553**
9. Former name, former address, former Fiscal year, if changed since last report **JTH DAVIES HOLDINGS, INC.  
7<sup>th</sup> Floor iACADEMY Building  
6764 Ayala Avenue, Makati City 1226**

10. Securities Registered pursuant to Sections 4 and 8 of the RSA.

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
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**COMMON SHARES – 9,904,806,924 - ISSUED AND OUTSTANDING**  
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**9,904,806,924 – LISTED SHARES**  
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11. Are any or all of these securities listed on the Philippine Stock Exchange?

Yes [ x ]

No [ ]

12. Check whether the registrant:

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

Yes  No

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

Yes  No

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

Please refer to Annex "A".

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

Please refer to Annex "B".

**PART II - OTHER INFORMATION**

Not Applicable

**SIGNATURES**

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

Registrant **STI EDUCATION SYSTEMS HOLDINGS, INC.**

Signature and Title   
**YOLANDA M. BAUTISTA**  
**Treasurer**

Date August 14, 2018

Signature and Title   
**MONICO V. JACOB**  
**President and CEO**

Date August 14, 2018

**STI EDUCATION SYSTEMS HOLDINGS, INC.  
AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF  
FINANCIAL POSITION  
AS AT JUNE 30, 2018 AND MARCH 31, 2018**

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 5)	P2,166,963,039	P1,857,507,750
Receivables (Notes 6 and 19)	1,282,554,128	517,981,482
Inventories (Note 7)	164,649,611	139,581,592
Prepaid expenses and other current assets (Note 8)	144,154,876	135,778,279
	3,758,321,654	2,650,849,103
Noncurrent asset held for sale (Notes 9 and 12)	716,586,558	716,586,558
Total Current Assets	4,474,908,212	3,367,435,661
<b>Noncurrent Assets</b>		
Property and equipment (Note 10)	8,840,101,906	8,426,842,079
Investment properties (Note 11)	1,855,932,426	1,863,718,647
Investments in and advances to associates and joint ventures (Notes 9 and 12)	40,987,004	41,871,654
Available-for-sale financial assets	67,895,180	68,093,740
Deferred tax assets - net	47,102,450	32,897,980
Pension assets - net	29,131,672	53,474,883
Goodwill, intangible and other noncurrent assets (Note 13)	538,554,967	561,494,360
Total Noncurrent Assets	11,419,705,605	11,048,393,343
<b>TOTAL ASSETS</b>	<b>P15,894,613,817</b>	<b>P14,415,829,004</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Note 14)	P889,596,182	P782,343,048
Current portion of interest-bearing loans and borrowings (Note 15)	167,400,000	167,400,000
Current portion of obligations under finance lease	6,616,155	7,134,449
Unearned tuition and other school fees	1,252,217,828	149,368,406
Nontrade payable (Note 1)	67,000,000	67,000,000
Income tax payable	20,969,109	17,490,337
Total Current Liabilities	2,403,799,274	1,190,736,240
<b>Noncurrent Liabilities</b>		
Bonds payable (Note 16)	2,953,362,770	2,951,879,134
Interest-bearing loans and borrowings - net of current portion (Note 15)	1,441,413,161	1,071,208,112
Obligations under finance lease - net of current portion	12,920,383	14,627,824
Pension liabilities - net	40,441,412	42,455,457
Other noncurrent liabilities (Note 17)	108,448,729	106,743,001
Deferred tax liabilities	235,537,134	235,730,783
Total Noncurrent Liabilities	4,792,123,589	4,422,644,311
Total Liabilities (Carried Forward)	7,195,922,863	5,613,380,551

(Forward)

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Total Liabilities (Brought Forward)	<b>₱7,195,922,863</b>	₱5,613,380,551
<b>Equity Attributable to Equity Holders of the Parent Company</b> (Note 18)		
Capital stock	<b>4,952,403,462</b>	4,952,403,462
Additional paid-in capital	<b>1,119,127,301</b>	1,119,127,301
Cost of shares held by a subsidiary	<b>(498,142,921)</b>	(498,142,921)
Cumulative actuarial gain	<b>76,272,582</b>	96,727,608
Unrealized mark-to-market gain on available-for-sale financial assets	<b>652,466</b>	847,989
Other equity reserve	<b>(1,670,477,909)</b>	(1,667,792,370)
Other comprehensive income associated with noncurrent asset held for sale (Note 18)	<b>90,645,302</b>	90,645,302
Share in associates':		
Unrealized mark-to-market loss on available-for-sale financial assets	<b>(114)</b>	(114)
Cumulative actuarial gain	<b>215,592</b>	215,592
Retained earnings	<b>4,533,617,996</b>	4,611,356,907
Total Equity Attributable to Equity Holders of the Parent Company	<b>8,604,313,757</b>	8,705,388,756
<b>Equity Attributable to Non-controlling Interests</b>	<b>94,377,197</b>	97,059,697
Total Equity	<b>8,698,690,954</b>	8,802,448,453
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱15,894,613,817</b>	₱14,415,829,004

*See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.*

**STI EDUCATION SYSTEMS HOLDINGS, INC.  
AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
	(Unaudited)	
<b>REVENUES</b>		
Sale of services:		
Tuition and other school fees	P311,340,629	P337,755,086
Educational services	44,661,379	45,030,822
Royalty fees	3,702,022	3,740,984
Others	18,145,019	16,343,331
Sale of educational materials and supplies	82,452,884	85,183,478
	<b>460,301,933</b>	<b>488,053,701</b>
<b>COSTS AND EXPENSES</b>		
Cost of educational services	172,335,922	156,589,757
Cost of educational materials and supplies sold	65,377,575	59,661,889
General and administrative expenses	296,673,576	243,202,382
	<b>534,387,073</b>	<b>459,454,028</b>
<b>INCOME (LOSS) BEFORE OTHER INCOME (EXPENSES) AND INCOME TAX</b>	<b>(74,085,140)</b>	<b>28,599,673</b>
<b>OTHER INCOME (EXPENSES)</b>		
Interest expense	(53,732,910)	(61,323,338)
Rental income	28,342,241	29,669,758
Interest income	9,339,871	7,629,577
Dividend and other income	2,383,432	2,121,519
Equity in net losses of associates and joint ventures (Note 12)	(884,650)	(223,098,175)
Gain on sale of property and equipment	178,571	14,790
	<b>(14,373,445)</b>	<b>(244,985,869)</b>
<b>LOSS BEFORE INCOME TAX</b>	<b>(88,458,585)</b>	<b>(216,386,196)</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>		
Current	6,417,526	21,261,919
Deferred	(14,775,563)	(20,733,883)
	<b>(8,358,037)</b>	<b>528,036</b>
<b>NET LOSS (Carried Forward)</b>	<b>(80,100,548)</b>	<b>(216,914,232)</b>



	2018 (Unaudited)	2017
<b>NET LOSS</b> (Brought Forward)	<b>(P80,100,548)</b>	<b>(P216,914,232)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Items to be reclassified to profit or loss in subsequent years:		
Share in associates' unrealized mark-to-market gain on available-for-sale financial assets (Note 12)	–	124,968,590
Unrealized mark-to-market gain (loss) on available-for-sale financial assets	<b>(198,560)</b>	9,220
Share in associates' remeasurement gain on life insurance reserves (Note 12)	–	226,977
	<b>(198,560)</b>	125,204,787
Items not to be reclassified to profit or loss in subsequent years:		
Share in associates' remeasurement gain on pension liability (Note 12)	–	38,416
Remeasurement loss on pension liability	<b>(23,080,947)</b>	–
Income tax effect	<b>2,308,095</b>	–
	<b>(20,772,852)</b>	38,416
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>	<b>(20,971,412)</b>	125,243,203
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>(P101,071,960)</b>	<b>(P91,671,029)</b>
<b>Net Loss Attributable To</b>		
Equity holders of the Parent Company	<b>(P77,738,911)</b>	<b>(P212,992,596)</b>
Non-controlling interests	<b>(2,361,637)</b>	<b>(3,921,636)</b>
	<b>(P80,100,548)</b>	<b>(P216,914,232)</b>
<b>Total Comprehensive Loss Attributable To</b>		
Equity holders of the Parent Company	<b>(P98,389,460)</b>	<b>(P87,962,453)</b>
Non-controlling interests	<b>(2,682,500)</b>	<b>(3,708,576)</b>
	<b>(P101,071,960)</b>	<b>(P91,671,029)</b>
<b>Basic/Diluted Loss Per Share on Net Loss Attributable to Equity Holders of the Parent Company</b> (Note 20)	<b>(P0.008)</b>	<b>(P0.022)</b>

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

**STI EDUCATION SYSTEMS HOLDINGS, INC.  
AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND 2017**

Equity Attributable to Equity Holders of the Parent Company (Note 18)

	Capital Stock		Additional Paid-in Capital	Cost of Shares Held by a Subsidiary	Cumulative Actuarial Gain	Mark-to-market Gain on Available- for-sale Financial Assets	Unrealized Mark-to-market Gain on Available- for-sale Financial Assets	Other comprehensive income associated with noncurrent asset held for sale	Share in Associates' Mark-to-market Loss on Available- for-sale Financial Assets (Note 12)	Share in Associates' Cumulative Actuarial Gain (Loss) (Note 12)	Share in Associates' Remeasurement Gain (Loss) on Life Insurance Reserves	Share in Associates' Equity Reserve	Retained Earnings	Total	Equity Attributable to Non-controlling Interests	Total Equity	
	P4,952,403,462	P1,119,127,301															P4,952,403,462
Balance at April 1, 2018	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462
Net loss																	
Other comprehensive loss																	
Total comprehensive loss																	
Effect of merger of subsidiaries																	
Balance at June 30, 2018	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462
Balance at April 1, 2017, as previously reported	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462
Prior period adjustments (Note 12)																	
Balance at April 1, 2017, as restated	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462
Net loss																	
Other comprehensive income																	
Total comprehensive income (loss)																	
Other comprehensive income associated with noncurrent asset held for sale (Note 18)																	
Balance at June 30, 2017	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462	P1,119,127,301	P4,952,403,462

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

**STI EDUCATION SYSTEMS HOLDINGS, INC.  
AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	(P88,458,585)	(P216,386,196)
Adjustments to reconcile loss before income tax to net cash flows:		
Depreciation and amortization (Notes 10 and 11)	109,164,638	97,099,931
Equity in net losses of associates and joint ventures (Note 12)	884,650	223,098,175
Interest expense	53,732,910	61,323,338
Interest income (Note 5)	(9,339,871)	(7,629,577)
Dividend income	(2,383,432)	(2,121,519)
Net change in pension assets and liabilities	(408,342)	(767,013)
Gain on sale of property and equipment	(178,571)	(14,790)
Operating income before working capital changes	63,013,397	154,602,349
Decrease (increase) in:		
Receivables	32,606,560	(58,618,898)
Inventories	(25,068,019)	(31,356,558)
Prepaid expenses and other current assets	(7,089,567)	(21,102,864)
Increase (decrease) in:		
Accounts payable and other current liabilities	(227,027,131)	329,532,660
Unearned tuition and other school fees	308,053,648	(41,560,321)
Other noncurrent liabilities	1,705,727	(1,853,543)
Net cash generated from operations	146,194,615	329,642,825
Income and other taxes paid	(4,569,223)	(2,995,990)
Interest received	9,339,871	7,629,577
Net cash from operating activities	150,965,263	334,276,412
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Property and equipment (Note 10)	(190,279,277)	(156,332,612)
Subsidiary, net of cash acquired	-	5,828,110
Decrease (increase) in:		
Investments in and advances to associates and joint ventures	-	495,025
Goodwill, intangible and other noncurrent assets	20,183,065	(29,578,881)

(Forward)

	2018 (Unaudited)	2017
Dividends received	P-	P2,121,519
Proceeds from sale of property and equipment	200,000	344,791
Net cash used in investing activities	<b>(169,896,212)</b>	(177,122,048)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Availment of long-term loans	<b>370,000,000</b>	-
Payments of:		
Short-term loans (Note 15)	-	(15,000,000)
Obligations under finance lease	<b>(1,985,735)</b>	(1,837,987)
Interest paid	<b>(38,194,297)</b>	(50,960,530)
Dividends paid	<b>(1,433,730)</b>	(729,840)
Net cash from (used in) financing activities	<b>328,386,238</b>	(68,528,357)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>309,455,289</b>	88,626,007
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>1,857,507,750</b>	3,198,723,556
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 5)</b>	<b>P2,166,963,039</b>	P3,287,349,563

*See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.*

**STI EDUCATION SYSTEMS HOLDINGS, INC.  
AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**1. Corporate Information**

a. General

STI Education Systems Holdings, Inc. (“STI Holdings” or the “Parent Company”) and its subsidiaries (hereafter collectively referred to as the “Group”) are all incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (“SEC”). STI Holdings was originally established in 1928 as the Philippine branch office of Theo H. Davies & Co., a Hawaiian corporation. It was reincorporated as a Philippine corporation and registered with the SEC on June 28, 1946. STI Holdings’ shares were listed on the Philippine Stock Exchange (“PSE”) on October 12, 1976. On June 25, 1996, the SEC approved the extension of the Parent Company’s corporate life for another 50 years. The primary purpose of the Parent Company is to invest in, purchase or otherwise acquire and own, hold, use, sell, assign, transfer, lease, mortgage, pledge, exchange, or otherwise dispose of real properties as well as personal and movable property of any kind and description, including shares of stock, bonds, debentures, notes, evidence of indebtedness and other securities or obligations of any corporation or corporations, association or associations, domestic or foreign and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned, but not to act as dealer in securities, and to invest in and manage any company or institution. STI Holdings aims to focus on education and education-related activities and investments.

STI Holdings’ registered office address, which is also its principal place of business, is 7th Floor, STI Holdings Center, 6764 Ayala Avenue, Makati City.

The subsidiaries of STI Holdings, which are all incorporated in the Philippines, are as follows:

Subsidiaries	Principal Activities	Effective Percentage of Ownership			
		June 30, 2018		March 31, 2018	
		Direct	Indirect	Direct	Indirect
STI ESG	Educational Institution	99	–	99	–
STI WNU	Educational Institution	99	–	99	–
iACADEMY	Educational Institution	100	–	100	–
AHC	Holding Company	100	–	100	–
STI College Tuguegarao, Inc. (“STI Tuguegarao”)	Educational Institution	–	99	–	99
STI Caloocan <sup>(a)</sup>	Educational Institution	–	99	–	99
STI College Batangas, Inc. (“STI Batangas”)	Educational Institution	–	99	–	99
STI College Iloilo, Inc. (“STI Iloilo”)	Educational Institution	–	99	–	99
STI College Tanauan, Inc. (“STI Tanauan”)	Educational Institution	–	99	–	99
STI Lipa, Inc. (“STI Lipa”)	Educational Institution	–	99	–	99
STI College Pagadian, Inc. (“STI Pagadian”)	Educational Institution	–	99	–	99
STI College Novaliches, Inc. (“STI Novaliches”)	Educational Institution	–	99	–	99
STI College of Santa Maria <sup>(b)</sup>	Educational Institution	–	99	–	99
De Los Santos-STI College <sup>(c)</sup>	Educational Institution	–	51	–	51
STI College Quezon Avenue, Inc. (“STI QA”) <sup>(d)</sup>	Educational Institution	–	51	–	51
Neschester Corporation <sup>(e)</sup>	Real Estate	–	–	100	–

<sup>(a)</sup> A subsidiary of STI ESG through a management contract

<sup>(b)</sup> A subsidiary starting April 2017.

<sup>(c)</sup> On June 28, 2016, De Los Santos-STI College wrote the CHED advising the latter of the suspension of its operations for school years 2016-2017 and 2017-2018 as a result of the implementation of the Government’s K to 12 program. In the same letter, De Los Santos-STI College requested that it be allowed to keep all of its existing permits and licenses for its academic programs. It also mentioned that the grant of such request would allow De Los Santos-STI College to immediately resume offering its academic programs to incoming freshmen students for its planned resumption of operation in SY 2018-2019. These academic programs are: BS Nursing, BS Radiologic Technology, BS Psychology, BS Physical Therapy, BS Hotel and Restaurant Management and BS Tourism.

*CHED, in a letter reply dated July 1, 2016, said that De Los Santos-STI College shall apply again for initial permits if it intends to offer the said programs in SY 2018-2019. De Los Santos-STI College shall request CHED for a reconsideration.*

*<sup>(d)</sup> A wholly-owned subsidiary of De Los Santos-STI College*

*<sup>(e)</sup> On April 10 2018, Neschester was merged with iACADEMY, with iACADEMY as the surviving entity*

b. STI Education Services Group, Inc. and Subsidiaries (collectively referred to as “STI ESG”)

In September 2012, STI ESG became a subsidiary of the Parent Company through a share-for-share swap agreement with the shareholders of STI ESG. STI Holdings’ ownership of STI ESG is at 98.47% as of June 30, 2018.

STI ESG is involved in establishing, maintaining, and operating educational institutions to provide pre-elementary, elementary, secondary, and tertiary as well as post-graduate courses, post-secondary and lower tertiary non-degree programs. STI ESG also develops, adopts and/or acquires, entirely or in part, such curricula or academic services as may be necessary in the pursuance of its main activities, relating but not limited to information technology services, information technology-enabled services, education, hotel and restaurant management, engineering and business studies. STI ESG is also offering Senior High School (“SHS”).

STI ESG has investments in several entities, which own and operate STI schools. STI schools may be operated either by: (a) STI ESG; (b) its subsidiaries; or (c) independent entrepreneurs (referred to as the “franchisees”) under the terms of licensing agreements with STI ESG. All franchisees are covered by licensing agreements, which require courseware to be obtained from STI ESG.

Other features of the licensing agreements are as follows:

- Exclusive right to use proprietary marks and information such as but not limited to courseware programs, operational manuals, methods, standards, systems, that are used exclusively in the STI network of schools;
- Continuing programs for faculty and personnel development, including evaluation and audit of pertinent staff;
- Development and adoption of the enrollment and registration system;
- Assistance on matters pertaining to financial and accounting procedures, faculty recruitment and selection, marketing and promotion, record keeping and others.

All STI schools start the school calendar every June of each year.

On June 14, 2018, STI ESG informed the Commission on Higher Education (“CHED”) of the decision of its Board of Directors (“BOD”) to admit two batches of incoming college freshmen students for School Year (“SY”) 2018-2019. STI ESG has requested CHED for endorsement of this move to accept a second batch of college enrollees that would start in August 2018. The first and the second batch of college freshmen enrollees will merge in January 2019 for the second semester that will end in May 2019. Moving forward, the school calendar of STI ESG will be adjusted to align with the school calendar of public colleges and other private higher education institutions not only in the Philippines but in the ASEAN region as well. On June 29, 2018, CHED noted the decision of STI ESG citing that the decision to move the school calendar is part of the institution’s academic freedom, provided that it does not violate existing rules on the same. CHED has also advised STI ESG to coordinate with the respective CHED Regional Offices on the usual guidance and procedures in implementing the planned school calendar.

*Merger with Several Majority and Wholly-owned Subsidiaries*

On December 9, 2010, STI ESG's stockholders approved the following mergers:

- Phase 1: The merger of three (3) majority owned schools and fourteen (14) wholly-owned schools with STI ESG, with STI ESG as the surviving entity. The Phase 1 merger was approved by the CHED and the SEC on March 15, 2011 and May 6, 2011, respectively.
- Phase 2: The merger of one (1) majority owned school and eight (8) wholly-owned pre-operating schools with STI ESG, with STI ESG as the surviving entity. The Phase 2 merger was approved by the CHED and the SEC on July 18, 2011 and August 31, 2011, respectively.

On September 25, 2013, STI ESG's BOD approved an amendment to the Phase 1 and 2 mergers whereby STI ESG would issue shares at par value, to the stockholders of the non-controlling interests. In 2014, STI ESG issued 1.9 million additional shares at par value to the stockholders of one of the merged schools. As at report date, the amendment is pending approval by the SEC.

Also on September 25, 2013, the BOD of the STI ESG approved the Phase 3 merger whereby STI College Taft, Inc. ("STI Taft") and STI College Dagupan, Inc. ("STI Dagupan") will be merged with STI ESG, with STI ESG as the surviving entity. On August 5, 2016, STI ESG filed its application for merger with the SEC with endorsement from the Department of Education ("DepEd") and CHED. On August 30, 2017, the SEC approved the application for merger of STI Taft and STI Dagupan with STI ESG. In December 2017, STI ESG subscribed to 5,952,273 of its own shares and issued a total of 5,311 shares to minority holders of the absorbed entities with par value of ₱1.0 per share at a price of ₱1.82 per share. Consequently, STI ESG's capital stock increased by ₱5.9 million from ₱3,081.9 million to ₱3,087.8 million and STI ESG recognized treasury shares amounting to ₱10.8 million. Similarly, additional paid in capital increased by ₱7.0 million from ₱379.9 million to ₱386.9 million.

As at August 14, 2018, STI ESG's request for confirmatory ruling on the tax-free merger from the Bureau of Internal Revenue ("BIR") is still pending.

c. STI West Negros University, Inc. ("STI WNU", formerly West Negros University Corp.)

In October 2013, the Parent Company acquired majority ownership interest in STI WNU. As at June 30, 2018 and March 31, 2018, the Parent Company owns 99.86% of STI WNU. The consideration for the acquisition of STI WNU includes contingent consideration amounting to ₱151.5 million with the corresponding liability presented as "Nontrade payable" in the unaudited interim condensed consolidated statements of financial position amounting to ₱67.0 million as at June 30, 2018 and March 31, 2018.

STI WNU owns and operates STI West Negros University in Bacolod City. It offers pre-elementary, elementary, secondary including SHS, and tertiary education and post-graduate courses.

On December 9, 2015, the SEC approved the amendment of STI WNU's Articles of Incorporation allowing STI WNU to provide maritime training services that will offer and conduct training required by the Maritime Industry Authority ("MARINA") for officers and crew on board Philippine and/or foreign registered ships operating in Philippines and/or international waters.

The school calendar of STI WNU starts in June of each year.

d. Attenborough Holdings Corp. (“AHC”)

AHC is a holding company which is a party to the Joint Venture Agreement and Shareholders’ Agreement among the Parent Company, Philippine Women’s University (“PWU”) and Unlad Resources Development Corporation (“Unlad”). Under the Agreements, AHC is set to own up to 20% of Unlad. AHC is also a party to the Omnibus Agreement it executed with the Parent Company and Unlad.

Since February 2015, STI Holdings owns 100% of AHC.

On March 1, 2016, AHC executed a Deed of Assignment wherein AHC assigned to STI Holdings its loan to Unlad, including capitalized foreclosure expenses, amounting to ₱66.7 million for a cash consideration of ₱73.8 million.

e. Information and Communications Technology Academy, Inc. (“iACADEMY”)

iACADEMY is a premier school that offers courses in animation, multimedia arts and design, fashion design and technology, software engineering, game development, web development, marketing management, financial management and real estate management. It also offers Senior High School. It started in 2002 as a wholly-owned subsidiary of STI ESG until its acquisition by STI Holdings in September 2016. The school’s principal office is located at iACADEMY Plaza in Makati.

iACADEMY starts the classes for its college students in July while the SHS students start classes in August.

On September 27, 2016, the Parent Company purchased 100 million iACADEMY shares or 100% of iACADEMY’s issued and outstanding capital stock from STI ESG for a purchase price of ₱113.5 million. The Parent Company, also subscribed to 100 million out of the 400 million increase in the authorized capital stock of iACADEMY, which was approved by the SEC on November 9, 2016, at an aggregate subscription price of ₱100.0 million. As at June 30, 2018, iACADEMY is a wholly-owned subsidiary of the Parent Company.

On October 19, 2016, iACADEMY signed a Licensing Agreement to Offer a Graduate Business Program with DePaul University (“DePaul”) of Chicago, Illinois, United States of America. The agreement is in accordance with the CHED’s approval for iACADEMY to operate as a Transnational Education provider for the Master in Business Administration program in partnership with DePaul as the degree granting institution.

The Government Authority (“GA”) is valid up to April 26, 2018, and shall be subject to revocation if iACADEMY fails to operate in accordance with the laws of the Republic of the Philippines and/or fails to maintain the prescribed standards of instruction and/or fails to comply with the rules and regulations pertaining to the organization, administration and supervision of private/public HEIs in the Philippines. This GA applies only to the iACADEMY Plaza campus. iACADEMY has already requested CHED for the extension of the GA. As at report date, CHED is processing iACADEMY’s request on this matter.

On September 7, 2017, the Board of Governors (“BOG”) of iACADEMY approved the merger of iACADEMY and Neschester, with iACADEMY as the surviving entity. The stockholders of both companies confirmed, ratified and approved the merger on the same date. The Plan of Merger between iACADEMY and Neschester was filed with the SEC on January 24, 2018 and was approved on April 10, 2018. In addition, on September 7, 2017, the Stockholders and BOG



of iACADEMY also approved the increase in authorized capital stock from ₱500.0 million to ₱1.0 billion. The increase in authorized capital stock was likewise approved by SEC on April 10, 2018. On May 11, 2018, iACADEMY issued 494,896,693 shares to STI Holdings in exchange for the net assets of Neschester as a result of the merger.

f. Neschester Corporation (“Neschester”)

Neschester was incorporated on December 10, 2007 primarily to own, use, improve, develop, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartment and other structures.

On August 2, 2016, STI Holdings subscribed to all of the unissued authorized capital stock of Neschester totaling to 670,000 common shares of stock of Neschester at a subscription price of ₱200.0 million. STI Holdings also purchased all of the issued shares of Neschester owned by the former stockholders of the latter totaling 550,000 common shares at an aggregate purchase price of ₱173.2 million. As a result, Neschester became a wholly-owned subsidiary of STI Holdings.

The major asset of Neschester is a parcel of land in Makati City, which is the site of iACADEMY’s Yakal campus (see Note 10). On April 10 2018, Neschester was merged with iACADEMY, with iACADEMY as the surviving entity.

The establishment, operation, administration and management of schools are subject to the existing laws, rules and regulations, policies, and standards of the DepEd, Technical Education and Skills Development Authority (“TESDA”) and the CHED pursuant to Batas Pambansa Bilang 232, otherwise known as the “Education Act of 1982,” Republic Act (“RA”) No. 7796, otherwise known as the “TESDA Act of 1994,” and RA No. 7722, otherwise known as the “Higher Education Act of 1994,” respectively.

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## 2. Basis of Preparation and Summary of the Group’s Significant Accounting Policies

### Basis of Preparation

The accompanying unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis, except for quoted available-for-sale (“AFS”) financial assets which are measured at fair value, certain inventories which have been measured at net realizable value, certain investments in associates and joint ventures which have been measured at recoverable amount and refundable deposits which are measured at amortized cost. The consolidated financial statements are presented in Philippine peso (₱), which is the Parent Company’s functional and presentation currency, and all values are rounded to the nearest peso, except when otherwise indicated.

### Statement of Compliance

The accompanying unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with Philippine Accounting Standards (“PAS”) 34, *Interim Financial Reporting*. Accordingly, the unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the audited annual consolidated financial statements of STI Holdings as at and for the year ended March 31, 2018.

### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the new and amended Philippine Financial Reporting Standard (“PFRS”) that became

effective beginning April 1, 2018. The adoption of these new standards and amendments did not have any significant impact on the consolidated statements except otherwise stated:

- *Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met.

- *Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. Entities are allowed to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- *PFRS 15, Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Group is currently assessing the impact of PFRS 15.

- *PFRS 9, Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

As at June 30, 2018, the Group performed its initial impact assessment of all three phases of PFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information becoming available to the Group when it adopts PFRS 9 in its annual reporting year ending March 31, 2019.

- (a) Classification and measurement

Trade and other receivables are held to collect contractual cash flows and thus qualify for amortized cost measurement.

Investments in unquoted equity shares currently carried at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Group intends to apply the option to present fair value changes for these investments in OCI. The Group is in the process of determining how to measure the fair value of these unquoted investments.

Quoted equity shares currently held as AFS are expected to be measured at fair value through profit or loss ("FVPL"), which will increase volatility in profit or loss.

- (b) Impairment

PFRS 9 requires the Group to record expected credit losses on all of its debt financial assets. The Group plans to apply the simplified approach and to record lifetime expected losses on all trade receivables that do not contain significant financing component. For the Group's debt securities and other receivables that will be measured at amortized cost or at Fair value through other comprehensive income ("FVOCI"), the general approach for measuring expected credit losses is required to be applied. Thus, credit losses for these financial assets will be measured either on 12-month or lifetime basis depending on the extent of the deterioration of their credit quality. The Group is currently quantifying the impact of the change in measuring credit losses.

- (c) Hedge accounting

The hedging requirements of PFRS 9 will not have a significant impact on the Group's unaudited interim condensed consolidated financial statements since the Group do not have existing hedge relationship.

- *Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture

that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

- Philippine Interpretation International Financial Reporting Interpretations Committee ("IFRIC")-22, *Foreign Currency Transactions and Advance Consideration*

- The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

#### Standards Issued but Not Yet Effective

The standards and interpretations that are issued but not yet effective for the interim period ended June 30, 2018 are listed below. The Group intends to adopt these standards when they become effective. Adoption of these standards and interpretations are not expected to have any significant impact on the unaudited interim condensed consolidated financial statements except otherwise stated:

#### *Effective in fiscal year 2020*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Group is currently assessing the impact of adopting the amendments to PFRS 9.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition

exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

### *Deferred effectivity*

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council ("FRSC") postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board ("IASB") has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group has not early adopted the previously mentioned standards. The Group continues to assess the impact of the above new, amended and improved accounting standards and interpretations that are effective subsequent to June 30, 2018 on its unaudited interim condensed consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the annual consolidated financial statements when these amendments are adopted.

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### **3. Seasonality of Operations**

The Group's business is linked to the academic cycle. The academic cycle, which is one academic year, traditionally starts in the month of June and ends in the month of March, except as discussed in Note 1, where STI ESG will start a second batch of college freshmen enrollees in August of SY 2018-2019. The two batches of college freshmen enrollees will end this May 2019. iACADEMY starts its school calendar every July for tertiary level and August for SHS. The revenues of the Group which is mainly from tuition and other school fees, is recognized as income over the corresponding academic year to which they pertain. Accordingly, revenue is expected to be lower during the first quarter of the fiscal year as compared to the other quarters if the number of enrollees remains constant. This information is provided to allow for a proper appreciation of the results of operations of the Group. However, management has concluded that the Group's operation is not 'highly seasonal' in accordance with PAS 34.

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### **4. Segment Information**

For management purposes, the Group is organized into business units based on the geographical location of the students and assets, and has five reportable segments as follows:

- a. Metro Manila
- b. Northern Luzon
- c. Southern Luzon
- d. Visayas
- e. Mindanao

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

On a consolidated basis, the Group's performance is evaluated based on net income for the three-month period ended June 30, 2018 and EBITDA, defined as earnings before provision for (benefit from) income tax, interest expense, interest income, depreciation and amortization and equity in net losses of associates and joint ventures.

The following table shows the reconciliation of the consolidated net loss to consolidated EBITDA for the three-month periods ended June 30, 2018 and 2017:

	Unaudited	
	2018	2017
Consolidated net loss	<b>(P80,100,548)</b>	(P216,914,232)
Depreciation and amortization	<b>109,164,638</b>	97,099,931
Interest expense	<b>53,732,910</b>	61,323,338
Provision for (benefit from) income tax	<b>(8,358,037)</b>	528,036
Interest income	<b>(9,339,871)</b>	(7,629,577)
Equity in net losses of associates and joint ventures	<b>884,650</b>	223,098,175
<b>Consolidated EBITDA</b>	<b>P65,983,742</b>	P157,505,671

#### Inter-Segment Transactions

Segment revenue, segment expenses and operating results include transfers among geographical segments. The transfers are accounted for at market prices charged to unrelated customers for similar services. Such transfers are eliminated upon consolidation.

Geographical Segment Data

The following tables present revenue and income information regarding geographical segments for the three months ended June 30, 2018 and 2017:

	June 30, 2018 (Unaudited)					
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
<b>Revenues</b>						
External revenue	<b>₱303,222,675</b>	<b>₱16,146,606</b>	<b>₱87,297,432</b>	<b>₱44,307,460</b>	<b>₱9,327,760</b>	<b>₱460,301,933</b>
<b>Results</b>						
Income (loss) before other income (expenses) and income tax	(60,384,108)	(9,993,806)	2,935,714	1,437,864	(8,080,804)	(74,085,140)
Equity in net losses of associates and joint ventures	(884,650)	—	—	—	—	(884,650)
Interest expense	(51,637,556)	—	(121)	(2,095,233)	—	(53,732,910)
Interest income	9,095,660	7,495	25,839	203,625	7,252	9,339,871
Other income	30,596,890	—	140,313	167,041	—	30,904,244
Provision for (benefit from) income tax	8,535,270	—	—	(177,233)	—	8,358,037
<b>Net Income (Loss)</b>	<b>(₱64,678,494)</b>	<b>(₱9,986,311)</b>	<b>₱3,101,745</b>	<b>(₱463,936)</b>	<b>(₱8,073,552)</b>	<b>(₱80,100,548)</b>
<b>EBITDA</b>						<b>₱65,983,742</b>

	June 30, 2017 (Unaudited)					
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
<b>Revenues</b>						
External revenue	<b>₱312,980,038</b>	<b>₱21,073,493</b>	<b>₱95,462,849</b>	<b>₱46,276,692</b>	<b>₱12,260,629</b>	<b>₱488,053,701</b>
<b>Results</b>						
Income (loss) before other income (expenses) and income tax	21,451,099	(3,312,156)	12,909,921	1,895,444	(4,344,635)	28,599,673
Equity in net losses of associates and joint ventures	(223,098,175)	—	—	—	—	(223,098,175)
Interest income	7,551,626	6,315	22,310	47,106	2,220	7,629,577
Interest expense	(58,985,129)	—	(3,835)	(2,334,374)	—	(61,323,338)
Other income	31,066,603	—	416,487	248,151	74,826	31,806,067
Provision for (benefit from) income tax	130,832	—	—	(658,868)	—	(528,036)
<b>Net Income (Loss)</b>	<b>(₱221,883,144)</b>	<b>(₱3,305,841)</b>	<b>₱13,344,883</b>	<b>(₱802,541)</b>	<b>(₱4,267,589)</b>	<b>(₱216,914,232)</b>
<b>EBITDA</b>						<b>₱157,505,671</b>



The following tables present certain assets and liabilities information regarding geographical segments as at June 30, 2018 and March 31, 2018:

	June 30, 2018 (Unaudited)					
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
<b>Assets and Liabilities</b>						
Segment assets <sup>(a)</sup>	₱12,406,002,931	₱162,277,895	₱1,241,736,175	₱821,669,314	₱187,884,244	₱14,819,570,559
Noncurrent asset held for sale	716,586,558	-	-	-	-	716,586,558
Investments in and advances to associates and joint ventures	40,987,004	-	-	-	-	40,987,004
Pension assets – net	29,131,672	-	-	-	-	29,131,672
Goodwill	225,554,342	-	-	15,681,232	-	241,235,574
Deferred tax assets	37,288,962	1,370,256	1,463,808	6,924,057	55,367	47,102,450
<b>Total Assets</b>	<b>₱13,455,551,469</b>	<b>₱163,648,151</b>	<b>₱1,243,199,983</b>	<b>₱844,274,603</b>	<b>₱187,939,611</b>	<b>₱15,894,613,817</b>
Segment liabilities <sup>(b)</sup>	₱1,560,317,983	₱97,612,209	₱423,237,545	₱181,349,884	₱75,714,227	₱2,338,231,848
Interest-bearing loans and borrowings	1,426,813,161	-	-	182,000,000	-	1,608,813,161
Bonds payable	2,953,362,770	-	-	-	-	2,953,362,770
Pension liabilities - net	11,010,103	48,958	440,697	28,929,008	12,646	40,441,412
Obligations under finance lease	19,338,727	-	-	197,811	-	19,536,538
Deferred tax liabilities	235,537,134	-	-	-	-	235,537,134
<b>Total Liabilities</b>	<b>₱6,206,379,878</b>	<b>₱97,661,167</b>	<b>₱423,678,242</b>	<b>₱392,476,703</b>	<b>₱75,726,873</b>	<b>₱7,195,922,863</b>
<b>Other Segment Information</b>						
Capital expenditure -						
Property and equipment						₱512,121,916
Depreciation and amortization						109,164,638
Noncash expenses other than depreciation and amortization						2,296,692

<sup>(a)</sup> Segment assets exclude noncurrent asset held for sale, investments in and advances to associates and joint ventures, net pension assets, goodwill and net deferred tax assets.

<sup>(b)</sup> Segment liabilities exclude interest-bearing loans and borrowings, bonds payable, net pension liabilities, obligations under finance lease and net deferred tax liabilities.

March 31, 2018 (Audited)

	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
<b>Assets and Liabilities</b>						
Segment assets <sup>(a)</sup>	₱11,439,012,452	₱132,951,846	₱922,464,706	₱683,618,491	₱151,714,860	₱13,329,762,355
Noncurrent asset held for sale	716,586,558	-	-	-	-	716,586,558
Investments in and advances to associates and joint ventures	41,871,654	-	-	-	-	41,871,654
Pension assets - net	53,474,883	-	-	-	-	53,474,883
Goodwill	225,554,342	-	-	15,681,232	-	241,235,574
Deferred tax assets	24,899,250	916,408	345,862	6,693,489	42,971	32,897,980
<b>Total Assets</b>	<b>₱12,501,399,139</b>	<b>₱133,868,254</b>	<b>₱922,810,568</b>	<b>₱705,993,212</b>	<b>₱151,757,831</b>	<b>₱14,415,829,004</b>
Segment liabilities <sup>(b)</sup>	₱894,382,099	₱50,474,180	₱100,258,912	₱40,286,714	₱37,542,887	₱1,122,944,792
Interest-bearing loans and borrowings	1,056,608,112	-	-	182,000,000	-	1,238,608,112
Bonds payable	2,951,879,134	-	-	-	-	2,951,879,134
Pension liabilities - net	10,500,694	39,293	400,120	31,504,743	10,607	42,455,457
Obligations under finance lease	21,512,977	-	-	249,296	-	21,762,273
Deferred tax liabilities	235,730,783	-	-	-	-	235,730,783
<b>Total Liabilities</b>	<b>₱5,170,613,799</b>	<b>₱50,513,473</b>	<b>₱100,659,032</b>	<b>₱254,040,753</b>	<b>₱37,553,494</b>	<b>₱5,613,380,551</b>
<b>Other Segment Information</b>						
Capital expenditure -						
Property and equipment						₱1,906,079,177
Depreciation and amortization						398,836,776
<b>Noncash expenses other than depreciation and amortization</b>						<b>101,270,162</b>

<sup>(c)</sup> Segment assets exclude noncurrent asset held for sale, investments in and advances to associates and joint ventures, net pension assets, goodwill and net deferred tax assets.

<sup>(d)</sup> Segment liabilities exclude interest-bearing loans and borrowings, bonds payable, net pension liabilities, obligations under finance lease and net deferred tax liabilities.

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## 5. Cash and Cash Equivalents

This account consists of:

	<b>June 30, 2018</b> (Unaudited)	March 31, 2018 (Audited)	June 30, 2017 (Unaudited)
Cash on hand and in banks	<b>₱852,722,410</b>	₱820,934,331	₱1,021,921,635
Cash equivalents	<b>1,314,240,629</b>	1,036,573,419	2,265,427,928
	<b>₱2,166,963,039</b>	₱1,857,507,750	₱3,287,349,563

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Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are short-term placements which are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term investment rates.

Interest earned from cash in banks and cash equivalents amounted to ₱9.3 million and ₱7.6 million for the three-month periods ended June 30, 2018 and 2017, respectively.

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## 6. Receivables

This account consists of:

	<b>June 30, 2018</b> (Unaudited)	March 31, 2018 (Audited)
Tuition and other school fees	<b>₱1,259,500,365</b>	₱516,500,305
Educational services	<b>53,371,951</b>	40,014,195
Rent, utilities and other related receivables	<b>37,282,595</b>	36,430,823
Advances to officers and employees	<b>24,987,015</b>	24,505,141
Current portion of advances to associates, joint ventures and other related parties	-	143,571
Others	<b>36,055,943</b>	28,907,861
	<b>1,411,197,869</b>	646,501,896
Less allowance for doubtful accounts	<b>128,643,741</b>	128,520,414
	<b>₱1,282,554,128</b>	₱517,981,482

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The terms and conditions of the above receivables are as follows:

- a. Tuition and other school fees receivables include receivables from students and DepEd. These receivables are noninterest-bearing and are normally collected on or before the date of major examinations while receivables from DepEd are expected to be collected within the year.
- b. Educational services receivables pertain to receivables from franchisees arising from educational services, royalty fees and other charges. These receivables are generally noninterest-bearing and are normally collected within 30 days. Interest is charged on past due accounts.

Interest earned from past due accounts amounted to ₱36.2 thousand and ₱7.6 thousand for the three-month periods ended June 30, 2018 and 2017.

- c. Rent, utilities and other related receivables are normally collected within 30 days.
- d. Advances to officers and employees are normally liquidated within 30 days (see Note 19).

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## 7. Inventories

This account consists of:

	<b>June 30, 2018</b>	March 31, 2018
	<b>(Unaudited)</b>	(Audited)
At net realizable value:		
Educational materials	<b>₱146,713,323</b>	₱124,412,501
Promotional materials	<b>13,964,167</b>	12,710,309
School materials and supplies	<b>3,972,121</b>	2,458,782
	<b>₱164,649,611</b>	₱139,581,592

Educational materials include inventory of school uniforms amounting to ₱127.4 million and ₱114.4 million as at June 30, 2018 and March 31, 2018, respectively. This also includes textbooks and other educational-related materials amounting to ₱19.3 million and ₱10.0 million as at June 30, 2018 and March 31, 2018, respectively.

Promotional materials primarily pertain to marketing materials and proware materials amounting to ₱4.2 million and ₱9.8 million, respectively, as at June 30, 2018 and ₱3.6 million and ₱9.1 million, respectively, as at March 31, 2018.

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## 8. Prepaid Expenses and Other Current Assets

This account consists of:

	<b>June 30, 2018</b>	March 31, 2018
	<b>(Unaudited)</b>	(Audited)
Prepaid taxes	<b>₱106,670,277</b>	₱105,657,910
Prepaid insurance	<b>11,678,782</b>	766,864
Prepaid subscriptions and licenses	<b>8,471,908</b>	12,029,975
Prepaid rent	<b>6,679,393</b>	6,444,172
Excess contributions to CEAP	<b>3,560,528</b>	3,518,596
Deposits	<b>1,310,367</b>	589,366
Software maintenance cost	<b>1,098,295</b>	2,205,737
Others	<b>4,685,326</b>	4,565,659
	<b>₱144,154,876</b>	₱135,778,279

Prepaid taxes represent creditable withholding tax (“CWT”), input value-added tax (“VAT”), prepaid business, and real property taxes. Most of the input VAT arose from the purchase of uniforms and acquisition of a lot in Iloilo City. STI ESG entered into a contract to sell in January 2018 for the acquisition of a lot situated at Barangay San Rafael, Iloilo City from which STI ESG recognized input VAT amounting to ₱22.0 million. This lot is the future site of STI Iloilo. Prepaid business and real property taxes are recognized as expense over the period of coverage.

Prepaid insurance represents fire insurance coverage on building, including equipment and furniture, health coverage of employees and life and accident insurance of the students which were paid in advance and are recognized as expense over the period of coverage, which is normally within one year.

Prepaid subscriptions and licenses pertain to the Microsoft license subscriptions, Adobe Acrobat, Sophos Firewall and licenses for various software obtained by iACADEMY for its student activities, which are amortized over the period of coverage.

Prepaid rent represents advance rent paid for the lease of land and building spaces which is applied to the monthly rental in accordance with the term of the lease agreements.

Excess contributions to the Catholic Educational Association of the Philippines Retirement Plan (“CEAP”) pertain to contributions made by De Los Santos-STI College and STI QA to CEAP which are already considered forfeited pension benefits of those employees who can no longer avail their pension benefits either because they did not meet the required tenure of ten years or they did not reach the retirement age of sixty when they left the service or when De Los Santos-STI College has already advanced the benefits of qualified employees. The excess contributions will be offset against De Los Santos-STI College’s and STI QA’s future required contributions to CEAP.

Deposits pertain to security deposits made for warehouse and office space rentals which will expire within one year and will be applied against future lease payments in accordance with the respective lease agreements.

Software maintenance cost includes annual support and maintenance charges for the use of the Group’s accounting and enrollment systems and is amortized in accordance with the terms of the agreements.

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## 9. Noncurrent Asset Held for Sale

Noncurrent asset held for sale amounting to ₱716.6 million represents the carrying value of STI ESG’s 20% ownership in Maestro Holdings, Inc. (“Maestro Holdings”). Maestro Holdings owns 100% of PhilPlans First, Inc. (“PhilPlans”), 99.89% of PhilhealthCare, Inc. (“PhilCare”), 70.6% of Philippine Life Financial Assurance Corporation (“PhilLife”) and 100% of Banclife Insurance Co. Inc. (“Banclife”). On June 27, 2017, STI ESG’s BOD approved the disposal of this 20% stake in Maestro Holdings to enable the Group to focus on its core business of offering educational services.

With the classification as noncurrent asset held for sale, STI ESG ceased the use of the equity method of accounting for its investment in Maestro Holdings on June 30, 2017.

As at June 30, 2018 and March 31, 2018, the carrying amount of the noncurrent asset held for sale did not fall below its fair value less costs to sell.

10. Property and Equipment

The rollforward analysis of this account follows:

	June 30, 2018 (Unaudited)									
	Land	Buildings	Office and School Equipment	Office Furniture and Fixtures	Leasehold Improvements	Transportation Equipment	Computer Equipment and Peripherals	Library Holdings	Construction In-Progress	Total
<b>Cost, Net of Accumulated Depreciation and Amortization</b>										
Balance at beginning of period	P3,204,905,313	P3,985,803,927	P1,48,478,348	P75,819,583	P91,392,275	P27,979,880	P77,331,343	P19,067,833	P796,063,577	P8,426,842,079
Additions	-	4,722,482	5,429,457	5,748,259	2,465,617	-	5,321,065	1,317,314	487,117,722	512,121,916
Reclassifications	-	3,350,247	-	86,033	-	-	-	-	(3,436,280)	-
Disposal	-	-	-	-	-	(240,000)	-	-	-	(240,000)
Depreciation and amortization	-	(53,245,753)	(14,842,739)	(9,105,003)	(7,567,483)	(2,732,583)	(9,050,143)	(2,078,385)	-	(98,622,089)
<b>Balance at end of period</b>	<b>P3,204,905,313</b>	<b>P3,940,630,903</b>	<b>P1,39,065,066</b>	<b>P72,548,872</b>	<b>P86,290,409</b>	<b>P25,007,297</b>	<b>P73,602,265</b>	<b>P18,306,762</b>	<b>P1,279,745,019</b>	<b>P8,840,101,906</b>
<b>At June 30, 2018:</b>										
Cost	P3,204,905,313	P5,028,823,462	P619,620,897	P306,352,939	P422,081,029	P81,628,881	P457,252,917	P198,583,368	P1,279,745,019	P11,598,993,825
Accumulated depreciation and amortization	-	1,088,192,559	480,555,831	233,804,067	335,790,620	56,621,584	383,650,652	180,276,606	-	2,758,891,919
<b>Net book value</b>	<b>P3,204,905,313</b>	<b>P3,940,630,903</b>	<b>P1,39,065,066</b>	<b>P72,548,872</b>	<b>P86,290,409</b>	<b>P25,007,297</b>	<b>P73,602,265</b>	<b>P18,306,762</b>	<b>P1,279,745,019</b>	<b>P8,840,101,906</b>
	March 31, 2018 (Audited)									
	Land	Buildings	Office and School Equipment	Office Furniture and Fixtures	Leasehold Improvements	Transportation Equipment	Computer Equipment and Peripherals	Library Holdings	Construction In-Progress	Total
<b>Cost, Net of Accumulated Depreciation and Amortization</b>										
Balance at beginning of year	P2,984,860,600	P3,215,847,552	P167,937,611	P81,200,005	P60,336,785	P14,695,980	P46,913,898	P18,045,674	P285,732,732	P6,875,570,837
Additions	220,044,713	142,444,914	41,765,102	28,118,876	58,007,013	23,404,636	62,630,631	9,308,373	1,320,354,919	1,906,079,177
Reclassifications	-	807,586,524	291,650	-	2,171,867	-	16,200	(42,167)	(810,024,074)	-
Disposal	-	-	(1,205)	-	-	(330,000)	(5)	-	-	(331,210)
Addition as a result of business combination	-	-	462,403	14,750	-	-	923,020	129,718	-	1,529,891
Depreciation and amortization	-	(180,075,063)	(61,977,213)	(33,514,048)	(29,123,390)	(9,790,736)	(33,152,401)	(8,373,765)	-	(356,006,616)
<b>Balance at end of year</b>	<b>P3,204,905,313</b>	<b>P3,985,803,927</b>	<b>P148,478,348</b>	<b>P75,819,583</b>	<b>P91,392,275</b>	<b>P27,979,880</b>	<b>P77,331,343</b>	<b>P19,067,833</b>	<b>P796,063,577</b>	<b>P8,426,842,079</b>
<b>At March 31, 2018:</b>										
Cost	P3,204,905,313	P5,020,822,380	P614,119,790	P300,518,648	P419,615,412	P82,594,881	P451,931,852	P197,266,055	P796,063,577	P11,087,837,908
Accumulated depreciation and amortization	-	1,035,018,453	465,641,442	224,699,065	328,223,137	54,615,001	374,600,509	178,198,222	-	2,660,995,829
<b>Net book value</b>	<b>P3,204,905,313</b>	<b>P3,985,803,927</b>	<b>P148,478,348</b>	<b>P75,819,583</b>	<b>P91,392,275</b>	<b>P27,979,880</b>	<b>P77,331,343</b>	<b>P19,067,833</b>	<b>P796,063,577</b>	<b>P8,426,842,079</b>

The cost of fully depreciated property and equipment still being used by the Group amounted to ₱952.5 million and ₱941.1 million as at June 30, 2018 and March 31, 2018, respectively. There were no idle assets as at June 30, 2018 and March 31, 2018.

#### Additions

*Property and Equipment under Construction.* As at June 30, 2018, the construction in-progress account includes costs incurred for the following: (a) construction of school buildings which will be the new site of STI Lipa, STI Sta. Mesa, STI Pasay-EDSA and STI San Jose del Monte; (b) construction of firing range and renovation of the University Gymnasium of STI WNU; and (c) remaining development of iACADEMY's Yakal campus. The related contract costs amounted to ₱3,716.8 million and ₱3,794.3 million, inclusive of materials, cost of labor and overhead and all other costs necessary for the completion of the projects as at June 30, 2018 and March 31, 2018, respectively.

iACADEMY's Yakal campus building was launched as iACADEMY Nexus on February 12, 2018 and is now operational; while the renovation and upgrade of STI WNU school facilities were completed in August 2018. The construction of ground up to fourth floor of the STI Lipa building was completed in July 2018 while the remaining works from 5<sup>th</sup> floor up to the roof-deck and so with the rest of the other buildings, in the sites mentioned above, are expected to be completed in November 2018 or in time for the second semester.

*Capitalized Borrowing Costs.* Total borrowing costs capitalized as part of property and equipment amounted to ₱11.6 million and ₱28.6 million for the three-month period ended June 30, 2018 and for the year ended March 31, 2018, respectively. The average interest capitalization rates were 5.96% and 4.63% for STI ESG and iACADEMY, respectively, for the three-month period ended June 30, 2018; and 5.96% and 3.82% for STI ESG and iACADEMY, respectively, for the year ended March 31, 2018, which were the effective rates of the general borrowings.

On July 6, 2017, iACADEMY's BOG authorized iACADEMY to obtain a long-term loan amounting to ₱800.0 million for the construction of its Yakal campus and the re-financing of the bridge loan from a local bank in the amount of ₱200.0 million. The long-term loan is secured by a real estate mortgage on the Yakal land then owned by Neschester and the building now constructed thereon owned by iACADEMY, and all other facilities, machineries, equipment and improvements therein (see Note 10). As at June 30, 2018, the total carrying value of the mortgaged land, building, machineries and equipment amounted to ₱1,213.3 million.

## 11. Investment Properties

The rollforward analysis of this account follows:

	June 30, 2018 (Unaudited)		
	Land	Building	Total
<b>Cost, balance at beginning and end of period</b>	<b>₱1,313,385,559</b>	<b>₱665,357,550</b>	<b>₱1,978,743,109</b>
<b>Accumulated depreciation:</b>			
Balance at beginning of period	–	115,024,462	115,024,462
Depreciation	–	7,786,221	7,786,221
Balance at end of period	–	122,810,683	122,810,683
<b>Net book value</b>	<b>₱1,313,385,559</b>	<b>₱542,546,867</b>	<b>₱1,855,932,426</b>
	March 31, 2018 (Audited)		
	Land	Building	Total
Cost:			
Balance at beginning of year	₱1,309,753,568	₱665,357,550	₱1,975,111,118
Additions	3,631,991	–	3,631,991
Balance at end of year	1,313,385,559	665,357,550	1,978,743,109
Accumulated depreciation:			
Balance at beginning of year	–	83,879,584	83,879,584
Depreciation	–	31,144,878	31,144,878
Balance at end of year	–	115,024,462	115,024,462
<b>Net book value</b>	<b>₱1,313,385,559</b>	<b>₱550,333,088</b>	<b>₱1,863,718,647</b>

## 12. Investments in and Advances to Associates and Joint Ventures

The details and movements in this account follow:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
<b>Investments at Equity</b>		
<b>Acquisition cost:</b>		
Balance at beginning of period	<b>₱46,563,407</b>	₱220,681,533
Reversal	–	(43,000)
Reclassification to noncurrent asset held for sale	–	(174,075,126)
Balance at end of period	<b>46,563,407</b>	46,563,407
<b>Accumulated equity in net earnings (loss):</b>		
Balance at beginning of period	<b>1,918,323,519</b>	2,592,530,676
Equity in net losses	<b>(884,650)</b>	(222,036,414)
Dividends received	–	(1,535,756)
Reclassification to noncurrent asset held for sale	–	(450,634,987)
Balance at end of period	<b>1,917,438,869</b>	1,918,323,519
<b>Accumulated share in associates' other comprehensive income (loss):</b>		
Balance at beginning of period	<b>(1,923,015,272)</b>	(1,957,239,414)
Unrealized mark-to-market gain on AFS financial assets	–	124,968,590
Remeasurement gain on life insurance reserves	–	226,977
Remeasurement gain on pension liability	–	176,372
Reclassification to noncurrent asset held for sale	–	(91,147,797)



	<b>June 30, 2018</b>	March 31, 2018
	<b>(Unaudited)</b>	(Audited)
Balance at end of period	<b>(1,923,015,272)</b>	(1,923,015,272)
<b>Share in associates' other equity reserve:</b>		
Balance at beginning of period	-	728,648
Reclassification to noncurrent asset held for sale	-	(728,648)
Balance at end of period	-	-
	<b>40,987,004</b>	41,871,654
<b>Advances</b> (see Note 19)	<b>37,868,986</b>	37,868,986
Less allowance for impairment loss	<b>37,868,986</b>	37,868,986
	-	-
	<b>₱40,987,004</b>	₱41,871,654

The equity in net losses amounting to ₱222.0 million pertains substantially to the share of STI ESG in the loss of PhilPlans for the three-month period ended June 30, 2017, arising from the latter's full recognition of the mandated discount interest rate imposed by the Insurance Commission ("IC") on the reserves of pre-need companies. IC is the government regulatory agency supervising pre-need companies. In November 2012, the IC issued Circular Letter 23-2012 relating to the Valuation of Transitory Pre-need Reserves. The circular mandated that for the years 2012-2016, the discount interest rate shall be 8%; for 2017, 7.25%; for 2018, 6.5% and for 2019 onwards, 6%. The purpose of this Circular is to provide regulatory leeway for the old basket of plans previously approved by the SEC when the pre-need companies were under its supervision. In July 2017, PhilPlans opted to have an early adoption of the 6% discount interest rate starting January 2017. This means higher allocation to pre-need reserves from its trust funds, thus recognizing a bigger expense item. The associates and joint ventures of the Group are all incorporated in the Philippines.

The carrying values of the Group's investments in and advances to associates and joint ventures are as follows:

	<b>June 30, 2018</b>	March 31, 2018
	<b>(Unaudited)</b>	(Audited)
Associates:		
STI Accent	<b>₱37,868,986</b>	₱37,868,986
STI Alabang	<b>23,225,758</b>	23,225,758
GROW	<b>14,975,398</b>	15,199,032
Joint venture -		
PHEI	<b>2,785,848</b>	3,446,864
	<b>78,855,990</b>	79,740,640
Allowance for impairment loss	<b>37,868,986</b>	37,868,986
	<b>₱40,987,004</b>	₱41,871,654

As disclosed in the audited consolidated financial statements as at and for the year ended March 31, 2018, Maestro Holdings has restated its prior year financial statements to reflect, among others, the following changes: (a) completion of the correction in system process where benefits expense and payable pertaining to education plan contracts with maturity dates from July to December are being recognized only in the succeeding year; (b) change in the methodology for the determination of legal policy reserves from net premium valuation to gross premium valuation as required under IC Circular Letter 2016-66; (c) recognition of fair value decline below cost of certain AFS equity securities under profit or loss.

Accordingly, STI ESH has made the necessary adjustments to recognize its share in the restated net earnings and comprehensive income of the associate and the Group's unaudited interim condensed consolidated financial statements as at and for the three months ended June 30, 2017 have been restated to reflect the adjustments.

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### 13. Goodwill, Intangible and Other Noncurrent Assets

This account consists of:

	<b>June 30, 2018</b>	March 31, 2018
	<b>(Unaudited)</b>	(Audited)
Goodwill	<b>₱241,235,574</b>	₱241,235,574
Advances to suppliers	<b>121,281,087</b>	169,277,560
Deposits for asset acquisitions	<b>97,626,667</b>	76,270,833
Rental and utility deposits	<b>57,498,884</b>	51,520,552
Intangible assets	<b>14,738,487</b>	17,307,719
Deferred input VAT	<b>4,199,085</b>	3,906,938
Others	<b>1,975,183</b>	1,975,184
	<b>₱538,554,967</b>	₱561,494,360

#### Goodwill

On May 23, 2017, STI Sta. Maria entered into a Deed of Assignment with Halili Reyes Educational Institution, Inc. (“HREI”) where HREI assigned, transferred and conveyed in a manner absolute and irrevocable, and free and clear of all liens and encumbrances, to STI Sta. Maria all its rights, title and interest in its assets and liabilities for a price of ₱20.0 million. The assignment of the net assets is effective April 1, 2017.

The purchase price consideration has been allocated to the assets and liabilities based on the fair values at the date of acquisition resulting in goodwill amounting to ₱1.8 million. The carrying values of the financial assets and liabilities and other assets recognized at the date of acquisition approximate their fair values due to the short-term nature of the transactions.

#### Advances to Suppliers

Advances to suppliers primarily pertain to advance payments made in relation to the acquisition of property and equipment and construction of buildings (see Note 10). These will be reclassified to the “Property and equipment” account when the goods are received or the services are rendered.

#### Deposits for Asset Acquisitions

This account pertains to payments made for a property in Iloilo which has been identified as the future site of STI Academic Center Iloilo.

#### Rental and Utility Deposits

This account includes security deposits paid to utility companies and for warehouse and office space rentals to be applied against future lease payments in accordance with the respective lease agreements.

#### Intangible Assets

Intangible assets represent the Group’s accounting and school management software.

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**14. Accounts Payable and Other Current Liabilities**

This account consists of:

	<b>June 30, 2018</b>	March 31, 2018
	<b>(Unaudited)</b>	(Audited)
Accounts payable	<b>₱646,986,402</b>	₱517,387,683
Accrued expenses:		
Rent	<b>36,158,243</b>	46,348,807
Contracted services	<b>28,504,221</b>	32,306,912
Interest	<b>28,169,087</b>	10,584,218
Salaries, wages and benefits	<b>20,605,840</b>	20,000,943
School-related expenses	<b>17,444,915</b>	41,253,424
Utilities	<b>4,811,369</b>	5,855,548
Advertising and promotion	<b>2,385,070</b>	3,537,635
Others	<b>8,749,820</b>	7,431,392
Dividends payable	<b>25,382,037</b>	26,815,767
Statutory payables	<b>18,692,385</b>	23,111,901
Network events fund	<b>9,639,851</b>	8,857,657
Current portion of payable to STI Diamond (see Note 17)	<b>9,532,681</b>	7,053,619
Student organization fund	<b>6,580,969</b>	5,398,120
Current portion of refundable deposits	<b>4,336,918</b>	5,432,332
Others	<b>21,616,374</b>	20,967,090
	<b>₱889,596,182</b>	₱782,343,048

The terms and conditions of the above liabilities are as follows:

- a. Accounts payable are noninterest-bearing and are normally settled within a 30 to 60-day term.
- b. Accrued expenses, network events fund, student organization fund and other payables are expected to be settled within 30 days.
- c. Dividends payable pertains to dividends declared and are due on demand.
- d. Statutory payables primarily include taxes payable, remittances to government agencies. These are normally settled within 30 days.
- e. Refundable deposits pertain to security deposits received from existing lease agreements, and are expected to be settled in accordance with the terms of the lease agreements.
- f. For terms and conditions with related parties, refer to Note 19.

## 15. Interest-bearing Loans and Borrowings

This account consists of:

	<b>June 30, 2018</b> <b>(Unaudited)</b>	March 31, 2018 (Audited)
Corporate notes facility	<b>₱916,400,000</b>	₱916,400,000
Term loan facility	<b>692,413,161</b>	322,208,112
	<b>1,608,813,161</b>	1,238,608,112
Less current portion	<b>167,400,000</b>	167,400,000
	<b>₱1,441,413,161</b>	₱1,071,208,112

### Corporate Notes Facility

On March 20, 2014, STI ESG entered into a Corporate Notes Facility Agreement (“Credit Facility Agreement”) with China Banking Corporation (“China Bank”) granting STI ESG a credit facility amounting to ₱3.0 billion with a term of either 5 or 7 years. The facility is available in two tranches of ₱1.5 billion each. The net proceeds from the issuance of the notes were used for capital expenditures and other general corporate purposes.

On May 9, 2014, the first drawdown date, STI ESG elected to have a 7-year term loan with floating interest based on the 1-year PDST-F plus a margin of two percent (2.00%) per annum, which interest rate shall in no case be lower than the BSP overnight rate plus a margin of three-fourths percent (0.75%) per annum, which is subject to repricing.

In 2015, STI ESG availed a total of ₱1,200.0 million loans with interest ranging from 4.34% to 4.75%. STI ESG has made payments totaling to nil and ₱40.8 million for the three-month period ended June 30, 2018 and for the year ended March 31, 2018, respectively.

An Accession Agreement to the Credit Facility Agreement was executed on December 16, 2014 among STI ESG, STI WNU and China Bank whereby STI WNU acceded to the Credit Facility entered into by STI ESG with China Bank in March 2014. In addition, an Amendment and Supplemental Agreement was also executed by the parties on the same date. By virtue of the Accession Agreement, a sub limit of ₱500.0 million was made available to STI WNU and Unlad. The Amendment and Supplemental Agreement allowed STI WNU to draw up to ₱300.0 million from the facility.

On December 19, 2014, STI ESG advised China Bank that it would not be availing of tranche 2 of the Credit Facility Agreement thus limiting the facility available to STI ESG to ₱1.5 billion. On the same date, STI WNU availed the amount of ₱300.0 million under the same terms and conditions as that of STI ESG Credit Facility, which has a term of seven (7) years with floating interest based on the 1-year PDST-F plus a margin of two percent (2.00%) per annum, which interest rate shall in no case be lower than the BSP overnight rate plus a margin of three-fourths percent (0.75%) per annum and is subject to annual repricing every January 31. This loan is secured by a Comprehensive Surety issued by the Parent Company.

STI WNU has made payments on the Corporate Notes Facility totaling to nil and ₱27.0 million for the three-month period ended June 30, 2018 and for the year ended March 31, 2018, respectively. Prepayments amounting to ₱40.0 million and ₱10.0 million were made on July 31, 2016 and January 31, 2017, respectively. Such prepayments were applied in the last year of amortization of the loan.

These loans are unsecured and are due based on the following schedule:

Fiscal year ending March 31	STI ESG	STI WNU
2019	₱134,400,000	₱33,000,000
2020	240,000,000	79,600,000
2021	240,000,000	69,400,000
2022	120,000,000	–
	<b>₱734,400,000</b>	<b>₱182,000,000</b>

The Credit Facility Agreement, together with the Accession Agreement, contains, among others, covenants regarding incurring additional debt and declaration of dividends, to the extent that such will result in a breach of the required debt-to-equity and debt service cover ratios. STI ESG was required to maintain a debt-to-equity ratio of not more than 1.0:1 and debt service cover ratio of not less than 1.1:1.

Breakdown of Group’s Credit Facility Agreement follows:

	<b>June 30, 2018 (Unaudited)</b>	March 31, 2018 (Audited)
Balance at beginning of period	<b>₱916,400,000</b>	₱984,200,000
Repayments	–	67,800,000
Balance at end of period	<b>916,400,000</b>	916,400,000
Less current portion	<b>167,400,000</b>	167,400,000
Noncurrent portion	<b>₱749,000,000</b>	₱749,000,000

On January 19, 2017, STI ESG, STI WNU and China Bank executed a Second Amendment and Supplemental Agreement to the Corporate Notes Facility Agreement. Significant amendments are as follows:

- a) change in interest rate of either (1) the 1-year benchmark rate (“PDST-R2”) plus a margin of 1.5% per annum which interest rate shall in no case be lower than 3.75% per annum or (2) the 3-month benchmark rate plus a margin of 1.5% per annum which interest rate shall in no case be lower than 3.5% per annum.
- b) amendments on the required financial ratios, whereby STI ESG shall maintain the following ratios which shall be computed based on the unaudited interim condensed consolidated financial statements:
  - (1) Debt-to-equity ratio of not more than 1.5x, computed by dividing total debt by total equity. For the purpose of this computation, total debt shall exclude unearned tuition and other school fees;
  - (2) Debt service cover ratio of a minimum of 1.05x.

On February 17, 2017, China Bank likewise advised STI WNU that it has approved that the latter shall maintain a debt-to-equity ratio of not more than 1.5x, computed by dividing the total debt over the total equity and that for the purpose of this computation, total debt shall exclude unearned tuition and other school fees.

The required debt service cover ratio of a minimum of 1.1x for STI WNU remained the same.

As at June 30, 2018 and March 31, 2018, STI ESG and STI WNU complied with the above covenants.

Starting February 1, 2016, the one-year PDST-F on the Credit Facility Agreement was changed to PDST-R2 as the basis for determining the interest rate for both STI ESG and STI WNU loans.

On January 31, 2017, STI ESG and STI WNU elected to adopt the interest rate based on the 1-year Benchmark Rate plus a margin of 1.5% per annum which interest rate shall in no case be lower than 3.75% payable every January 31 and July 31 of each year.

Interest expense on the loans amounted to ₱10.5 million and ₱14.9 million for the three-month periods ended June 30, 2018 and 2017, respectively.

#### Term Loan Facility

On September 28, 2017, iACADEMY, as Borrower, and Neschester, as Third Party Mortgagor, entered into an Omnibus Loan and Security Agreement (“Omnibus Agreement”) with China Bank granting iACADEMY a Term Loan Facility amounting to ₱800.0 million to refinance the ₱200.0 million short-term loan and partially finance the cost of construction of iACADEMY’s Yakal campus. The long-term loan is secured by a real estate mortgage on the Yakal land then in the name of Neschester and the building constructed thereon owned by iACADEMY, and all other facilities, machineries equipment and improvements therein (see Note 10). The long-term loan shall mature on the 10th year anniversary of the initial drawdown on the Term Loan Facility (the Loan Maturity Date). The maturity date of subsequent drawdowns made within the availability period shall coincide with the Loan Maturity Date. On May 24, 2018, the local bank approved the extension of the availability period to draw from the Term Loan Facility from June 30, 2018 to August 30, 2018.

iACADEMY made its initial drawdown of ₱200.0 million on September 29, 2017 to fully settle its short-term loan and subsequent drawdowns of ₱130.0 million, ₱240.0 million and ₱130.0 million on January 10, April 5 and May 15, 2018, respectively, to partially finance the construction. Interest rates from the first to the fourth drawdown are as follows: 4.4025%, 4.4057%, 4.6932% and 5.1928%, respectively, fixed up to September 29, 2018 and will be repriced annually. The loan facility has a term of 10 years, with 3-year grace period on the principal repayment. The principal is payable semi-annually starting September 29, 2020, while the interest is payable semi-annually in arrears every March 31 and September 30 of each year. The interest rate shall be repriced, one business day prior to each of the later interest payment date of the two relevant interest periods.

Future repayment of the loan principal of the initial and second drawdown under the Omnibus Agreement follows:

Less than 1 year	₱-
More than 1 year but less than 5 years	280,000,000
More than 5 years	420,000,000
	<u>₱700,000,000</u>

iACADEMY incurred costs related to the availment of the loan amounting to ₱8.2 million. These costs are capitalized and amortized using the effective interest rate method. The carrying value of the transaction costs amounted to ₱7.6 million and ₱7.8 million as at June 30, 2018 and March 31, 2018, respectively. Amortization of transaction costs, which is recognized as part of interest expense in the unaudited interim condensed consolidated statements of comprehensive income, amounted to ₱0.2 million and nil for the three-month periods ended June 30, 2018 and 2017.

The related borrowing costs capitalized as part of “Building” amounted to ₱7.9 million and ₱11.2 million for the three-month period ended June 30, 2018 and for the year ended March 31, 2018, respectively (see Note 10).

The Omnibus Agreement contains, among others, covenants regarding incurring additional debt and declaration of dividends, to the extent that such will result in a breach of the required debt service cover and debt-to-equity ratios. The required financial ratios are:

- (1) Debt service cover ratio of a minimum of 1.05x, which is the ratio of EBITDA for immediately preceding twelve (12) months to debt service due in the next 12 months.
- (2) Debt-to-equity ratio of not more than 2.0x, computed by dividing total liabilities (excluding unearned tuition and other school fees) by total equity.

As at June 30, 2018, iACADEMY has complied with the above covenants.

#### Short-term Loans

On August 1, 2016, iACADEMY obtained a short-term loan from China Bank amounting to ₱200.0 million. The loan is subject to 3.75% interest per annum. The amount recognized as interest expense from the loan amounted to ₱3.1 million up to December 31, 2016. The loan was treated as bridge financing for the construction of the building for the Yakal campus of iACADEMY. Interest on this loan was capitalized starting January 1, 2017 as part of the cost of the building. STI Holdings signed as co-maker for this bridge financing. On September 29, 2017, this bridge loan was fully paid from the term loan facility arranged with China Bank.

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## 16. Bonds Payable

On March 23, 2017, STI ESG issued the first tranche of its ₱5,000.0 million fixed rate bonds program under its 3-year shelf registration with the SEC, which was listed through the Philippine Dealing and Exchange Corp. The bonds, amounting to an aggregate of ₱3,000.0 million, with interest payable quarterly, were issued with a fixed rate 5.8085% for the 7-year series, due 2024, and 6.3756% for the 10-year series, due 2027, and were rated a high rating of ‘PRS Aa’ by Philippine Rating Services Corporation (“PhilRatings”). Proceeds of the issuance were used to finance the campus expansion projects, refinancing of the short-term loans incurred for the acquisition of land, and for other general corporate requirements of STI ESG.

The bonds include an embedded derivative in the form of an early redemption option that gives STI ESG the option, but not the obligation, to redeem in whole (and not in part), the outstanding bonds before the relevant maturity date, based on a certain price depending on the fixed early redemption option dates. Management has assessed that the early redemption option is closely related to the bonds and would not require to be separated from the value of the bonds and accounted for as a derivative under PAS 39, *Financial Instruments: Recognition and Measurement*.

A summary of the terms of STI ESG's issued bonds follows:

Year Issued	Interest Payable	Term	Interest Rate	Principal Amount	Carrying Value as at June 30, 2018 (Unaudited)	Carrying Value as at March 31, 2018 (Audited)	Features
2017	Quarterly	7 years	5.8085%	₱2,180,000,000	<b>₱2,146,727,800</b>	₱2,145,524,770	Callable on the 3rd month after the 5th anniversary of Issue Date and on the 6th anniversary of Issue Date
2017	Quarterly	10 years	6.3756%	820,000,000	<b>806,634,970</b>	806,354,364	Callable from the 7th anniversary issue and every year thereafter until the 9th anniversary issue date
				<b>₱3,000,000,000</b>	<b>₱2,953,362,770</b>	₱2,951,879,134	

### Covenants

The bonds provide certain restrictions and requirements with respect to, among others, change in majority ownership and management, merger or consolidation with other corporations resulting in loss of control over the overall resulting entity and sale, lease, transfer or otherwise disposal of all or substantially all of its assets. The Credit Facility Agreement also contains, among others, covenants regarding incurring additional debt and declaration of dividends. STI ESG is required to maintain a debt-to-equity ratio of not more than 1.5:1 and debt service cover ratio of not less than 1.05:1 computed based on the unaudited interim condensed consolidated financial statements.

STI ESG's debt-to-equity and debt service cover ratios as at June 30, 2018 and March 31, 2018 are as follows:

	<b>June 30, 2018 (Unaudited)</b>	March 31, 2018 (Audited)
Total liabilities*	<b>₱4,539,423,893</b>	₱4,215,264,337
Total equity	<b>6,525,475,155</b>	6,621,659,346
Debt-to-equity	<b>0.70:1.00</b>	0.64:1.00

\* Excluding unearned tuition and other school fees

	<b>June 30, 2018 (Unaudited)</b>	March 31, 2018 (Audited)
EBITDA**	<b>₱1,145,386,940</b>	₱1,219,382,693
Total interest-bearing liabilities	<b>353,107,824</b>	353,487,492
Debt service cover	<b>3.24:1.00</b>	3.45:1.00

\*\*EBITDA for the last twelve months

### Bond Issuance Costs

STI ESG incurred costs related to the issuance of the bonds amounting to ₱53.9 million. These costs are capitalized and amortized using the effective interest rate method. The carrying value of the unamortized bond issuance costs amounted to ₱46.6 million and ₱48.1 million as at June 30, 2018 and March 31, 2018, respectively. Amortization of bond issuance costs amounting to ₱1.8 million and ₱1.5 million for the three-month periods ended June 30, 2018 and 2017, respectively, is recognized as part of the "Interest expense" account in the unaudited interim condensed consolidated statements of comprehensive income.



Interest Expense

Interest expense, net of amount capitalized as property and equipment, associated with the bonds payable recognized in the unaudited interim condensed consolidated statements of comprehensive income amounted to ₱42.7 million and ₱45.7 million for the three-month periods ended June 30, 2018 and 2017, respectively.

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**17. Other Noncurrent Liabilities**

This account consists of:

	<b>June 30, 2018</b> <b>(Unaudited)</b>	March 31, 2018 (Audited)
Payable to STI Diamond - net of current portion	<b>₱47,074,791</b>	₱50,063,693
Advance rent	<b>39,231,149</b>	36,101,395
Refundable deposit - net of current portion	<b>19,716,300</b>	18,151,424
Deferred lease liability	<b>2,426,489</b>	2,426,489
	<b>₱108,448,729</b>	₱106,743,001

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**18. Equity**

Capital Stock

Details as at June 30, 2018 and March 31, 2018 follow:

	Shares	Amount
Common stock - ₱0.50 par value per share		
Authorized	10,000,000,000	₱5,000,000,000
Issued and outstanding	9,904,806,924	4,952,403,462

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Other Comprehensive Income (Loss)

	<b>June 30, 2018 (Unaudited)</b>		
	<b>Attributable to Equity Holders of the Parent Company</b>	<b>Non-controlling interests</b>	<b>Total</b>
Cumulative actuarial gain	<b>₱76,272,582</b>	<b>₱479,211</b>	<b>₱76,751,793</b>
Unrealized mark-to-market gain on AFS financial assets	<b>652,466</b>	<b>2,395</b>	<b>654,861</b>
Share in associates' cumulative actuarial gain	<b>215,592</b>	<b>-</b>	<b>215,592</b>
Share in associates' unrealized mark-to-market loss on AFS financial assets (see Note 12)	<b>(114)</b>	<b>(2)</b>	<b>(116)</b>
	<b>₱77,140,526</b>	<b>₱481,604</b>	<b>₱77,622,130</b>

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March 31, 2018 (Audited)			
	Attributable to Equity Holders of the Parent Company	Non-controlling interests	Total
Cumulative actuarial gain	P96,727,608	P479,211	P97,206,819
Unrealized mark-to-market gain on AFS financial assets	847,989	5,432	853,421
Share in associates' cumulative actuarial gain	215,592		215,592
Share in associates' unrealized mark-to-market loss on AFS financial assets (see Note 12)	(114)	(2)	(116)
	<u>P97,791,075</u>	<u>P484,641</u>	<u>P98,275,716</u>

**Other Comprehensive Income (Loss) and Other Equity Reserves associated with Noncurrent Asset Held for Sale**

As at June 30, 2018 and March 31, 2018, the cumulative balance of other comprehensive income (loss) associated with noncurrent asset held for sale consists of:

	Attributable to Equity Holders of the Parent Company	Non-controlling interests	Total
Shares in associates':			
Unrealized mark-to-market gain on AFS financial assets	P107,103,936	P1,454,685	P108,558,621
Remeasurement loss on life insurance reserves	(17,854,179)	(242,495)	(18,096,674)
Cumulative actuarial gain	676,660	9,190	685,850
Other equity reserve	718,885	9,764	728,649
	<u>P90,645,302</u>	<u>P1,231,144</u>	<u>P91,876,446</u>

**Retained Earnings**

On September 29, 2017, cash dividends amounting to P0.02 per share or the aggregate amount of P198.1 million were declared by the Parent Company's BOD in favor of all stockholders on record as at October 16, 2017, payable on November 13, 2017.

*Policy on Dividends Declaration*

On September 19, 2017, the BOD of the Parent Company adopted a policy on the declaration of dividends starting with Fiscal Year 2017-2018.

The BOD approved a dividend declaration policy of not less than 25% of the core income of the Parent Company from the previous fiscal year, subject to compliance with the requirements of applicable laws and regulations, statutory limitations and/or restrictions, terms and conditions which may be imposed on the Parent Company by lenders or other financial institutions, and the Parent Company's investment plans and financial condition.

Core income is defined as consolidated net income after income tax derived from the Parent Company's main business, which is education, and other recurring income.

The amount of dividends will be reviewed periodically by the BOD in light of the earnings, financial conditions, cash flows, capital requirements and other considerations, while maintaining

a level of capitalization that is commercially sound and sufficient to ensure that the Parent Company can operate on a standalone basis.

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

- the level of the Parent Company's earnings, cash flow, return on equity and retained earnings;
- its results for and its financial condition at the end of the year in respect of which the dividend is to be paid and its expected financial performance;
- the projected levels of capital expenditures and other investment programs;
- restrictions on payments of dividends that may be imposed on it by any of its financing arrangements and current or prospective debt service requirements; and
- such other factors as the BOD deems appropriate.

## 19. Related Party Transactions

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) enterprises or individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Parent Company; (b) associates; and (c) enterprises or individuals owning, directly or indirectly, an interest in the voting power of the company that gives them significant influence over the company, key management personnel, including directors and officers of the Group and close members of the family of any such enterprise or individual.

The following are the Group's transactions with its related parties:

Related Party	Amount of Transactions during the Period		Outstanding Receivable (Payable)		Terms	Conditions
	June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)		
<i>Associates</i>						
<b>STI Accent</b>						
Advances for various expenses and other charges	P-	P335,704	<b>P37,868,986</b>	P37,868,986	30 days upon receipt of billings; noninterest-bearing	Unsecured; with impairment
<b>GROW</b>						
Rental income and other charges	-	-	<b>6,921,016</b>	6,931,016	30 days upon receipt of billings	Unsecured; no impairment
Advances for various expenses	-	-	-	143,571	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
<i>Forward</i>						

Related Party	Amount of Transactions during the Period		Outstanding Receivable (Payable)		Terms	Conditions
	June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)		
<b>STI Alabang</b>						
Educational services and sale of educational materials and supplies	<b>₱5,774,736</b>	₱5,377,654	<b>₱1,490,695</b>	₱435,759	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
<b>STI Marikina</b>						
Educational services and sale of educational materials and supplies	<b>4,370,322</b>	5,680,081	<b>1,601,277</b>	84,956	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
<i>Affiliates*</i>						
<b>PhilCare</b>						
Rental income and other charges	<b>4,189,537</b>	3,928,760	<b>3,742,290</b>	4,054,001	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
HMO coverage	<b>3,766,751</b>	1,444,445	<b>(4,069,228)</b>	(28,449)	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Refundable deposits	–	–	<b>(1,820,984)</b>	(1,820,984)	Refundable upon end of contract	Unsecured
Advances for various expenses	<b>38,349</b>	–	–	–	Liquidated within one month; noninterest-bearing	Unsecured; no impairment
<b>Phil First Insurance Co., Inc.</b>						
Rental income and other charges	<b>34,134</b>	42,622	<b>2,248</b>	27,732	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Rental, utilities and other charges	<b>1,009,337</b>	974,173	<b>(213,373)</b>	(303,673)	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Insurance	<b>2,173,477</b>	184,531	<b>(196,313)</b>	(19,829)	30 days upon receipt of billings; noninterest-bearing	Unsecured
<b>Philippines First Condominium Corporation</b>						
Association dues and other charges	<b>2,614,919</b>	2,789,399	<b>(569,115)</b>	(1,331,539)	30 days upon receipt of billings; noninterest-bearing	Unsecured
<b>PhilLife</b>						
Rental income and other charges	<b>4,525,868</b>	4,152,512	<b>1,267,026</b>	486,550	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
<i>Officers and employees</i>						
Advances for various expenses	<b>7,149,430</b>	10,054,045	<b>24,987,015</b>	24,505,141	Liquidated within one month; noninterest-bearing	Unsecured; no impairment
<i>Others</i>						
Rental income and other charges	<b>1,402,357</b>	225,677	<b>1,321,036</b>	2,043,402	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Advertising and promotion charges	<b>100,000</b>	90,000	<b>(100,000)</b>	(100,000)	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
			<b>₱72,232,576</b>	₱72,976,640		

\*Affiliates are entities under common control of a majority Shareholder

Related party receivables and payables are generally settled in cash.

Outstanding receivables from related parties, before any allowance for impairment, and payables arising from these transactions are summarized below:

	<b>June 30, 2018</b> <b>(Unaudited)</b>	March 31, 2018 <b>(Audited)</b>
Educational services (see Note 6)	<b>₱3,091,972</b>	₱520,715
Advances to officers and employees (see Note 6)	<b>24,987,015</b>	24,505,141
Rent, utilities and other related receivables (see Note 6)	<b>13,253,616</b>	13,542,701
Current portion of advances to associates, joint ventures and other related parties (see Note 6)	–	143,571
Advances to associates and joint ventures (see Note 12)	<b>37,868,986</b>	37,868,986
Accounts payable (see Note 14)	<b>(6,969,013)</b>	(3,604,474)
	<b>₱72,232,576</b>	₱72,976,640

Outstanding balances of transactions with subsidiaries from the Parent Company's point of view which were eliminated during consolidation:

Category	Amount of Transactions during the Period		Outstanding Payable		Terms	Conditions
	June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)		
<i>Subsidiaries</i>						
<b>STI ESG</b>						
Advisory fee	<b>₱3,600,000</b>	₱3,600,000	<b>₱–</b>	₱	30 days upon receipt of billings; Noninterest-bearing	Unsecured
Reimbursements	<b>8,543</b>	–	–	–	Within 1 year; Noninterest-bearing	Unsecured
<b>STI WNU</b>						
Advisory fee	<b>900,000</b>	900,000	–	–	30 days upon receipt of billings; Noninterest-bearing	Unsecured
Subscription payable	–	–	<b>(25,227,650)</b>	(25,227,650)	Noninterest-bearing	Unsecured
<b>AHC</b>						
Payable to AHC	–	–	<b>(63,778,000)</b>	(63,778,000)	Payable upon demand; noninterest-bearing	Unsecured
Subscription payable	–	–	<b>(64,000,000)</b>	(64,000,000)	Noninterest-bearing	Unsecured

## 20. Basic and Diluted Loss Per Share on Net Loss Attributable to Equity Holders of STI Holdings

The table below shows the summary of net loss and weighted average number of common shares outstanding used in the calculation of loss per share for the three-month periods ended June 30, 2018 and 2017:

	<b>2018</b> <b>(Unaudited)</b>	2017
Net loss attributable to equity holders of STI Holdings (see Note 12)	<b>(₱77,738,911)</b>	(₱212,992,596)
Common shares outstanding at beginning and end of year (see Note 18)	<b>9,904,806,924</b>	9,904,806,924
Basic and diluted loss per share on net loss attributable to equity holders of STI Holdings (see Note 12)	<b>(₱0.008)</b>	(₱0.022)

The basic and diluted loss per share are the same as there are no dilutive potential common shares.

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## 21. Contingencies and Commitments

### Contingencies

- a. *Agreements with PWU and Unlad.* In various dates in 2011, 2012 and 2013, the Parent Company and AHC extended loans and advances to PWU and Unlad by virtue of several agreements (collectively, "Loan Documents"), which were secured by mortgages over PWU and Unlad properties, entered into among the Parent Company, AHC, PWU and Unlad in the total principal amount of ₱513.0 million. Upon the non-adherence to the terms and conditions stated in the agreements, the Parent Company and AHC served notices of default to PWU and Unlad in December 2014, and demanded the payment of the total combined amount of approximately ₱926.0 million, inclusive of interests, penalties, fees and taxes.

Upon failure to pay the aforesaid loan, the Parent Company and AHC enforced its rights under the aforesaid agreements and mortgages and filed several Petitions for Extra-Judicial Foreclosure of Real Estate Mortgage on (a) PWU Indiana and Taft Properties with the Office of the Clerk of Court and Ex-Officio Sheriff of the Regional Trial Court ("RTC") of Manila, (b) Unlad's properties in Quezon City and (c) Davao Property with the Office of the Clerk of Court and Ex-Officio Sheriff of the RTC of Quezon City and Davao, respectively, in February 2015.

On March 13, 2015, Dr. Helena Z. Benitez ("HZB") filed a Creditor-Initiated Petition for Rehabilitation of PWU in RTC Manila ("PWU Rehabilitation Case"). The PWU Rehabilitation Case was raffled to Branch 46 of the RTC Manila ("Rehabilitation Court").

On March 26, 2015, the Parent Company filed a Notice of Claim with the Rehabilitation Court.

On August 29, 2015, the Rehabilitation Court rendered a decision dismissing the PWU Rehabilitation Case.

After filing of the Motion for Reconsideration and responsive pleadings thereto, on January 21, 2016, the Rehabilitation Court denied the respective Motions for Reconsideration filed by HZB and PWU.

Extra-judicial foreclosure sales were conducted in various dates in 2015 and 2016 for the above-mentioned properties and the Parent Company was declared as the winning bidder for all extra-judicial foreclosure sales held.

On March 1, 2016, the Parent Company and AHC executed a Deed of Assignment wherein AHC assigned its loan to Unlad, including capitalized foreclosure expenses, amounting to ₱66.7 million for a cash consideration of ₱73.8 million.

On March 22, 2016, the Parent Company, PWU, Unlad, and HZB entered into a MOA for the extinguishment and settlement of the outstanding obligations of PWU and Unlad to the Parent Company. The MOA includes, among others, the execution of the following on March 31, 2016:

- Deed of Dacion en pago of Quezon City Properties and Davao Property (collectively referred to as the "Deeds") in favor of the Parent Company

- Release and cancellation of mortgages over the Manila Properties to be executed by the Parent Company

The MOA also provides that the Parent Company will be committed to fund and advance all taxes, expenses and fees to the extent of ₱150.0 million in order to obtain the CAR and the issuance of new TCT and TD in favor of the Parent Company. In the event that such expenses are less than ₱150.0 million, the excess shall be given to Unlad. However, if the ₱150.0 million will be insufficient to cover the expenses, the Parent Company will provide the deficiency without any right of reimbursement from Unlad.

Prior to the settlement, the breakdown of the receivables from PWU and Unlad follows:

	PWU	Unlad	Total
Principal amount	₱250,000,000	₱263,000,000	₱513,000,000
Interest*	12,651,546	3,327,389	15,978,935
Auction expenses**	23,195,709	951,876	24,147,585
Foreclosure and legal expenses**	18,021,970	5,941,989	23,963,959
	₱303,869,225	₱273,221,254	₱577,090,479

\*Interest up to December 31, 2012 only

\*\*₱15.2 million and ₱32.9 million of auction, foreclosure and legal expenses, were recognized as part of the noncurrent receivables in 2016 and 2015, respectively

Pursuant to the MOA, on March 31, 2016, the Parent Company and Unlad entered into the Deeds wherein Unlad transfers four parcels of land in Quezon City and a parcel of land in Davao to the Parent Company for a total dacion price of ₱611.0 million and ₱300.0 million, respectively, for the settlement of the outstanding loans of PWU and Unlad. This resulted in a gain amounting to ₱553.4 million (including the difference between the fair value and the dacion price of ₱369.5 million) and is presented as “Excess of consideration received from collection of receivables” in the consolidated statement of comprehensive income for the year ended March 31, 2016.

Consequently, the Parent Company recognized the Quezon City and Davao properties as “Investment properties” (see Note 11).

Relative to the above, the following cases are now pending:

- Complaint filed by the Heirs of the Family of Villa-Abrille relative to Unlad’s Davao Property.* On October 21, 2015, the Parent Company and AHC each received copies of the Complaint filed by the Heirs of Carlos Villa-Abrille, Heirs of Luisa Villa-Abrille, Heirs of Candelaria V.A. Tan, Heirs of Adolfo V.A. Lim, Heirs of Saya V.A. Lim Chiu, Heirs of Guinga V.A. Lim Lu, Heirs of Rosalia V.A. Lim Lua, Heirs of Lorenzo V.A. Lim, and Heirs of Fermin Abella against the Philippine Women’s Educational Association (“PWEA”), Unlad, the Parent Company, and AHC for cancellation of certificate of title, reconveyance of real property, declaration of nullity of real estate mortgage, damages, and attorney’s fees. The subject matter of the case is Unlad’s property located in Davao City.

The Plaintiffs claim that ownership of Unlad’s property in Davao City should revert to them because PWEA and Unlad violated the restrictions contained in the Deed of Sale covering the property. The restrictions referred to by the Plaintiffs provide that PWEA should use the land for educational purposes only and shall not subdivide the land for purposes of resale or lease to other persons. The Plaintiffs also claim that the real estate mortgage constituted over Unlad’s property in Davao City in favor of the Parent Company and AHC should be declared

null and void because PWEA and Unlad have no capacity to mortgage the property based on the restrictions contained in the Deed of Sale.

On November 20, 2015, the Parent Company and AHC filed the Motion to Dismiss (“First Motion to Dismiss”). In the First Motion to Dismiss, the Parent Company and AHC asserted that the Plaintiffs’ cause of action against PWEA and Unlad has prescribed considering that the alleged violation of the restrictions in the Deed of Sale occurred in 1987 or more than ten (10) years from the filing of the case. In addition, Plaintiffs cannot seek the cancellation of the real estate mortgage in favor of the Parent Company and AHC because (a) Plaintiffs are not privy/real parties in interest to the said mortgage, and (b) the restrictions in the title and Deed of Sale do not prohibit the mortgage of the subject property.

While the aforesaid First Motion to Dismiss was pending, the Corporation and AHC filed the Second Motion to Dismiss (on grounds of res judicata and willful and deliberate forum shopping) dated March 22, 2016 (“Second Motion to Dismiss”).

In the Second Motion to Dismiss, the Parent Company and AHC informed the Trial Court that they were able to discover that the plaintiffs filed a similar case against PWEA and Unlad with another Trial Court of Davao City (Civil Case No. 20,415-90 filed before Branch 15 of the Regional Trial Court of Davao City), which was dismissed without qualifications for their failure to comply with the said Trial Court’s order. Said dismissal was eventually affirmed with finality by the Supreme Court. Because of this information, the Parent Company and AHC moved to dismiss the case for res judicata and willful and deliberate forum shopping for filing the same case to the Trial Court.

After filing their respective responsive pleadings to the above-mentioned Motion(s) to Dismiss, the Trial Court issued the Order dated October 20, 2016, which granted the Motions to Dismiss and dismissed the instant case on the basis of (a) prescription, and (b) res judicata. The Trial Court likewise affirmed that there were no violations of the provisions and/or restrictions in the Deed of Sale annotated on the title of the subject property because (a) the mortgage of the subject property between the Parent Company and AHC and Unlad is not a prohibited act; and (b) there is no allegation that the subject property shall not be used by the Parent Company and AHC for educational purpose.

On November 24, 2016, the Plaintiffs filed a Notice of Appeal of the Order dated October 20, 2016, and sought the reversal of the same with the Court of Appeals-Cagayan de Oro (“Court of Appeals”).

On February 22, 2017, the Parent Company and AHC received the Notice from the Court of Appeals that the Plaintiffs’ appeal is docketed as CA-G.R. CV No. 04538. The Court of Appeals required the Plaintiffs to file their Appellants’ Brief within forty-five (45) days from their receipt of the said Notice. Upon receipt of their Appellants’ Brief, the Parent Company and AHC have the same period to file its Appellees’ Brief.

After filing a Motion for Extension of time to file the Appellants’ Brief, the Plaintiffs filed their Appellants’ Brief. In the Appellants’-Brief, they reiterated that (a) their cause of action in Civil Case No. 36,430-2015 has not prescribed, (b) they have a cause of action against the Corporation to nullify the mortgage contracts over the subject property and (c) there is no res judicata.

While the aforesaid appeal was dismissed, upon motion by the Parent Company and AHC, by the Court of Appeals due to defects and/or violations of the prescribed form and content of an



Appellants' Brief, the same was reinstated after the Plaintiffs-Appellants filed an Amended Appellants' Brief and invoke the liberal application of the Rules of Court.

Considering that the other defendants have filed their Appellees' Brief, the Court of Appeals required the Corporation and AHC to file their Appellees' Brief within forty-five days from receipt thereof, or until April 30, 2018.

On April 30, 2018, the Parent Company and AHC filed their Appellees' Brief. In the Appellees Brief, the Parent Company and AHC asserted that the Subject Orders are valid and with legal basis to dismiss the Plaintiffs' case due to (1) prescription, (2) res judicata and (3) failure to state a cause of action.

On July 16, 2018, the Court of Appeals issued a Resolution wherein it submitted the Plaintiffs' appeal for decision.

As at August 14, 2018, the Court of Appeals has not issued any decision on the Plaintiffs' appeal.

(ii). *Arbitration Case and Derivative Suit filed by Mr. Conrado Benitez II.*

- (a) Mr. Conrado L. Benitez II (the "Claimant") filed on June 27, 2016 a Request for Arbitration, with the Philippine Dispute Resolution Center, Inc. ("PDRCI"), for and on behalf of PWU and Unlad, wherein he requested that the directors/trustees and stockholders/members of Unlad and PWU, Mr. Eusebio H. Tanco ("EHT"), the Parent Company, Mr. Alfredo Abelardo B. Benitez ("ABB") and AHC (collectively, the "Respondents") submit the alleged dispute over the settlement of the loan obligations of PWU and Unlad as provided in the arbitration clause of the Joint Venture Agreement and Omnibus Agreement (the "Loan Documents").

In the said Arbitration Case, the Claimant asserted that PWU and Unlad are not in default in their obligations under the Loan Documents. The obligations provided therein, specifically obtaining a tax-free ruling for Property for Share Swap Transaction from the Bureau of Internal Revenue, is an impossible condition. Consequently, the foreclosures on the securities of the Loan Documents, real properties of PWU and Unlad, were null and void because (a) failure to submit the case for arbitration and (b) PWU and Unlad are not in default. Based on such circumstances, the Claimant sought, among others, the (a) renegotiation, or (b) rescission of the Loan Documents. Should the Loan Documents be rescinded, the Claimant also sought that PWU and Unlad shall be allowed twelve months to sell the Davao and Quezon City Properties to return the alleged investments made by the Parent Company, EHT, ABB and AHC. Lastly, the Claimant sought the payment of attorney's fees not less than ₱5.0 million, ₱0.5 million for expenses and reimbursement of cost of suit, expenses, and other fees.

On July 12, 2016, the Parent Company, AHC and EHT received the Notice of Arbitration from the PDRCI, and required said parties to file their Response to the Request for Arbitration filed by the Claimant within thirty (30) days from receipt thereof, or until August 11, 2016.

Upon verification with the PDRCI, the Claimant has yet to pay the full amount of fees required by the PDRCI.

Based on the rules of the PDRCI, the Respondents in the arbitration case need not file their Response until full payment of the Claimant.

Based on said circumstances, the Parent Company, AHC, and EHT filed an Entry of Appearance with Manifestation ("Manifestation"). In the Manifestation, they informed the PDRCI that the filing of their Response should be deferred until full payment of the provisional advance of cost by the Claimant as required under the PDRCI Rules. Likewise, they manifested that the Claimant should be compelled to pay said fees in order for the PDRCI and/or the arbitral tribunal to be constituted to rule on the defenses and/or claim to be raised by the Parent Company, AHC and EHT.

On September 7, 2016, the PDRCI issued a *Notice* dated August 26, 2016, which informed the parties to the instant case that the proceedings are suspended until the Claimant settles the outstanding provisional advance on cost for filing the instant case.

In view of the foregoing, the case is deemed suspended pending the settlement by the Claimant of the provisional advance on cost.

As of August 14, 2018, the case remains suspended based on the aforesaid reason.

- (b) After filing the Request for Arbitration, Mr. Conrado L. Benitez II (the "Petitioner") then filed on June 29, 2016 a derivative suit for himself and on behalf of Unlad and PWU against directors/trustees and stockholders/members of Unlad and PWU, EHT, the Parent Company, ABB and AHC (collectively, the "Defendants") docketed as Civil Case No. 16-136130 in the RTC of Manila (the "Derivative Suit"). The Derivative Suit was raffled to Branch 24 of the RTC of Manila presided over by Judge Ma. Victoria A. Soriano-Villadolid.

In the Derivative Suit, the Petitioner primarily asserts that the Parent Company, EHT, ABB and AHC should submit themselves to the arbitration proceedings filed with the PDRCI because the Loan Documents required any alleged dispute over the same to be resolved through arbitration. Consequently, the Petitioner alleges that the foreclosure proceedings and settlement of the obligations of PWU and Unlad as evidenced by the MOA dated March 22, 2016 executed by PWU and Unlad with the Parent Company and AHC are null and void for not complying with the aforesaid arbitration clause. Likewise, the Petitioner sought the payment of attorney's fees not less than ₱1.0 million, ₱0.1 million for expenses and cost of suit.

On July 26, 2016, the Parent Company and AHC filed their Joint Answer with Compulsory Counterclaim ("Joint Answer"). In the Joint Answer, the Parent Company and AHC asserted that the instant case is a mere harassment and nuisance suit, and a deliberate form of forum shopping when the Petitioner filed the Arbitration Case for the same purpose. Likewise, the Petitioner cannot compel the corporations to submit themselves to arbitration because (a) the parties to the Loan Documents have already settled any disputes, and (b) the said corporations are not stockholders and members of PWU and Unlad. Lastly, the relevant laws allow the Parent Company and AHC to institute foreclosure proceedings even if there is an arbitration clause.

Simultaneously, EHT filed his Answer wherein he asserted that the Petitioner cannot compel him to submit himself to arbitration when he is not a party to the Loan Documents. Under the relevant laws and arbitration clause of the Loan Documents, only parties to said contracts may be required to submit themselves to arbitration. EHT has

ceased to be a party to the Joint Venture Agreement when he assigned all his rights and interests thereto to the Parent Company, while he is not a party to the Omnibus Agreement. EHT further asserted that the Petitioner's only motive of including him in said case is to destroy his good name with the latter's blatant lies and baseless allegations.

The Petitioner then filed his Consolidated Reply to the Joint Answer and Answer of EHT.

Meanwhile, the other co-defendants, namely (a) ABB, and (b) Dr. Jose Francisco and Marco Benitez, filed their respective Answer(s) to the Complaint. After the filing of their Answer(s), the other co-defendants filed (1) Notice to take Deposition Upon Oral Examination and (2) their respective Motion(s) to Set Preliminary Hearing on the Special and Affirmative Defenses raised in their respective Answers ("Motion(s)"). The said Motion and pleading were denied by the Trial Court upon motion by the Plaintiff.

While the Parent Company, AHC and EHT also filed their respective Motion to Set Hearing on Affirmative Defenses to cause for the immediate dismissal of the case, the Trial Court denied the said Motions.

The Trial Court then issued the Order dated March 3, 2017, which set the case for pre-trial conference on April 18, 2017 with pre-marking of documentary evidence on April 7, 2017 ("Notice of Pre-Trial"). The Notice of Pre-Trial further requires the parties to file their respective (a) pre-trial briefs, (b) documentary evidence, (c) affidavits of witnesses, and (d) special power of attorney of counsels, in case any of the party-litigants cannot attend the pre-trial conference.

After participating in the pre-marking of evidence and filing their respective Pre-Trial Briefs and Judicial Affidavits of witnesses, the parties' respective counsels attended the pre-trial for the above-captioned case on April 18, 2017.

During the pre-trial conference, the Trial Court referred the case for Court-Annexed Mediation with the Philippine Mediation Center ("PMC") as allowed during pre-trial. The Trial Court further informed the parties that should the parties fail to amicably settle, the Trial Court may require the parties to (a) file their respective Memorandum, (b) present their evidence or witness on factual issues need to be clarified and/or resolved, and/or (c) submit the case for judgment based on the pleadings and evidence submitted by the parties.

Immediately after the hearing, the parties went to the PMC, wherein the parties agreed to schedule the mediation hearing on May 3, 2017. While setting the schedule of the mediation hearing, counsel for the Petitioner made a proposal for the amicable settlement of the instant case.

On May 2, 2017, the Parent Company and AHC received the Urgent Motion (For Issuance of Temporary Restraining Order and Writ of Preliminary Injunction) ("Motion for TRO/Injunction") filed by the Petitioner. In the Motion for TRO/Injunction, the Petitioner sought to enjoin the construction work being initiated by the Parent Company on the Davao Property on the ground that (a) the said property is subject of the instant case, and (b) Unlad and/or Philippine Women's College of Davao will be dispossessed of the said property. The Motion for TRO/Injunction was scheduled by the Trial Court on May 11, 2017.

On May 3, 2017, the parties were all present for the mediation hearing. During said hearing, the Parent Company, through counsel, manifested that it rejects the Petitioner's proposal, and moved to terminate the mediation hearing. Upon said motion, the Court-Annexed Mediation was terminated.

On May 11, 2017, the parties' respective counsels attended the hearing on the Motion for TRO/Injunction. During the hearing, the Trial Court denied the Petitioner's request for a status quo pending the resolution of the said Motion. Instead, the Trial Court required the parties to file their respective Position Paper on the issuance of the TRO on May 18, 2017. The Trial Court also set the hearing on the issuance of a Preliminary Injunction wherein the parties will present their respective witnesses and evidence for the same.

While the aforesaid Motion for TRO/Injunction was pending, on May 17, 2017, the Parent Company and AHC received an Ex Parte Reiterative Motion of the Plaintiff. In the said Ex Parte Motion, the Petitioner reiterated his request for a status quo order considering that the Parent Company was able to obtain a permit to construct a fence on the Davao Property. The said Motion was set for hearing on May 18, 2017.

On May 18, 2017, all of the parties filed their respective Position Papers in relation to Petitioner's Motion for TRO/Injunction.

On May 25, 2017, the Petitioner filed a Manifestation and Motion to Withdraw its Motion for TRO/Injunction. The Petitioner alleged that instead of conducting hearings on the issuance of an Injunction, the Trial Court should proceed to resolve the case based on the pleadings and affidavits already filed by the parties in accordance with Interim Rules Governing Intra-Corporate Controversies.

Upon receipt of the aforesaid Manifestation and Motion to Withdraw of the Petitioner, the Trial Court granted the same and cancelled the scheduled injunction hearings.

On July 5, 2017, the Parent Company, AHC and EHT received the Trial Court's Order dated June 23, 2017. In the Order, the parties were required to file their respective Memoranda within twenty (20) days from receipt thereof in order for the Trial Court to proceed to render judgment, full or otherwise, based on all of the pleadings and evidence submitted by the parties in relation and pursuant to Rule 4, Section 4 of the Interim Rules of Procedure Governing Intra-Corporate Controversies under Republic Act No. 8799 ("Interim Rules").

On July 25, 2017, all of the parties filed their respective Memoranda.

While the case is submitted for resolution, the Petitioner has been filing Manifestations wherein he manifested to the Trial Court that the Parent Company has initiated the construction of a school on the alleged subject Davao Property.

On February 9, 2018, the Parent Company received the Decision dated January 19, 2018, which dismissed the case. In the Decision, the Trial Court deemed that Petitioner failed to establish fraud or bad faith on the part of the Defendants. Consequently, the Trial Court cannot contravene in the agreement among the Parent Company, Unlad, PWU and AHC to amicably settle the outstanding obligations of PWU and Unlad to the Parent Company.

On February 28, 2018, the Parent Company, AHC and EHT received the Plaintiffs' Petition for Review of the aforesaid Decision filed with the Court of Appeals – Manila and docketed as C.A. G.R. No. 154654.

As of the date of this report, the Court of Appeals has yet to issue the appropriate Resolution requiring the parties to file their respective Comments to the Plaintiffs' Petition for Review.

- b. *Specific Performance Case filed by the Agustin Family.* The Agustin family filed a Specific Performance case against the Parent Company for the payment by the latter of the remaining balance of the purchase price for the sale of the Agustin Family's shares in STI WNU.

The Agustin family alleges in their Complaint that based on the Share Purchase Agreement and Deed of Absolute Sale they executed with the Parent Company, the price of their shares in STI WNU has been pegged at ₱400.0 million. Despite these two agreements, the Parent Company refuses to pay the full purchase price for the STI WNU shares it acquired from the Agustin family.

In its Answer, the Parent Company stated that the Agustin family is not entitled to the full purchase price of their STI WNU shares because they have not complied with all the requirements for its release. In particular, the Agustin family has not been able to deliver the Commission on Higher Education permits for the operation of STI WNU's Maritime Program as provided in the MOA, and the Share Purchase Agreement. In addition, there are other trade receivables in favor of STI WNU wherein full satisfaction of the same entitles the Agustin family to a portion of the balance of the purchase price.

On June 2, 2016, the Parent Company received the Agustin family's Reply to the Answer. In the Reply, the Agustin family is asserting that (a) the Memorandum of Agreement, Share Purchase Agreement and Deed of Absolute Sale (the "STI WNU Contracts") provide that the Parent Company can withhold the payment of the remaining balance of ₱50.0 million, which alleged to be pursuant to the license to operate the Maritime Programs of STI WNU, and (b) the Parent Company should be deemed to have agreed on the ₱400.0 million purchase price. Likewise, the allegations in the Answer are also against the Parol Evidence Rule which provides that the parties to a written agreement cannot change the stipulations provided therein.

The Agustin family also filed and served a Request for Admission to the Parent Company's counsel wherein they sought the Parent Company to submit (a) the existences and authenticity of the STI WNU Contracts, (b) issues of the instant case are (i) determination of the final purchase price based on the STI WNU Contracts and (ii) final purchase price should be either the ₱400.0 million or the adjusted price of ₱350.0 million, and (c) the STI WNU Contracts constitute the entire written agreement of the parties.

On June 17, 2016, the Parent Company filed its Comment/Opposition to the Agustin family's Request for Admission. In the Comment/Opposition, the Parent Company filed their objections thereto and sought the same to be denied or deemed ineffectual on the following grounds; (a) defective service because it should have been served directly to the Parent Company and not to its counsel as required under the Rules of Court, (b) redundant because the matters raised therein have already been addressed in the Answer, and (c) improper and irrelevant because it sought admission of issues which are proper during pre-trial and not in a Request for Admission.

Pending the resolution on the aforesaid objections, the Agustin family filed an Omnibus Motion, which seeks, among others, a judgment on the pleadings to be issued against the Parent Company

by the Trial Court. The Agustin family asserted that the Parent Company is prohibited from presenting parol evidence. Consequently, the Agustin family averred that the Trial Court could issue an order in their favor, and order the Parent Company to, among others, pay the balance of the purchase price of the WNU shares as provided in the Share Purchase Agreement and Deed of Absolute Sale.

Pursuant to the order of the Trial Court, the parties filed their respective responsive pleadings in relation to the Agustin family's Omnibus Motion.

On March 27, 2017, the Trial Court issued the Omnibus Order, which denied the Agustin family's Omnibus Motion. In the Omnibus Order, the Trial Court affirmed that the matter raised in the Request for Admission has already been admitted by the Parent Company. The Trial Court also adopted the Parent Company's position that the affirmative defenses raised in the Answer may only be resolved in a full-blown trial, and consequently, the Agustin family's Judgment on the Pleading should be denied for lack of merit.

On May 2, 2017, the Parent Company received the Agustin family's Motion for Reconsideration. In the Motion for Reconsideration, the Agustin family reiterated its position that the Parent Company could not question or insist the reduction of the purchase price of WNU Shares due to their failure to submit the CHED Permits when the Share Purchase Agreement and Deed of Absolute Sale of the WNU Shares stipulated that the purchase price is for the amount of ₱400.0 million). The Motion for Reconsideration was set for hearing on May 5, 2017.

During the May 5, 2017 hearing, the Trial Court allowed the parties to file their respective responsive pleadings to the Agustin family's Motion for Reconsideration, wherein the Parent Company had to file its Comment/Opposition thereto on May 22, 2017. After the filing of all of the said responsive pleadings of the parties, the Motion for Reconsideration was submitted for resolution. The Trial Court likewise set the pre-trial of the instant case on August 15, 2017.

On October 19, 2017, the Parent Company received the Trial Court's Order dated October 3, 2017. In the Order, the Trial Court granted the Agustin's Motion for Reconsideration insofar as the proceedings in the instant case should no longer be through a full-blown trial. The Trial Court considered that an expeditious disposition of the case is warranted considering the age and medical condition of the Agustins. Consequently, the Trial Court required the parties to file their respective Memoranda with supporting affidavits and deposition, if any, within twenty days from receipt of the Order, or until November 8, 2017.

While the Parent Company sought for the reconsideration of the aforesaid order and suspension of the filing of the Memorandum, the Agustin family filed their Memorandum in Support of the Summary Judgment dated October 23, 2017 ("Agustins' Memorandum"). In the said Memorandum, the Agustin family asserted that they are entitled to the (a) full purchase price of ₱400.0 million and not ₱350.0 million as asserted by the Parent Company; (b) moral, nominal, temporal, exemplary damages; and (c) attorney's fees.

The Parent Company filed an Urgent Omnibus Motion to suspend the filing of the Memorandum due to its pending Motion for Reconsideration.

During the hearing on the aforesaid motions of the Parent Company, both parties were given the opportunity to present their respective arguments on the (a) reconsideration for a summary judgment and (b) issue on the non-filing of the Memorandum of the Corporation.

Meanwhile, the presiding judge proposed that the Parent Company should file its Memorandum, and waive the Omnibus Motion in order for the Trial Court to resolve the case through summary judgment.

While the Parent Company insisted that the Trial Court should resolve the Omnibus Motion before proceeding to summary judgment, the Parent Company filed and served its Memorandum without prejudice to the Omnibus Motion.

On January 29, 2018, the Parent Company received its Order dated January 10, 2018, which denied the Parent Company's Motion for Reconsideration but, in the interest of justice, admitted the Memorandum of the Parent Company. With the admission of the said Memorandum, the case was deemed submitted for resolution.

In view of the Trial Court's order to proceed to summary judgment, the Parent Company sought to annul the same by filing a Petition for Certiorari with application for Temporary Restraining Order and Writ of Preliminary Injunction with the Court of Appeals of Cebu City (the "Petition"). The Petition was docketed as CA-G.R. S.P. Case No. 11645. Upon receipt thereof, the Court of Appeals required the Plaintiffs to file their comment to the issuance of the Temporary Restraining Order and Writ of Preliminary Injunction.

While the Petition was pending, the Trial Court rendered its Decision dated April 4, 2018. In the Decision, the Trial Court ordered the Parent Company to pay the Agustin family the amount of Fifty Million Pesos (₱50,000,000.00) with legal interest of 6% from the filing of the case until full payment only.

On May 11, 2018, the Parent Company filed the Motion for Reconsideration Ex Abudanti Ad Cautelam. In the said Motion, the Parent Company asserted that the findings of the Trial Court are contrary to law and facts of the case. Moreover, the Parent Company manifested that the filing of the said Motion is without prejudice to the Petition filed to the Court of Appeals of Cebu City, which questions the propriety of the summary judgment procedure followed by the Trial Court in the case.

Considering that the Petition was still pending with the Court of Appeals, the Parent Company filed a Manifestation and furnished the Court of Appeals the aforesaid Motion for Reconsideration Ex Abudanti Ad Cautelam. Said Manifestation informed the Court of Appeals of the status of the case and moved for the issuance of the Temporary Restraining Order and Writ of Preliminary Injunction

The Agustin family filed their Opposition to the said Motion. Besides reiterating the validity of findings of the Trial Court, the Agustin family raised the issue of forum shopping due to the pending Petition in the Court of Appeals of Cebu City.

With the filing of the said Opposition, the Parent Company's Motion for Reconsideration Ex Abudanti Ad Cautelam is submitted for resolution.

As to the Petition, the Agustin family filed their Opposition to the issuance of the Temporary Restraining Order and Writ of Preliminary Injunction. The Agustin family also prayed for the denial of the Petition. Consequently, the issue on the issuance of the Temporary Restraining Order and Writ of Preliminary Injunction is also submitted for resolution by the Court of Appeals of Cebu City.

As at August 14, 2018, the Trial Court and Court of Appeals of Cebu City has not issued any resolution and/or decision on the pending Motion and Petition, respectively.

- c. *Tax Assessment Case.* STI ESG filed a petition for review with the Court of Tax Appeals (“CTA”) on October 12, 2009. This is to contest the Final Decision on Disputed Assessment issued by the BIR assessing STI ESG for deficiencies on income tax, and expanded withholding tax for the year ended March 31, 2003 amounting to ₱124.3 million. On February 20, 2012, STI ESG rested its case and its evidence has been admitted into the records.

On June 27, 2012, the BIR rested its case and has formally offered its evidence. On April 17, 2013, the CTA issued a Decision which granted STI ESG’s petition for review and ordered the cancellation of the BIR’s assessment since its right to issue an assessment for the alleged deficiency taxes had already prescribed. On May 16, 2013, STI ESG received a copy of the Commissioner of Internal Revenue’s (“CIR”) Motion for Reconsideration dated May 8, 2013. STI ESG filed its Comment to CIR’s Motion for Reconsideration on June 13, 2013. The CTA issued a resolution dated July 17, 2013 denying the CIR’s Motion for Reconsideration. On August 22, 2013, the CIR filed its Petition for Review dated August 16, 2013, with the CTA En Banc. On October 29, 2013, STI ESG filed its Comment to the CIR’s Petition for Review. The CTA En Banc deemed the case submitted for decision on May 19, 2014, considering the CIR’s failure to file its memorandum. On March 24, 2015, the CTA En Banc affirmed the decision dated April 17, 2013 and the resolution dated July 17, 2013 and granted STI ESG’s Petition for Review and ordered the cancellation of the BIR assessment for the fiscal year ending March 31, 2003. On April 21, 2015, the CIR filed a Motion for Reconsideration with the CTA En Banc. On July 3, 2015, STI ESG filed its Comment on the Motion for Reconsideration. On September 2, 2015, the CTA En Banc denied the CIR’s Motion for Reconsideration. On October 30, 2015, the CIR filed a Petition for Review with the Supreme Court. On January 26, 2016, STI ESG received a notice from the Supreme Court requiring it to file its Comment on the Petition for Review filed by the CIR. On February 5, 2016, STI ESG filed a Motion for Extension of Time to File Comment on the Petition for Review requesting an additional period of twenty (20) days from February 5, 2016, or until February 25, 2016, within which to file the Comment. On February 25, 2016, STI ESG filed another Motion for Extension of Time to File Comment on the Petition for Review requesting an additional period of fifteen (15) days from February 25, 2016, or until March 11, 2016, within which to file the Comment. On March 11, 2016, STI ESG, through its counsel, filed its Comment on the Petition. On October 27, 2016, STI ESG received a notice from the Supreme Court in which the Court, *inter alia*, required the CIR to reply to STI ESG’s Comment (to the Petition for Review) within 10 days from receipt of notice. On November 25, 2016, the CIR filed his reply to STI ESG’s Comment.

On October 4, 2017, the STI ESG received the decision from the Supreme Court dated July 26, 2017. In its decision, the Supreme Court denied the petition for review filed by the CIR and affirmed the Decision dated March 24, 2015 and Resolution dated September 2, 2015 of the Court of Tax Appeals En Banc in CTA EB No. 1050. The Supreme Court ruled that the Waivers of Statute of Limitations, being defective and invalid, did not extend the CIR’s period to issue the subject assessments. Thus, the right of the government to assess or collect the alleged deficiency taxes is already barred by prescription. On October 25, 2017, the CIR has filed a Motion for Reconsideration of the Supreme Court’s decision dated July 26, 2017.

On April 5, 2018, the STI ESG received the decision from the Supreme Court dated December 14, 2017. In its decision, the Supreme Court denied the Motion for Reconsideration filed by the CIR and affirmed the Decision dated July 26, 2017. The Supreme Court ruled that there is no substantial argument to warrant a modification of the Supreme Court’s decision.



Thus, the Supreme Court denied the Motion for Reconsideration with finality. The Supreme Court also resolved that no further pleadings or motions should be entertained in the case. Thus, the Supreme Court ordered the immediate issuance of the Entry of Judgment.

On July 2, 2018, STI ESG received the Entry of Judgment issued by the Supreme Court which certified that its decision dated December 14, 2017 became final and executory and was recorded in the Book of Entries of Judgments on said date.

d. *Labor Cases.*

- i. A former employee filed a Petition with the Supreme Court after the Court of Appeals denied the former employee's claims and rendered prior decisions in favor of STI ESG. On August 13, 2014, STI ESG received the Supreme Court's decision dated July 9, 2014 annulling the decision of the Court of Appeals and ordered that STI ESG reinstate the former employee to her former position and pay the exact salary, benefits, privileges and emoluments which the current holder of the position is receiving and should be paid backwages from the date of the former employee's dismissal until fully paid, with legal interest.

On November 17, 2014, the Supreme Court issued a resolution which denied with finality STI ESG's Motion for Reconsideration.

As a result of the decision, STI ESG recognized a provision amounting to ₱3.0 million representing the estimated compensation to be made to the former employee. On October 20, 2015, a Bank Order to release was issued to one of STI ESG's depository banks for the release of the garnished amount of ₱2.2 million. The bank released the garnished amount to the National Labor Relations Commission ("NLRC").

The garnished amount was put on hold for fifteen (15) days because of the filing of STI ESG's Petition questioning, among others, the Writ of Execution issued by the labor arbiter, which was docketed as LER-CN-10291-15.

While the Petition was pending for resolution by the NLRC and without any injunction order being issued by the said Commission, the garnished amount of ₱2.2 million was released to the former employee.

On March 1, 2016, the former employee filed an Entry of Appearance with Manifestation/Motion for Computation dated February 24, 2016. In the said motion, the former employee sought for computation of her backwages, inclusive of monetary equivalent of leaves and 13<sup>th</sup> month pay from July 22, 2004 until the same is actually paid. In addition, the former employee waived the reinstatement aspect of the March 31, 2016 decision of labor arbiter, and sought the payment of separation pay.

As mentioned in an earlier paragraph, on October 19, 2015, STI ESG filed a Petition with the NLRC, docketed as LER-CN-10291-15, to (1) annul the Writ of Execution issued by labor arbiter for the amount of ₱2.2 million, and (2) order the payment of separation pay in favor of the former employee instead of reinstatement as Chief Operating Officer of STI-Makati.

In the said Petition, STI ESG asserted that the Writ of Execution was issued with undue haste when there were pending issues to be resolved by labor arbiter with respect to the computation of the judgment award of the former employee. In addition, labor arbiter cannot order the former employee to be reinstated as Chief Operating Officer of STI-

Makati because said position no longer exists. STI ESG averred that an order of separation pay in lieu of reinstatement should be issued in favor of the former employee.

On October 28, 2015, STI ESG filed another Petition with the NLRC, which sought to inhibit the labor arbiter from continuing the execution proceedings for the former employee's judgment award. In the said Petition, STI ESG alleged that the actions of the labor arbiter showed partiality and bias in favor of the former employee.

On October 29, 2015, STI ESG filed a Motion to Consolidate with the NLRC. In the said Motion, STI ESG moved that the aforesaid Petitions would be consolidated and resolved by the same Division of the NLRC.

The former employee, thru her new counsel, filed two (2) Entry of Appearance with Motion for Leave (To Admit Attached Answer with Comment/Opposition) for the two (2) Petitions of STI ESG. In the said Comment/Opposition, the former employee averred that (a) the Writ of Execution was issued pursuant to the Supreme Court's Decision dated July 9, 2014 and (b) the acts of labor arbiter were above-board.

Before the NLRC resolved the pending Petitions filed by STI ESG, the garnished amount was released to the former employee as partial payment for the judgment award. Based on the record of the NLRC, the amount of ₱2.2 million was released for the partial execution of the judgment award of the former employee.

On February 29, 2016, the Sixth Division of the NLRC issued a Decision wherein it, among others, nullified the Writ of Execution, and ordered the inhibition of labor arbiter. In the same Decision, the Sixth Division of the NLRC also set a guide for the enforcement of the judgment award in favor of the former employee, which provides, among others, that the computation of the backwages of the former employee shall be from May 18, 2004 until October 30, 2006.

After the denial of the former employee's Motion for Reconsideration on the aforesaid Decision, STI ESG received on September 6, 2016 the former employee's Petition for Certiorari filed with the Court of Appeals. Said Petition questioned the aforesaid decision of the NLRC.

After the filing of their respective pleadings in relation to the former employee's Petition for Certiorari, STI ESG received on June 6, 2017 the Court of Appeals' Decision wherein it determined that there is no need to resolve the issue on the nullification of the Partial Writ of Execution because both parties agreed that the funds garnished by virtue of said Writ to the former employee shall be considered as partial satisfaction of her judgment award.

The Court of Appeals likewise clarified that the issue on the former employee's waiver of reinstatement pending appeal should have been resolved by the new labor arbiter, and not the NLRC. Contrary to the former employee's assertion that the former labor arbiter resolved the said issue, the Court of Appeals took into consideration that the NLRC validly ordered the re-raffle of the case to a new labor arbiter who should resolve all pending incidents and issues.

Without making any findings and/or rulings contrary to STI ESG's claim that the former employee waived her reinstatement pending appeal in October 2006 and consequently invalidated her assertion that her backwages should be computed from May 2004 until

present day, the Court of Appeals affirmed the re-raffle of the execution proceedings of the former employee's judgment award to a new labor arbiter to make an independent determination of all pending incidents and issues.

Considering the aforesaid Decision did not prejudice STI ESG's position, STI ESG decided to refer all pending issues on the execution of the judgment award of the former employee, including the waiver of backwages pending appeal, to the new labor arbiter.

On September 19, 2017, STI ESG received the former employee's Manifestation with Omnibus Motion filed with the new labor arbiter. In the said Manifestation with Omnibus Motion, the former employee sought for (a) computation of the updated judgment award, (b) resolution of the issue on waiver of reinstatement by the former employee raised by STI ESG and (c) issuance of Writ of Execution based on the updated judgment award.

The new labor arbiter set the pre-execution hearing on January 31, 2018. During the said hearing, STI ESG filed its Comment with Manifestation. In the Comment with Manifestation, STI ESG asserted that the only issues to be resolved are the computations of the (a) backwages, (b) legal interest and (c) separation pay. STI ESG further reiterated that the former employee is entitled to receive backwages from May 2004 until October 2006 and separation pay from November 1999 until February 2016. Based on said premises, STI ESG paid the former employee ₱2.0 million in January 2018.

Based on the record, STI ESG has paid the total amount of ₱4.2 million, exclusive of withholding taxes, to the former employee. STI ESG then moved to the new labor arbiter that STI ESG be deemed to have fully paid the judgment award of the former employee. While the former employee accepted the aforesaid amount, she manifested that the same is only partial payment of the judgment award, and moved that she would be given ten (10) days to file her reply to the Comment with Manifestation.

In the hearing on February 13, 2018, the former employee filed her Reply dated February 12, 2018. In the Reply, it was argued that the alleged waiver of reinstatement pending appeal in October 2006 did not interrupt the running of backwages until present day. She insisted that the return to work order of the Corporation was (a) vague, (b) served only through her former counsel and (c) belatedly served or after four (4) months from the Corporation's receipt of the former labor arbiter's order to reinstate her. Based on the foregoing the former employee presented her computation of her judgment award to date, which amounted to ₱11.0 million, less payments already made by STI ESG.

On February 28, 2018, STI ESG filed and served the Rejoinder. In the Rejoinder, STI ESG reiterated that the notice to return to work was (a) clear and (b) duly received by her through her former counsel. It was asserted that the former employee was fully aware of said return to work order because she refused the same by filing a counter-manifestation with the former labor arbiter. Moreover, the belated service of said return to work order does not prevent STI ESG to choose actual reinstatement pending appeal as provided in the Labor Code.

After the parties filed their respective Rejoinder and Sur-Rejoinder, the new labor arbiter granted STI ESG's motion to submit the pending issues on the computation of the former employee's judgment award for resolution.

As at August 14, 2018, the new labor arbiter has not issued any resolution on the aforesaid computation of the former employee's judgment award.

- ii. A former IT Instructor who eventually became the IT Program Head of STI College Cagayan de Oro, a school owned by STI ESG, filed an illegal dismissal case against STI College Cagayan de Oro on the ground that she was constructively dismissed when upon returning from preventive suspension, she allegedly no longer had any work to go back to because the STI ESG-owned company purportedly removed her workplace from the school premises. For its part, STI ESG countered the complainant's claim that she was dismissed by presenting the complainant's one-liner resignation letter.

The Labor Arbiter decided that there was neither an illegal dismissal nor resignation to speak of in this case, hence, the parties were ordered to return to status quo, which meant reinstatement of complainant to her former position but without backwages, separation pay, or similar benefits. Nevertheless, STI ESG was ordered to pay complainant the amount of ₱7.4 thousand representing her unpaid salary for the period March 10-30, 2014. However, the NLRC overturned the LA's decision upon a dubious motion for partial reconsideration declaring complainant to have been illegally dismissed and ordering STI ESG not only to reinstate her but also to pay her full backwages computed from the time compensation was withheld up to the date of actual reinstatement. STI ESG moved to reconsider the NLRC's decision but to no avail. At present, a Petition for Certiorari questioning the decision of the NLRC is pending before the Court of Appeals.

On May 12, 2017, STI ESG received a copy of a Motion for Execution with Prayer for Payment of Separation Pay in Lieu of Reinstatement filed by Complainant-Appellant seeking the issuance of a writ of execution for the implementation of the Resolution dated June 30, 2016 issued by the Honorable Eight Division, National Labor Relations Commission, Cagayan de Oro City. On May 22, 2017, STI ESG filed its Opposition to the Motion for Execution with Prayer for Payment of Separation Pay in Lieu of Reinstatement.

Subsequently, a hearing on the motion for execution was set on June 5, 2017. In the said hearing, STI ESG reiterated that it is amenable to reinstating complainant but as a Part-time Full Load faculty member. Complainant countered that she is not interested in reinstatement but would rather be paid her backwages and separation pay. When asked for how much is she willing to settle the matter amicably, she insisted that she be paid the total amount of her backwages and separation pay. When asked if STI ESG has any counter-offer on the payment of backwages and separation pay, STI ESG manifested that it already filed its opposition thereto and that there is still a need for the official computation of the same. At that point, the hearing officer showed STI ESG a computation of the backwages which amounted to ₱0.5 million. STI ESG then manifested that it will bring the matter to management. On the part of complainant, she manifested that she will file her reply to STI ESG's opposition. The hearing officer then said that upon submission of said reply, the motion for execution is deemed submitted for resolution.

Also, in the motion for execution, it was also alleged that the Court of Appeals already denied the Petition for Certiorari of STI ESG. However, STI ESG did not receive any copy of said resolution by the Court of Appeals. Upon inquiry with the Court of Appeals, it appeared that the copy of the resolution dismissing the petition for certiorari was returned to sender due to "RTS-UNKNOWN ADDRESS". Apparently, the indicated address of counsel of record simply states Ortigas Ave., Extension, Cainta, Rizal. STI ESG then filed a manifestation with the Court of Appeals manifesting that it has yet to receive a copy of their minute resolution and clarifying that the complete address where a

copy of the said resolution may be sent is “3<sup>rd</sup> Flr. STI Academic Center, Ortigas Avenue Extension, Cainta, Rizal 1900”.

On June 2, 2017, STI ESG received a copy of the Minute Resolution dated January 12, 2017 dismissing its Petition for Certiorari based on the following grounds: a) failure to attach a copy of the Resolution dated June 30, 2017 of the NLRC; b) failure to attach the Secretary Certificate authorizing Mario Malferrari, Jr. as representative for STI ESG to file the petition for certiorari; c) failure to verify the petition; and d) failure to attach affidavit of service.

On June 21, 2017, STI ESG filed its Motion for Reconsideration.

Meanwhile, on July 12, 2017, STI ESG received an Order from the Office of the Labor Arbiter granting the Motion for Execution filed by Complainant. On July 21, 2017, STI ESG received a copy of the Writ of Execution issued by Office of the Labor Arbiter directing the payment of ₱0.5 million to Complainant and her immediate reinstatement. In compliance with the Writ of Execution, Complainant was paid the amount of ₱0.5 million and was reinstated to her former position.

On November 7, 2017, STI ESG received a copy of the Resolution of the Court of Appeals dated September 25, 2017 on its motion for reconsideration. The Court of Appeals resolved to grant the motion for reconsideration and reinstated STI ESG’s petition for certiorari. Complainant was then directed to file her comment to the petition within ten (10) days from receipt of the said resolution and STI ESG was given five (5) days to file its reply to Complainant’s comment.

On January 31, 2018, STI ESG received a copy of a Minute Resolution dated January 15, 2018 issued by the Court of Appeals which resolved that Complainant is deemed to have waived her filing of a comment to the petition for certiorari and directed the parties to file their respective memorandum within fifteen (15) days from receipt of said minute resolution. Thereafter, the petition for certiorari is deemed submitted for decision.

On February 15, 2018, STI ESG filed through registered mail its Memorandum with the 22<sup>nd</sup> Division, Court of Appeals, CDO. On April 25, 2018, STI ESG received a copy of Complainant’s Memorandum. In a resolution of the Court of Appeals dated April 19, 2018, with the filing of the parties’ respective memorandum, the Court declared the petition submitted for decision.

On July 11, 2018, STI ESG received a copy of the Decision of the 21st Division, Court of Appeals, CDO, setting aside the resolution of the NLRC declaring complainant to have been illegally dismissed and awarding the payment of backwages. In the same decision, the Court of Appeals dismissed the charge of illegal dismissal for lack of merit. However, STI College CDO was directed to pay complainant the sum of ₱7.4 thousand representing her unpaid salary for the period March 10-30, 2014.

As at report date, STI ESG has yet to receive a motion filed by complainant.

- iii. Former part-time faculty members of STI College Legazpi who were erroneously issued employment contracts for regular employees filed an illegal dismissal case against STI College Legazpi, a school owned by STI ESG, following their stubborn refusal to sign their respective job offers as required by CHED. The LA rendered a Decision finding the

complainants as regular employees of STI ESG; declaring STI ESG as guilty of illegal dismissal; and ordering STI ESG to pay them separation pay of ₱0.22 million, ₱0.18 million, ₱0.15 million, respectively, plus backwages, moral and exemplary damages of ₱0.2 million each, plus 10% attorney's fees.

Upon appeal to the NLRC, the case filed by one of the faculty members was dropped, while the rest of the Decision was affirmed. Accordingly, a Motion for Reconsideration of the NLRC Decision was filed wherein it prayed for the dismissal of the complaints of Brazil and Garcera as well, invoking well-settled cases as jurisprudential authorities to persuade the NLRC to dismiss the cases against STI ESG.

As it developed, STI ESG prevailed at the NLRC, and the complaint was dismissed. The former faculty members assailed said Decision of the NLRC at the Court of Appeals which denied the Petition.

Both parties here may have been mistaken in believing that the former faculty members have become regular faculty members by their length of service and seemingly satisfactory performance. Because of such incorrect grant of regular employment status, STI ESG, for years, have paid to complainants the salaries and benefits ought to be received by regular faculty members, which they did not deserve considering their failure to meet the qualifications set out in the Manual of Regulations for Private Schools ("MORPS") and Manual of Regulations for Private Higher Education ("MORPHE") of CHED. To punish STI ESG for such act of giving Petitioners more than what they deserve would run contrary to the basic tenets of equity and justice. In fact, STI ESG sought to remedy its mistake by formulating its two-year compliance consideration program, wherein affected teachers such as complainants shall continue to receive the same benefits they are currently enjoying, subject to the completion of their master's degree within a period of two (2) years. Even complainants admitted that their job offers stipulated a higher monthly salary. In spite of all these, complainants chose not to sign the said job offers.

The former faculty members filed a motion for reconsideration of the said decision of the Court of Appeals. STI ESG filed its Comment on the motion for reconsideration emphasizing the following points: (1) that the instant motion for reconsideration is pro-forma and should be denied outright; and (2) that the petitioners failed to raise any substantial argument to warrant a modification of the Court's decision considering that (a) the Court of Appeals did not err in finding that the NLRC did not commit grave abuse of discretion in dismissing petitioner's complaint for illegal constructive dismissal; and (b) the Court of Appeals did not err in upholding the NLRC's finding that petitioners were mere part-time teaching personnel of STI ESG. In a Resolution dated June 30, 2017, the Court of Appeals denied the Motion for Reconsideration filed by the former faculty members.

On September 6, 2017, STI ESG received a copy of the Petition for Review on Certiorari of the Decision of the Court of Appeals dismissing the complaint for illegal dismissal of the former faculty members with the Supreme Court. STI ESG filed its Comment to the petition on November 10, 2017.

As at August 14, 2018, parties are awaiting action by the Supreme Court.

- iv. This is a case for illegal dismissal (constructive), underpayment of salary/wages, non-payment of salary/wages, separation pay, moral and exemplary damages and attorney's fees filed by a former school nurse of STI College Fairview Branch.

Complainant was cited in several instances for her excessive tardiness, negligence, and other violations of the school's Code of Conduct. On January 15, 2016, she submitted her resignation letter effective immediately and processed her clearance. On the same day, she proceeded to the NLRC and filed a request for assistance.

Complainant claimed that she was forced to resign when her benefits were reduced, she was deliberately given difficult work assignments, she was cited for several violations of the company's code of conduct to build-up a case against her and was given poor working conditions.

The labor arbiter dismissed her complaint for lack of merit saying that resignation due to the enforcement of disciplinary measures for violations does not constitute unbearable working condition, hence, her resignation does not constitute constructive dismissal.

Complainant appealed the decision of the labor arbiter to the NLRC.

On April 21, 2017, STI College Fairview received the Decision dated March 31, 2017 of the 4<sup>th</sup> Division, NLRC, denying her appeal and affirming the labor arbiter's decision but with modification by awarding ₱75.0 thousand as financial assistance based on the higher interest of equity, social and compassionate justice.

On May 2, 2017, STI ESG filed its Motion for Partial Reconsideration of the decision of the NLRC, particularly, on the award of financial assistance in the amount of ₱75.0 thousand on the basis that she is not entitled to any financial assistance since there was no dismissal to speak of. Moreover, her failure to comply with the 30-day notice requirement in case of resignation makes her even liable for damages instead of financial assistance.

However, on June 1, 2017, STI ESG received a copy of the resolution dated May 30, 2017 of the 4<sup>th</sup> Division, NLRC denying the motion for reconsideration.

On July 28, 2017, STI ESG filed its Petition for Certiorari with prayer for the issuance of a restraining order and a writ of preliminary injunction with the Court of Appeals. On August 19, 2017, STI ESG received a copy of the resolution of the Court of Appeals dated August 9, 2017 directing complainant to comment on STI ESG's petition while holding in abeyance the action on the prayer for injunctive relief. Pending resolution of the STI ESG's prayer for the issuance of a restraining order and a writ of preliminary injunction with the Court of Appeals, on August 31, 2017, STI ESG received a copy of the Motion for Execution filed by complainant. On September 4, 2017, a notice of pre-execution conference was received by STI ESG setting the same on September 14, 2017 before the labor arbiter. On September 11, 2017, STI ESG filed an Opposition to the Motion for Execution. STI ESG, likewise, filed an Omnibus Motion for Immediate Resolution of Application for Issuance of a Restraining Order and Writ of Preliminary Injunction. In the pre-execution conference, STI ESG reiterated its opposition to the motion for execution of complainant and manifested that it has a pending application for the issuance of a restraining order and a writ of preliminary injunction with the Court of Appeals. In a Notice of Order of Execution dated October 11, 2017, the labor arbiter issued a Writ of Execution against STI ESG since no temporary restraining order was

issued by the Court of Appeals for the amount of ₱76.2 thousand. On November 2, 2017, a check in the said amount was then deposited to the account of the National Labor Relations Commission for the satisfaction of the writ of execution. As per Order dated November 17, 2017 of the labor arbiter, the said amount was released to Complainant as full satisfaction of the judgment award.

On February 28, 2018, STI ESG received a Resolution dated January 5, 2018 of the Court of Appeals noting STI ESG's Omnibus Motion for Immediate Resolution of Application for Issuance of a Restraining Order and Writ of Preliminary Injunction and informing STI ESG that its Resolution dated August 9, 2017 addressed to complainant returned to the court with the annotation "RTS-No One to Receive" and directed STI ESG to inform the court of complainant's correct and current complete address. In a manifestation of compliance dated April 12, 2018, STI ESG informed the Court of Appeals that the only record of complainant's address in its possession is that which is stated in its petition which is the same as what is found in the pleadings filed relative to the case. In a Resolution dated June 21, 2018 received by STI ESG on July 5, 2018, the Court of Appeals dismissed the petition of STI ESG on the ground that it failed to include in its petition the current address of complainant.

A motion for reconsideration of the subject resolution of the Court of Appeals will be filed by STI ESG on July 20, 2018.

As at August 14, 2018, STI ESG is waiting for the resolution of the motion for reconsideration from the Court of Appeals.

- e. *Specific Performance Case.* STI College Cebu, Inc. ("STI Cebu") was named defendant in a case filed by certain individuals for specific performance and damages. In their Complaint, the plaintiffs sought the execution of Deed of Absolute Sale over a parcel of land situated in Cebu City on the basis of an alleged perfected contract to sell.

On March 15, 2016, STI ESG, as the surviving corporation in the merger between STI ESG and STI Cebu filed a Motion to Dismiss.

After the filing of their respective pleadings to the said Motion(s) to Dismiss, the Defendants received on February 28, 2017 the Resolution of the Trial Court wherein it denied the Defendants' Motion(s) to Dismiss.

On March 6, 2017, the Defendants filed their Joint Motion for Reconsideration Ad Cautelam in relation to the Resolution.

On March 14, 2017, the Defendants received the Plaintiffs' Comment/Opposition to Joint Motion Reconsideration Ad Cautelam and/or Motion to Declare Defendants in Default dated March 11, 2017 ("Comment with Motion"). In the Comment with Motion, Plaintiffs alleged that the Defendants should have filed their Answer instead of the Joint Motion for Reconsideration Ad Cautelam after the denial of their Motions to Dismiss. Considering that the Defendants did not file their Answer, Plaintiffs moved to declare the Defendants in default.

After due proceedings and filing of their respective responsive pleadings to the aforesaid (a) Joint Motion and (b) Motion to Declare in Default, the Trial Court issued the Resolution dated August 16, 2017, which denied the said Motions.



After seeking an extension to file the Answer to the Plaintiffs' Amended Complaint, the Defendants filed the Consolidated Answer to the Amended Complaint on August 30, 2017. In the Consolidated Answer, Defendants asserted that there is no perfected contract to sell or of sale between STI ESG and the Plaintiffs considering that (a) there is no Board approval on the sale of the Subject Property; (b) lack of definite terms and conditions thereof; and (c) Mr. Amiel Sangalang has no authority to bind STI ESG on the alleged contract to sell or sale of the Subject Property.

While Plaintiffs opposed the (a) motion for extension and (b) subsequent filing of the Consolidated Answer, the Trial Court affirmed the admission of the Consolidated Answer and set the case for pre-trial.

While both parties were referred to court-annexed mediation and judicial dispute resolution as required under the relevant rules, the parties failed to reach an amicable settlement of the case.

As required by the rules, the case was re-raffled to a new presiding judge who will handle the trial and disposition of the case.

On August 3, 2018, STI ESG received a Notice from the new Presiding Judge setting the case for pre-trial on August 14, 2018.

- f. *Complaint for Damages filed by GATE (formerly STI-College Santiago, Inc.).* Global Academy of Technology and Entrepreneurship, Inc. ("GATE") filed a complaint for Damages against STI ESG for its non-renewal of the Licensing Agreement despite the former's alleged compliance of the latter's audit recommendations. On the basis of such alleged invalid non-renewal of the Licensing Agreement, GATE seeks for (a) moral damages in the amount of ₱0.5 million, (b) exemplary damages in the amount of ₱0.5 million and (c) attorney's fees in the amount of 15% of the amount to be awarded and ₱3.0 thousand per court appearance.

On January 23, 2017, STI ESG filed its Motion to Dismiss Ad Cautelam. In the said Motion, STI ESG asserted that the dismissal of the case was warranted on the following grounds; (a) lack of jurisdiction over STI ESG due to improper service of Summons to a Human Relations Officer ("HR Officer"), and (b) failure to state a cause of action because GATE has no right for the renewal of the Licensing Agreement when (i) the same already expired and (ii) it clearly provides that it may be renewed by mutual agreement of the parties. The Motion to Dismiss Ad Cautelam was set for hearing on February 3, 2017.

On February 3, 2017, STI ESG received GATE's Comment /Opposition. In the said Comment/Opposition, GATE alleged that (a) the HR Officer was allegedly authorized by its in house counsel to receive the Summons, and (b) the decision of STI ESG not to renew the Licensing Agreement was not based on its mutual agreement provision but the violations of GATE. Consequently, such decision of STI ESG to cancel the Licensing Agreement was allegedly in bad faith.

Upon the filing of all the pleadings in relation to the Motion to Dismiss Ad Cautelam of STI ESG, the Trial Court issued its Resolution dated May 16, 2017, which denied the said Motion. The Trial Court also required STI ESG to file its Answer to the Complaint within the non-extendible fifteen (15) days from receipt of said Resolution on May 25, 2017 or until June 9, 2017.

On June 9, 2017, STI ESG filed its Answer to the Complaint. In the Answer, STI ESG reiterated its position that GATE has no cause of action against it because its decision not to renew the

Licensing Agreement is in accordance with contractual stipulations therein that its renewal is upon mutual agreement of both parties. Considering the effectivity period of the Licensing Agreement expired on March 31, 2016 without being renewed by both parties, GATE cannot claim any damages for STI ESG's lawful exercise of its rights under the Licensing Agreement.

Both parties have been required to attend and participate in the court-annexed mediation, and subsequently, the judicial dispute resolution with the Trial Court. After the aforesaid proceedings, the parties failed to reach an amicable settlement, and terminated the judicial dispute resolution on October 27, 2017. As mandated by the relevant rules, the case was raffled to a new presiding judge.

The new presiding judge issued an Order setting the case for pre-trial hearing on May 11, 2018. The pre-trial proper was re-scheduled by the Trial Court in order for the parties to pre-mark their documentary evidence before the branch clerk of court on May 23, 2018.

On May 23, 2018, both parties attended and caused the pre-marking of their respective documentary exhibits.

Meanwhile, the pre-trial was set by the Trial Court and upon agreement of the parties on August 31, 2018.

- g. *Criminal Case.* A complaint for qualified theft was filed by STI ESG against its former school accounting supervisor and acting school accountant ("former supervisor/accountant"). In the complaint, STI ESG alleged that said former supervisor/accountant manipulated the payroll registers of STI College Global City by including the name of a former faculty member of STI College Global City in the payroll registers and placing a corresponding salary and 13<sup>th</sup> month pay beside said faculty member's name. The salary of said former faculty member was deposited in a bank account belonging to the former supervisor/accountant. The total amount deposited to the bank account of the former supervisor/accountant through this scheme amounted to ₱0.2 million.

The complaint for qualified theft was filed with Office of the City Prosecutor of Taguig City. Summons to the former supervisor/accountant was returned undelivered despite STI ESG providing additional addresses of the former supervisor/accountant where the summons could be served.

After the former supervisor/accountant failed to appear on two preliminary investigations, the complaint was submitted for resolution.

On September 8, 2016, STI ESG filed an Ex-Parte Motion for Early Resolution to resolve the case pointing out that more than sixteen (16) months has elapsed since the matter was submitted for resolution.

As at August 14, 2018, the Office of the City Prosecutor of Taguig City has yet to issue a resolution in the instant case.

- h. *Breach of contract.* STI ESG engaged the services of Mobeelity Innovations, Inc. ("MOBEELITY") to deploy its digital classroom pilot, also known as e-Learning Management System ("eLMS") and MOBEELITY committed to provide the necessary applications suite of the intended learning management system of STI ESG.

MOBEELITY undertook to provide STI ESG with access to the EDU 2.0 LMS (now known as "NEO") and iMEET virtual classroom. MOBEELITY committed to provide STI ESG with online

and on-site technical support for the implementation of the EDU 2.0 LMS and iMEET virtual classroom. Furthermore, MOBEELITY committed to provide STI ESG with all updates and modifications to EDU 2.0 LMS and iMEET virtual classroom free of charge. Out of these two (2) platforms, STI ESG was only able to avail of and utilize the EDU 2.0 LMS under the agreement.

MOBEELITY provided STI ESG access to the EDU 2.0 LMS. EDU 2.0 LMS is a product of Cypher Learning, and MOBEELITY was an authorized reseller of this product. In accordance with the terms of the Agreement, STI ESG paid MOBEELITY the sum of ₱3.3 million as downpayment for services to be rendered by MOBEELITY for the First Semester of SY2016-2017 or from June to November 2016.

On June 12, 2016, it came to the attention of STI ESG that Cypher Learning had terminated its relationship with MOBEELITY due to the fraudulent acts committed by MOBEELITY against Cypher Learning.

Pursuant to the arbitration clause of the Memorandum dated September 8, 2014 ("Memorandum") executed by STI ESG and MOBEELITY, STI ESG initiated the instant ad hoc arbitration to settle a dispute involving the reimbursement of Three Million Three Hundred Thousand Pesos (₱3.3 million) by MOBEELITY due to a breach of its obligations under the Memorandum.

After due proceedings, the Arbitral Tribunal issued the arbitral award dated August 9, 2018 wherein MOBEELITY is required to pay STI ESG the amount Three Million Three Hundred Thousand Pesos (₱3.3 million) and arbitration cost of Eight Hundred Eighty Two Thousand Eight Hundred Eighty Pesos (₱882,880.00).

As provided by law, STI ESG has to file the appropriate petition before the Regional Trial Court for the execution of the aforesaid arbitral award.

- i. Due to the nature of their business, STI ESG and STI WNU are involved in various legal proceedings, both as plaintiff and defendant, from time to time. The majority of outstanding litigation involves illegal dismissal cases under which faculty members have brought claims against STI ESG and STI WNU by reason of their faculty and employment contracts. Management and its legal counsels believe that STI ESG and STI WNU have substantial legal and factual bases for their position and are of the opinion that losses arising from these legal actions and proceedings, if any, will not have a material adverse impact on the Group's consolidated financial position as well as in the results of its operations.
- j. STI WNU is likewise contingently liable for lawsuits or claims filed by third parties, including labor-related cases, which are pending decision by the courts, the outcome of which are not presently determinable.
- k. Other subsidiaries also stand as defendant of various lawsuits and claims filed by their former employees. The complainants are seeking payment of damages such as backwages and attorney's fees. As at August 14, 2018, the cases are pending before the Labor Arbiter.

Management and their legal counsels believe that the outcome of these cases will not have a significant impact on the unaudited interim condensed consolidated financial statements.

### Commitments

#### a. Financial Commitments

STI ESG has a ₱165.0 million domestic bills purchase lines from various local banks specifically for the purchase of local and regional clearing checks. Interest on drawdown from such facility is

waived except when drawn against returned checks, to which the interest shall be the prevailing lending rate of such local bank. This facility is on a clean basis.

In December 2014, the Parent Company issued a Surety Agreement in favor of China Bank to secure STI WNU's ₱300.0 million long-term loan and ₱5.0 million credit line. As at June 30, 2018 and March 31, 2018, STI WNU's long-term loan amounted to ₱182.0 million.

- b. STI Holdings signed as co-maker on the ₱200.0 million bridge financing loan of iACADEMY, which was fully paid on September 29, 2017.
- c. Capital Commitments

As at June 30, 2018 and March 31, 2018, STI ESG has contractual commitments and obligations for the construction of school buildings which will be the site of STI Lipa, STI Sta. Mesa, STI Pasay-EDSA and STI San Jose del Monte with an aggregate amount of ₱1,956.6 million of which ₱831.3 million and ₱793.0 million have been paid as at June 30, 2018 and March 31, 2018, respectively.

STI WNU likewise has contractual commitments and obligations for the construction of school buildings and upgrade of its facilities aggregating to ₱24.4 million as at June 30, 2018 and March 31, 2018. Of this, ₱21.7 million has already been paid as at June 30, 2018 and March 31, 2018.

iACADEMY has contractual commitments and obligations for the construction of its Yakal Campus totaling ₱1,029.5 million and ₱955.6 million as at June 30, 2018 and March 31, 2018. Of these, ₱843.7 million and ₱569.6 million have been paid as at June 30, 2018 and March 31, 2018, respectively.

- d. Others

- i. On August 1, 2017, STI ESG entered into a Memorandum of Understanding with Royal Caribbean Cruises Ltd. ("RCL") for the creation of the RCL-STI Cruise Talent Development Centre that will follow RCL standards in providing training for hospitality jobs on cruise ships. This facility will produce more Filipino seafaring talents ready to take on thousands of new hotel roles on cruise ships. Discussions for the execution of a Definitive Agreement are ongoing.
- ii. On April 21, 2017, STI ESG, Mr. Tony Tan Caktiong ("TTC"), STI Tanauan, and Injap Investments, Inc. ("Injap"), referred collectively as the Joint Venture Parties, entered into an agreement to transform STI Tanauan into a Joint Venture Company which shall operate a farm-to-table school that offers courses ranging from farm production to food services.

The Joint Venture Parties also agreed to increase STI Tanauan's authorized capital stock to an amount that will be agreed by the Joint Venture Parties in a separate agreement. As agreed by the Joint Venture Parties, the increase in the authorized capital stock will be made through STI Tanauan's declaration of stock dividends to STI ESG based on STI Tanauan's unrestricted retained earnings as of March 31, 2017 and cash payments by the Joint Venture Parties.

The equity sharing in the Joint Venture Company will be 60%, 25% and 15% for STI ESG, TTC and Injap, respectively.

On June 21, 2017, in separate meetings, the stockholders and the BOD of STI Tanauan approved the increase in the authorized capital stock of the corporation from ₱1.0 million divided into 10,000 shares with a par value of ₱100 to ₱75.0 million divided into 750,000 shares with a par value of ₱100. The increase will be funded through the declaration of stock dividends and cash subscriptions by the shareholders. In the same meeting, the stockholders and the BOD approved the declaration of 150,000 shares as stock dividends with an aggregate par value of ₱15.0 million to be distributed to stockholders of record as of March 31, 2017 based on the unrestricted retained earnings of STI Tanauan as shown in its audited financial statements as of March 31, 2017.

On January 24, 2018, STI ESG subscribed to and fully paid for 35,000 shares at a subscription price of ₱495 per share for a total of ₱17.3 million.

On February 26, 2018, STI Tanauan applied with the SEC to increase its authorized capital stock from ₱1.0 million to ₱75.0 million.

On March 2, 2018, the SEC approved the increase and issued the Certificate of Approval on Increase of Capital Stock.

On March 3, 2018, STI Tanauan issued to STI ESG stock dividends of 150,000 shares and 35,000 shares as subscribed by the latter.

- iii. In January 2018, STI ESG entered into a contract to sell with Heva Management and Development Corporation for the acquisition of a lot in Iloilo City with a total area of 2,615 sqm for a price of ₱183.0 million plus value added tax less applicable taxes. STI ESG made a down payment amounting to ₱67.5 million in January 2018, net of the ₱200.0 thousand reservation fee paid on November 29, 2017. The remaining balance in the amount of ₱128.1 million shall be paid in eighteen (18) equal monthly installments without interest, of ₱7.1 million starting January 2018 up to June 2019. The lot will be the future site of STI Iloilo.

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## 22. Fair Value Information of Financial Instruments

The Group's financial instruments consist of cash and cash equivalents, receivables, advances to associates and joint ventures, deposits, interest-bearing loans and borrowings, accounts payable and other current liabilities, obligations under finance lease and nontrade payable. The primary purpose of these financial instruments, except for nontrade payable, is to finance the Group's operations.

There are no material unrecognized financial assets and liabilities as at June 30, 2018 and March 31, 2018.

Due to the short-term nature of cash and cash equivalents, receivables, accounts payable and other current liabilities, and nontrade payable, their carrying values reasonably approximate their fair values as at June 30, 2018.

*AFS Financial Assets.* The fair values of publicly-traded AFS financial assets, classified under Level 1, are determined by reference to market bid quotes as of financial reporting date. Investments in unquoted equity securities for which no reliable basis for fair value measurement is available are carried at cost, net of impairment, if any.

*Interest-bearing Loans and Borrowings.* The carrying value approximates fair value because of recent and regular repricing based on market conditions.

Management believes that the fair values of deposits, bonds payable, obligations under finance lease and other noncurrent liabilities as of June 30, 2018 do not significantly differ from the fair values of these financial instruments as of March 31, 2018.

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**23. Note to Unaudited Interim Condensed Consolidated Statements of Cash Flows**

The Group's material noncash investing and financing activities follow:

- a. Unpaid progress billing for construction in-progress amounting to ₱318.1 million and ₱4.4 million as at June 30, 2018 and 2017, respectively (see Note 10).
- b. Uncollected dividends from De Los Santos Medical Center in June 2018, amounting to ₱2.3 million, which was received in July 2018.

**24. Changes in Liabilities Arising from Financing Activities**

	April 1, 2018	Cash flows	Interest Expense	Others	June 30, 2018
	P=	P=	P=	P=	P=
Current interest-bearing loans and borrowings	P167,400,000				P167,400,000
Current obligations under finance leases	7,134,449	(1,985,735)	–	1,467,441	6,616,155
Bonds payable	2,951,879,134	–	1,483,636	–	2,953,362,770
Noncurrent interest-bearing loans and borrowings	1,071,208,112	370,000,000	205,049	–	1,441,413,161
Noncurrent obligations under finance leases	14,627,824	–	–	(1,707,441)	12,920,383
Dividends payable	26,815,767	(1,433,730)	–	–	25,382,037
Interest payable	10,584,218	(38,194,297)	55,779,166	–	28,169,087
<b>Total liabilities from financing activities</b>	<b>P4,249,649,504</b>	<b>P328,386,238</b>	<b>P57,467,851</b>	<b>(P240,000)</b>	<b>P4,635,263,593</b>

STI Education Systems Holdings, Inc.

Aging of receivables

As of June 30, 2018

Type of Accounts Receivable	Total	0-30 days	31-60 days	61-90 days	over 90 days
Current Receivables	1,282,554,128	1,033,719,393	9,431,979	50,089,659	189,313,097
	1,282,554,128	1,033,719,393	9,431,979	50,089,659	189,313,097

TYPE OF ACCOUNTS RECEIVABLE	NATURE/DESCRIPTION	COLLECTION PERIOD
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Current Receivables

Tuition fees and other current receivables

Monthly



## STI EDUCATION SYSTEMS HOLDINGS, INC.

**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****OVERVIEW**

STI Education Systems Holdings, Inc. ("STI Holdings" or "the Parent Company") was originally established in 1928 as a Philippine branch office of Theo H. Davies and Co., a Hawaiian corporation. It was reincorporated as a Philippine company in 1946 as part of the Jardine-Matheson group and was listed in the Philippine Stock Exchange on October 12, 1976. STI Holdings was then sold to Filipino investors in 2006. In March 2010, it became part of the Tanco Group of Companies. STI Holdings completed its follow-on offering of 2.9 billion shares in November 2012 comprising of primary and secondary issues. Today, it is a holding company with investments in three large educational institutions and is also the owner of Attenborough Holdings Corporation ("AHC") which was a party to the various agreements with Philippine Women's University ("PWU") and Unlad Resources and Development Corporation ("Unlad"). It used to be the owner of Neschester Corporation ("Neschester") prior to the merger of the latter with Information and Communications Technology Academy, Inc. ("iACADEMY") in April 2018. Its three subsidiaries involved in education are STI Education Services Group, Inc. ("STI ESG"), STI West Negros University, Inc. ("STI WNU") and iACADEMY.

- STI ESG was founded on August 21, 1983 to address the Information Technology ("IT") education needs of the Philippines. It evolved from its wholly-owned training centers to granting franchises to several locations in Metro Manila. In 1995, STI ESG was granted a permit by the Commission on Higher Education ("CHED") to operate colleges. It started to roll out the four-year college programs in 1996. From offering various degrees related to Computer Science, STI ESG showed its strength beyond IT by expanding the existing programs to bachelor's degrees in the fields of Business Administration, Computer Engineering, Hospitality Management, Tourism Management, Accountancy, Communications and Multimedia Arts, among others. STI ESG is also offering Senior High School ("SHS").

STI ESG's network of schools totals to 75 schools with 38 owned schools and 37 franchised schools comprising of 65 colleges and 10 education centers.

In recent years, STI ESG embarked on expansion and capital improvement projects as it encouraged schools to move from rented space into school-owned stand-alone campuses. A number of franchised schools likewise started their own facilities expansion programs. To date, STI ESG has 15 wholly-owned campuses with newly constructed/renovated buildings while 12 of the franchised schools constructed/renovated their own buildings and upgraded their facilities.

STI ESG has a total student capacity of 131,923 students, with 76,538 pertaining to owned schools and 55,385 for franchised schools.

- STI WNU was founded on February 14, 1948. The campus sits on a 3.1 hectare property in the heart of Bacolod City. STI WNU was granted its university status by CHED on February 11, 2008. STI Holdings acquired 99.5% ownership of the university on October 1, 2013. Since then, STI WNU's facilities have been undergoing continuous upgrade.

The university offers primary, junior and senior high school, tertiary and post-graduate courses. Tertiary courses include Engineering, Education, Criminology, Business courses such as Accountancy, Management Accounting and Business Administration, Hospitality and Tourism Management, Information System and Technology, Computer Science and Maritime Training Courses required by the Maritime Industry Authority ("MARINA") for officers and crew on board Philippine and/or foreign registered ships operating in Philippine and/or international waters. Post-graduate courses include Master's degrees in Business Administration, Public Administration, Nursing and Education, and Doctorate degrees in Public Administration and Educational Management.

STI WNU's facilities can accommodate 12,000 students. The classrooms are available for its primary, secondary, tertiary and post-graduate students. There is also ample space for its Maritime Training Center.

- iACADEMY is the premier school in the Group that offers courses in animation, multimedia arts and design, fashion design and technology, software engineering, game development, web development, marketing management, financial management and real estate management. It also offers Senior High School. It started in 2002 as a wholly-owned subsidiary of STI ESG until its spin-off when it became a 100% owned subsidiary of STI Holdings in September 2016. The school's first campus is at iACADEMY Plaza in Makati – the Central Business District of Metro Manila.

In April 2016, CHED granted iACADEMY a Government Authority ("GA") to operate as a Transnational Education ("TNE") provider for the Master in Business Administration ("MBA") program in partnership with DePaul University, Chicago, Illinois, United States of America, as the degree granting institution.

The GA is valid up to April 26, 2018, and shall be subject to revocation if iACADEMY fails to operate in accordance with the laws of the Republic of the Philippines and/or fails to maintain the prescribed standards of instruction and/or fails to comply with the rules and regulations pertaining to the organization, administration and supervision of private/public HEIs in the Philippines. This GA applies only to the iACADEMY Plaza campus. The MBA program was not offered last school year due to space constraints as the surge of senior high school students took the priority lane. iACADEMY has already requested CHED for the extension of the GA. As at report date, CHED is processing iACADEMY's request on this matter.

On September 7, 2017, the Board of Governors ("BOG") of iACADEMY approved the merger of iACADEMY and Neschester, with iACADEMY as the surviving entity. The stockholders of both companies confirmed, ratified and approved the merger on the

same date. The Plan of Merger between iACADEMY and Neschester was filed with the SEC on January 24, 2018 and was approved on April 10, 2018. In addition, on September 7, 2017, the Stockholders and BOG of iACADEMY also approved the increase in authorized capital stock from ₱500.0 million to ₱1.0 billion. The increase in authorized capital stock was likewise approved by SEC on April 10, 2018. On May 11, 2018, iACADEMY issued 494,896,693 shares to STI Holdings in exchange for the net assets of Neschester as a result of the merger.

- Neschester is a real estate company whose major asset is a parcel of land in Makati City with an area of 2,332.5 sq. m. In August 2016, STI Holdings acquired 100% ownership of Neschester. As discussed in the preceding paragraph, Neschester was merged with iACADEMY on April 10, 2018.

On September 20, 2016, iACADEMY had its groundbreaking ceremony on the parcel of land owned by Neschester. It is now the site of its Yakal campus housing both Senior High School and college students. iACADEMY's Yakal campus building was launched as iACADEMY Nexus on February 12, 2018. Nexus has a student capacity of 2,500.

- AHC is a holding company which is a party to the Joint Venture Agreement and Shareholders' Agreement ("Agreements") among the Parent Company, PWU and Unlad. It granted advances amounting to ₱65.0 million to Unlad by virtue of these Agreements. AHC assigned these receivables to the Parent Company on March 1, 2016.

On March 22, 2016, AHC became a party to an arrangement for the settlement of the loans and advances, which included the said receivables. As of March 31, 2016, the loans and advances arising from the Agreements have been fully settled.

### **STUDENT POPULATION**

The enrollment at the start of the School Year ("SY") of the schools under STI Holdings are as follows:

	SY 2018-2019	SY 2017-2018	Increase (Decrease)	
			Enrollees	Percentage
<b>STI ESG</b>				
Owned schools	43,269	54,366	(11,097)	(20.4%)
Franchised schools	32,054	42,165	(10,111)	(24.0%)
	75,323	96,531	(21,208)	(22.0%)
<b>iACADEMY</b>	2,287	1,728	559	32.4%
<b>STI WNU</b>	6,619	6,772	(153)	(2.3%)
<b>Total Enrollees</b>	<b>84,229</b>	<b>105,031</b>	<b>(20,802)</b>	<b>(19.8%)</b>

Grouping the students in terms of government regulatory agencies supervising the programs, wherein CHED pertains to students enrolled in tertiary and post-graduate programs, Technical Education and Skills Development Authority (“TESDA”) students are those enrolled in technical-vocational programs while Department of Education (“DepEd”) pertains to primary and secondary education including SHS, following are the numbers:

	SY 2018-2019			
	CHED	TESDA	DEPED*	TOTAL
STI ESG	37,044	1,719	36,560	75,323
iACADEMY	1,121	-	1,166	2,287
STI WNU	3,454	-	3,165	6,619
<b>Total</b>	<b>41,619</b>	<b>1,719</b>	<b>40,891</b>	<b>84,229</b>

Proportion of CHED:TESDA:DepEd	<b>49%</b>	<b>2%</b>	<b>49%</b>	<b>100%</b>
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	SY 2017-2018			
	CHED	TESDA	DEPED*	TOTAL
STI ESG	40,147	2,191	54,193	96,531
iACADEMY	783	-	945	1,728
STI WNU	3,336	-	3,436	6,772
<b>Total</b>	<b>44,266</b>	<b>2,191</b>	<b>58,574</b>	<b>105,031</b>

Proportion of CHED:TESDA:DepEd	<b>42%</b>	<b>2%</b>	<b>56%</b>	<b>100%</b>
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\* For STI ESG and iACADEMY, these represent the number of enrolled SHS students while for STI WNU, this is the total of 2,217 SHS students and the 948 students enrolled in basic education for SY 2018-2019 and 2,496 SHS students and the 940 students enrolled in basic education for SY 2017-2018.

In line with the Group’s thrust to continue providing opportunity for fresh Grade 12 graduates to pursue their tertiary education this SY 2018-2019, STI ESG is accepting two freshmen batches. Classes for the first batch started in June 2018 while classes for the second batch starts in August 2018. The number of students reported in the foregoing tables represent the batch of enrollees as of report date.

STI ESG’s implementation of two college freshmen batches is aimed at:

- accommodating late enrollees who waited for acceptance by State Universities and Colleges (“SUCs”) and Local Universities and Colleges (“LUCs”) in anticipation of the free college education under the Universal Access to Quality Tertiary Education Act;
- preventing the displacement of STI ESG faculty members who may not have enough teaching load due to low turnout of freshmen college enrollees for the June class opening for the same reason cited above, and;
- moving forward, adjusting the school calendar of STI schools nationwide to eventually align it with the calendars of public colleges as well as other private Higher Education Institutions (“HEIs”) not only in the Philippines but in the ASEAN region as well.

STI ESG’s implementation of two freshmen batches is in accordance with the guiding policy on the academic calendar year as stipulated in Section 3 of Republic Act 7797 or the School Calendar Act, which states that the SY shall start on the first Monday of June but not later than

the last day of August. This is also in consonance with Republic Act 7722 which provides some leeway for HEIs to establish their own academic calendars and set their opening days in order to encourage innovation and the exercise of academic freedom among institutions of higher learning.

## ***FINANCIAL REVIEW***

This discussion summarizes the significant factors affecting the operating results for the three months ended June 30, 2018 and 2017 and financial condition as at June 30, 2018 and March 31, 2018 of STI Education Systems Holdings, Inc. and its subsidiaries (hereafter collectively referred to as the "Group"). The following discussion should be read in conjunction with the attached unaudited interim condensed consolidated financial statements of the Group as at and for the period ended June 30, 2018. All necessary adjustments have been made to present fairly the financial position, results of operations, and cash flows of the Group as at and for the period ended June 30, 2018, and for all the other periods presented.

### **I. RESULTS OF OPERATIONS**

#### Three months ended June 30, 2018 vs. three months ended June 30, 2017

For the three months ended June 30, 2018, the Group generated gross revenues of ₱460.3 million, lower by 6% or ₱27.8 million from same period last year of ₱488.1 million. Gross profit likewise decreased by ₱49.2 million or 18% year-on-year.

The Group's operations yielded a loss of ₱74.1 million for the three-month period ended June 30, 2018 from same period last year's operating income of ₱28.6 million.

Earnings before interest, taxes, depreciation and amortization or EBITDA, computed as net income excluding provision for income tax, depreciation and amortization, equity in net losses of associates and joint ventures, interest expense and interest income, similarly declined by ₱91.5 million to ₱66.0 million from last year's ₱157.5 million. EBITDA margin for the three-month period decreased from 32% last year to 14% this year.

Net loss for the period amounted to ₱80.1 million as against same period last year's net loss of ₱216.9 million, due to the equity share in net losses of an associate recognized for the three-month period ended June 30, 2017.

### **II. FINANCIAL CONDITION**

The Group's total assets as at June 30, 2018 amounted to ₱15,894.6 million, 10% or ₱1,478.8 million higher than the balance as at March 31, 2018. This was largely due to the increase in receivables, mostly pertaining to receivables for tuition and other school fees as well as the increase in property and equipment as construction projects continued in full swing. Cash balances also increased.

Cash and cash equivalents increased by 17% or ₱309.5 million as collections were received from students for tuition and other school fees.

Total receivables amounted to ₱1,282.6 million, up by ₱764.6 million from ₱518.0 million as of March 31, 2018, since the June 30, 2018 balance is composed mostly of amounts expected to be collected as payment for tuition and other school fees from students and from DepEd for the remaining months of the current school term. Students who qualified for the DepEd Voucher Program are entitled to the government subsidy in amounts ranging from ₱8,750 to ₱22,500 per student per year. Under the Voucher Program, DepEd pays directly the schools where these students enrolled.

Inventories increased by 18% or ₱25.1 million as the schools raised their inventory level of uniforms and textbooks for SY 2018-2019.

Property and equipment, net of accumulated depreciation, increased by ₱413.3 million from the March 31, 2018 balance of ₱8,426.8 million as STI ESG's construction projects continued in full swing and iACADEMY's Nexus campus was substantially completed.

Deferred tax assets rose by 43% or ₱14.2 million due to taxes applicable to tuition and other school fees collected in advance. Following statutory regulations, tuition and other school fees collected in advance are taxed at the time of receipt.

Pension assets as at June 30, 2018 amounted to ₱29.1 million or 46% lower than balance as at March 31, 2018 largely due to the decline in value of equity shares forming part of pension assets.

Total current liabilities increased by ₱1,213.1 million to ₱2,403.8 million as at June 30, 2018 from ₱1,190.7 million as at March 31, 2018, mainly due to the ₱1,102.8 million increase in unearned tuition and other school fees. Unearned revenues will be recognized as income over the remaining period of the related school term.

Total equity slightly decreased by 1% or ₱103.8 million.

### **III. TOP 5 KEY PERFORMANCE INDICATORS**

The top five key performance indicators ("KPIs") of the Group include tests of profitability, liquidity and solvency. Profitability refers to the Group's earning capacity and ability to earn income for its stockholders. This is measured by profitability ratios analyzing margins and returns. Liquidity refers to the Group's ability to pay its short-term liabilities as and when they fall due. Solvency refers to the Group's ability to pay all its debts as and when they fall due, whether such liabilities are current or noncurrent.

**Three Months ended  
June 30**

		<b>2018</b>	<b>2017</b>	<b>Remarks</b>
EBITDA margin	Net income (loss) excluding provision for income tax, depreciation and amortization, equity in net losses of associates and joint ventures, interest expense and interest income ("EBITDA") divided by total revenues	14%	32%	EBITDA margin declined in 2018 as compared to same period in 2017 mainly due to increased direct costs and operating expenses and lower revenues.
Gross profit margin	Gross profit divided by total revenues	48%	56%	Gross profit margin declined as direct costs increased while revenues declined
Return on equity	Net income (loss) attributable to equity holders of the Parent company (annualized) divided by average equity attributable to equity holders of the Parent company	(4%)	(10%)	Return on equity was lower in 2017 substantially due to the equity share in net losses of associates and joint ventures for the prior period as compared to same period this year.
Debt service cover ratio	EBITDA for the last twelve months divided by total principal and interest due for the next twelve months	2.95	1.37	Debt service cover ratio for the periods presented has always been well above the minimum set by management and the lending bank. The bar is 1.1 of cash income (EBITDA) for every peso of loans and interest maturing within the next 12 months.

		<b>Three Months ended June 30</b>		
		<b>2018</b>	<b>2017</b>	<b>Remarks</b>
Debt-to-equity ratio	Total liabilities, net of unearned tuition and other school fees, divided by total equity	0.68	0.68	Debt-to-equity ratio remained flat as liabilities increased at almost the same rate as equity

#### **IV. MATERIAL CHANGES IN BALANCE SHEET ACCOUNTS**

Cash and cash equivalents increased by 17% or ₱309.5 million from ₱1,857.5 million to ₱2,167.0 million as at March 31, 2018 and June 30, 2018, respectively, as collections were received from students for tuition and other school fees.

Receivables increased by ₱764.6 million or 148%. Receivables from students increased by ₱485.5 million, largely pertaining to tuition and other school fees. The receivables from students are expected to be collected over the remaining months of the related school term. Outstanding receivables from DepEd for the SHS qualified voucher recipients amounted to ₱367.6 million as at June 30, 2018, posting an increase of ₱257.5 million from the March 31, 2018 balance.

Inventories increased by 18% or ₱25.1 million. This is mainly attributed to the build-up of the inventory of textbooks for SHS students and the new sets of tertiary uniforms for SY 2018-2019.

Prepaid expenses and other current assets increased by 6% or ₱8.4 million due to prepayment of insurance which mostly covers the period April 2018 to March 2019 or in line with the school calendar and are recognized as expense over the remaining months of the respective contracts.

Property and equipment, net of accumulated depreciation, increased by 5% or ₱413.3 million from the March 31, 2018 balance of ₱8,426.8 million to ₱8,840.1 million as at June 30, 2018 as construction projects continued in full swing. The construction in-progress account includes costs related to the construction of school buildings, which will be the new sites of STI Lipa, STI Sta. Mesa, STI Pasay-EDSA and STI San Jose del Monte. The construction of ground level up to fourth floor of the STI Lipa project was completed in July 2018; remaining works from the fifth floor up to the roof-deck and so with the rest of the other buildings in the sites mentioned above are expected to be completed in November 2018 or in time for the second semester.

As at June 30, 2018, the building, machineries and equipment and construction in-progress account include costs incurred for the land development and building of iACADEMY's Yakal campus. The building opened and was launched as iACADEMY Nexus on February 12, 2018 and is now operational.



Deferred tax assets rose by 43% or ₱14.2 million due to taxes applicable to tuition and other school fees collected in advance. Following statutory regulations, tuition and other school fees, which are collected in advance are subject to income tax upon receipt.

Pension assets as at June 30, 2018 amounted to ₱29.1 million or 46% lower than the balance as at March 31, 2018 largely due to the decline in value of equity shares forming part of pension assets.

Goodwill, intangible and other noncurrent assets decreased by ₱22.9 million, mainly due to the reclassification of the noncurrent advances to suppliers/contractors to Property and Equipment as STI ESG recognized the cost of construction works based on the percentage of completion of the projects as at June 30, 2018.

Accounts payable and other current liabilities increased by ₱107.3 million or 14% substantially due to obligations to contractors in relation to construction works in various STI ESG campuses. This was partially offset by payments made by iACADEMY to its contractors for completed portions of its Nexus building and for delivered furniture, office and school equipment.

Unearned tuition and other school fees increased substantially by ₱1,102.8 million from ₱149.4 million as at March 31 to ₱1,252.2 million as at June 30, 2018. The unearned revenue will be recognized as income over the remaining months of the school term.

Income tax payable increased by 20% to ₱21.0 million as at June 30, 2018 from ₱17.5 million last March 31 reflecting the increase in taxable income as tuition fees and rent collected in advance are taxable in full upon receipt.

Both current and noncurrent portions of obligations under finance lease declined by ₱0.5 million and ₱1.7 million, respectively, due to payments made during the period.

Interest-bearing loans and borrowings, net of current portion, increased by ₱370.2 million, net of deferred finance charges, as iACADEMY made its third and fourth drawdowns on its term loan facility with China Banking Corporation.

Pension liabilities slightly decreased by 5% or ₱2.0 million to ₱40.4 million as at June 30, 2018 due to payments made mostly by STI WNU to employees who retired during the period.

Other noncurrent liabilities increased by ₱1.7 million representing advance rent and security deposits received from new lease agreements.

Cumulative actuarial gain decreased by ₱20.4 million from ₱96.7 million to ₱76.3 million, as at March 31, 2018 and June 30, 2018, respectively, due to the impact of unrealized remeasurement loss recognized from the decline in market value of investment in equity securities of the pension plan assets.

Other equity reserve declined by ₱2.7 million reflecting the impact of the merger between iACADEMY and Neschester on the Parent Company accounts.

Unrealized mark-to-market gain on available-for-sale financial assets amounting to ₱0.8 million as at March 31, 2018 registered ₱0.7 million as at June 30, 2018, due to the lower market value of the Manulife shares held by STI ESG.

Retained earnings decreased by 2% due to the net loss recorded for the three-month period ended June 30, 2018.

## **V. MATERIAL CHANGES IN INCOME STATEMENT ACCOUNTS**

Total revenues reached ₱460.3 million during the three-month period ended June 30, 2018, a decrease of ₱27.8 million from same period last year.

Tuition and other school fees for the period declined by ₱26.4 million or 8%. This is due to low turnout of college freshmen enrollees for the June class opening. The free college education program of the government under the Universal Access to Quality Tertiary Education Act started this school year. Some public HEIs start classes in August. There are Grade 12 graduates who, for various reasons, are not able to enroll in these SUCs and LUCs. It is this batch of college entrants that is being targeted by the August campaign of STI ESG.

Revenues from educational services and royalty fees both slightly decreased by 1%. Revenues from educational services are derived as a percentage of the tuition and other school fees actually collected by the franchised schools from their students and from DepEd.

Other revenues increased by ₱1.8 million for the three-month period ended June 30, 2018 as compared to the same period last year due to forfeiture of reservation fees collected in prior years.

Sale of educational materials and supplies decreased by 3% largely due to lower sale of textbooks.

Cost of educational services increased by 10% or ₱15.7 million from ₱156.6 million for the three-month period ended June 30 last year to ₱172.3 million for the same period this year, largely due to the ₱9.7 million depreciation expense recognized by iACADEMY on its Nexus campus. Escalation on rental rates as lease agreements were renewed increased direct rent expense by ₱1.8 million. Instructors' salaries and benefits decreased by ₱2.3 million due to reduced number of faculty members concomitant with the lower turn out of enrollees.

Cost of educational materials and supplies sold increased by 10% due to substantial increases in the price of textbooks.

General and administrative expenses increased by 22% from ₱243.2 million to ₱296.7 million for the three-month periods ended June 30, 2017 and 2018, respectively. The highest increase was registered by advertising and promotions costs which increased

year-on-year by ₱36.1 million as the marketing campaign for both SHS and Tertiary programs were intensified in time for the opening of classes for SY 2018-2019. Costs of security, janitorial and other outside services increased by ₱6.3 million due to security guards posted in the Parent Company's Quezon City and Davao properties as well as in iACADEMY's Nexus campus.

The Group's operating income, that is, income before other income and expenses and income tax, decreased to ₱74.1 million loss for the three-month period ended June 30, 2018 from last year's income of ₱28.6 million for the same period. The Group's first quarter results represent the revenues earned by STI ESG and STI WNU for the month of June only, which is the start of school year of these two schools for SY 2018-2019 and the months of April and May and a few days in June for iACADEMY completing its third term for SY 2017-2018. This is due to the seasonality of operations of these educational institutions.

Equity in net losses of associates and joint ventures amounting to ₱223.1 million for the three-month period ended June 30, 2017 pertains largely to the share of STI ESG in the loss of PhilPlans First, Inc. ("PhilPlans") arising from the latter's full recognition of the mandated discount interest rate imposed by the Insurance Commission ("IC") on the reserves of pre-need companies. The IC is the government regulatory agency supervising pre-need companies. In November 2012, the IC issued Circular Letter 23-2012 relating to the Valuation of Transitory Pre-need Reserves. The IC mandated a gradual decrease in the discount interest rate to be used for valuing the reserves to provide regulatory leeway for the compliance to this circular. The old basket of plans previously approved by the SEC when the pre-need companies were under its supervision were using a higher discount rate. The circular mandated that for the years 2012-2016, the discount interest rate shall be 8%; for 2017, 7.25%; for 2018, 6.5% and for 2019 onwards, 6%. In July 2017, PhilPlans opted to have an early adoption of the 6% discount interest rate starting January 2017. This means bigger allocation to pre-need reserves from its trust funds, thus recognizing a higher expense item.

The equity in net losses of associates and joint ventures amounting to ₱0.9 million for the period April 1 to June 30, 2018 does not include any share in the operations of PhilPlans or any of the other subsidiaries of Maestro Holdings, Inc. ("Maestro") after STI ESG's Board of Directors ("BOD") approved the disposal of its 20% stake in Maestro on June 27, 2017. With this decision to dispose of the Maestro investment, STI ESG's investment in Maestro was reclassified to Noncurrent asset held for sale under the current assets portion of the Statements of Financial Position. With this, STI ESG ceased the use of the equity method of accounting for its investment in Maestro on June 30, 2017.

Interest expenses decreased by ₱7.6 million year-on-year, from ₱61.3 million to ₱53.7 million as short-term loans of STI ESG were fully settled as at March 31, 2018 and amortization payments on long-term loans of STI ESG and STI WNU aggregating ₱67.8 million were made in July 2017 and January 2018.

Interest income rose by ₱1.7 million mainly due to interest earned from short-term placements of the proceeds of STI ESG's bonds which are not deployed to date.

Benefit from income tax amounting to ₱8.4 million was recognized as at June 30, 2018 associated with the net loss recognized for the period.

Net loss of ₱80.1 million was recorded for the first three months this year, as against a net loss for the same period last year of ₱216.9 million. Last year's loss is largely due to the Group's equity share in the net losses of associates and joint ventures.

## **VI. FINANCIAL RISK DISCLOSURE**

The Group's present activities expose it to liquidity risk, credit risk, interest rate risk and capital risk.

Liquidity risk – Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet its currently maturing commitments. The Group's liquidity profile is managed to be able to finance its operations and capital expenditures and other financial obligations. To cover its financing requirements, the Group uses internally-generated funds and interest-bearing loans and borrowings. As part of its liquidity risk management program, the Group regularly evaluates the projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives.

Any excess funds are primarily invested in short-dated and principal-protected bank products that provide flexibility of withdrawing the funds anytime. The Group regularly evaluates available financial products and monitors market conditions for opportunities to enhance yields at acceptable risk levels.

The Group's current liabilities are mostly made up of trade liabilities with 30 to 60-day payment terms and current portion of interest-bearing loans and borrowings that are expected to mature within one year after reporting date. On the other hand, the biggest components of the Group's current assets are cash and cash equivalents, receivables from students and DepEd and advances to associates and joint ventures with credit terms of 30 days.

In relation to the Group's long-term loan, the debt service cover ratio, as a bank requirement, is also monitored on a regular basis to keep it at a level acceptable to the Group, to the lender bank and to STI ESG's bondholders. The debt service cover ratio is equivalent to the consolidated EBITDA for the last twelve months divided by total principal and interest due in the next twelve months. The Group's policy is to keep the debt service cover ratio not lower than 1.10:1.00.

As at June 30, 2018 and June 30, 2017, the Group's debt service cover ratio is 2.95:1.00 and 1.37:1.00, respectively.

Credit risk – Credit risk is the risk that the Group will incur a loss arising from students, franchisees or counterparties that fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk that the Group is willing to accept for individual counterparties and by monitoring expenses in relation to such limits.

It is the Group's policy to require students to pay all their tuition and other incidental fees before they can get their report cards and other credentials. Receivable balances are monitored such that exposure to bad debts is minimal.

Interest rate risk – Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's long-term loans and bonds. While the Group's long-term debt has a floating interest rate, the Group elected to have the interest rate repriced every year, thus minimizing the exposure to market changes in interest rates. The interest rates for the STI ESG bonds are, however, fixed for the 7-year bonds and the 10-year bonds.

The Group's exposure to interest rate risk also includes its cash and cash equivalents balance. Interest rates for the Group's cash deposits are at prevailing interest rates. Due to the magnitude of the deposits, significant change in interest rate may also affect the consolidated statements of comprehensive income.

Capital risk – The Group aims to achieve an optimal capital structure to reduce its cost of capital in pursuit of its business objectives, which include maintaining healthy capital ratios and strong credit ratings, maximizing shareholder value and providing benefits to other stakeholders. The Group likewise aims to ensure that cash is available to support its operations and all other projects undertaken by the Group and to maintain funds on a long-term basis.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group is not subject to externally imposed capital requirements.

The Group monitors capital using the debt-to-equity ratio, which is computed as the total of current and noncurrent liabilities less unearned tuition and other school fees, divided by total equity. The Group monitors its debt-to-equity ratio to keep it at a level acceptable to the companies in the Group, to the lender bank and to STI ESG's bondholders. The Group's policy is to keep the debt-to-equity ratio at a level not exceeding 1.50:1.00.

As at June 30, 2018 and 2017, the Group's debt-to-equity ratio is 0.68:1.00. As at March 31, 2018, the Group's debt-to-equity ratio is 0.62:1.00.

## **VII. AGREEMENTS/COMMITMENTS AND CONTINGENCIES/OTHER MATTERS**

- a. There are no changes in accounting estimates used in the preparation of unaudited interim condensed consolidated reports for the current and prior financial period.

- b. Except as provided in Note 21 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements attached as Annex "A," the Group has no other financial and capital commitments.
- c. On June 3, 2013, STI ESG executed a deed of pledge on all of its shares in De Los Santos Medical Center (formerly De Los Santos General Hospital) in favor of Neptune Stroika Holdings, Inc., a wholly-owned subsidiary of Metro Pacific Investments Corporation ("MPIC"), to cover the indemnity obligations of STI ESG enumerated in its investment agreement entered into in 2013 with MPIC. The carrying value of the investment in De Los Medical Center amounted to ₱25.9 million as at June 30, 2018 and March 31, 2018.

#### **VIII. MATERIAL EVENT/S AND UNCERTAINTIES KNOWN TO MANAGEMENT THAT WOULD ADDRESS THE PAST AND WOULD HAVE AN IMPACT ON FUTURE OPERATIONS**

- a. There are no material events and uncertainties known to management that would address the past and would have an impact on future operations of the Group.
- b. There are no known trends, demands, commitments, events of uncertainties that will have an impact on the Group's liquidity, net sales/revenues/income from continuing operations, except for the contingencies and commitments enumerated in Note 21 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements attached as Annex "A".
- c. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.
- d. The various loan agreements entered into by STI ESG, STI WNU and iACADEMY and the issuance of fixed rate bonds of STI ESG provide certain restrictions and conditions with respect to, among others, change in majority ownership and management and maintenance of financial ratios. STI ESG, STI WNU and iACADEMY are fully compliant with all the covenants of the respective agreements. See Notes 15 and 16 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements of the Company attached as Annex "A" for a more detailed discussion. There are no other events that will trigger direct or contingent financial obligations that are material to the Group, including any default or acceleration of an obligation.
- e. There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations except for the contingencies and commitments enumerated in Note 21 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements attached as Annex "A".
- f. There are no significant elements of income or loss that did not arise from the Group's continuing operations.

- g. The Group's business is linked to the academic cycle. The academic cycle, which is one academic year, starts in the month of June and ends in the month of March, except for iACADEMY where the academic year starts in July for the tertiary level and August for the SHS and with both levels ending in June of each year. As discussed in note 1 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements attached as Annex "A", STI ESG has notified CHED of its change in its school calendar, particularly starting with this year's college freshmen students. The core business and revenues of the Group, which are mainly from tuition and other school fees, are recognized as income over the corresponding academic year to which they pertain. Accordingly, revenue is expected to be lower during the first quarter of its fiscal year as compared to the other quarters if the number of enrollees remains constant. This information is provided to allow for a proper appreciation of the results of operations of the Group.
- h. On April 21, 2017, STI ESG, Mr. Tony Tan Caktiong ("TTC"), STI Tanauan, and Injap Investments, Inc. ("Injap"), referred collectively as the Joint Venture Parties, entered into an agreement to transform STI Tanauan into a Joint Venture Company which shall operate a farm-to-table school that offers courses ranging from farm production to food services.

The Joint Venture Parties also agreed to increase STI Tanauan's authorized capital stock to an amount that will be agreed by the Joint Venture Parties in a separate agreement. As agreed by the Joint Venture Parties, the increase in the authorized capital stock will be made through STI Tanauan's declaration of stock dividends to STI ESG based on STI Tanauan's unrestricted retained earnings as of March 31, 2017 and cash payments by the Joint Venture Parties.

The equity sharing in the Joint Venture Company will be 60%, 25% and 15% for STI ESG, TTC and Injap, respectively.

On June 21, 2017, in separate meetings, the stockholders and the BOD of STI Tanauan approved the increase in the authorized capital stock of the corporation from ₱1.0 million divided into 10,000 shares with a par value of ₱100.0 to ₱75.0 million divided into 750,000 shares with a par value of ₱100.0. The increase was to be funded through the declaration of stock dividends and cash subscriptions by the shareholders. In the same meeting, the stockholders and the BOD approved the declaration of 150,000 shares as stock dividends with an aggregate par value of ₱15.0 million to be distributed to stockholders of record as of March 31, 2017 based on the unrestricted retained earnings of STI Tanauan as shown in its audited financial statements as of March 31, 2017.

On January 24, 2018 STI ESG subscribed to and fully paid for 35,000 shares at a subscription price of ₱495.0 per share for a total of ₱17.3 million.

On February 26, 2018, STI Tanauan applied with the SEC to increase its authorized capital stock from ₱1.0 million to ₱75.0 million.

On March 2, 2018, the SEC approved the increase and issued the Certificate of Approval on Increase of Capital Stock.

On March 3, 2018, STI Tanauan issued to STI ESG stock dividends of 150,000 shares and 35,000 shares as subscribed by the latter.

- i. On August 1, 2017, STI ESG entered into a Memorandum of Understanding with Royal Caribbean Cruises Ltd. (RCL) for the creation of the RCL-STI Cruise Talent Development Centre that will follow RCL standards in providing training for hospitality jobs on cruise ships. This facility will produce more Filipino seafaring talents ready to take on thousands of new hotel roles on cruise ships. Discussions on the execution of a Definitive Agreement are ongoing.
- j. In January 2018, STI ESG entered into a contract to sell with Heva Management and Development Corporation for the acquisition of a lot in Iloilo City with a total area of 2,615 sq.m. for a price of ₱183.0 million plus value added tax, less applicable taxes. STI ESG made a down payment amounting to ₱67.5 million in January 2018, net of the ₱200.0 thousand reservation fee paid on November 29, 2017. The remaining balance in the amount of ₱128.1 million shall be paid in eighteen equal monthly installments without interest, of ₱7.1 million starting January 2018 up to June 2019. The lot will be the future site of STI Iloilo.



## Financial Highlights and Key Performance Indicators

<i>(in millions except margins, financial ratios and earnings per share)</i>	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)	Increase (Decrease)		
			Amount	%	
<b>Condensed Statements of Financial Position</b>					
Total assets	15,894.6	14,415.8	1,478.8	10	
Current assets	4,474.9	3,367.4	1,107.5	33	
Cash and cash equivalents	2,167.0	1,857.5	309.5	17	
Equity attributable to equity holders of the parent company	8,604.3	8,705.4	(101.1)	(1)	
Total liabilities	7,195.9	5,613.4	1,582.5	28	
Current liabilities	2,403.8	1,190.7	1,213.1	102	
<b>Financial ratios</b>					
Debt-to-equity ratio <sup>(1)</sup>	0.68	0.62	0.06	10	
Current ratio <sup>(2)</sup>	1.86	2.83	(0.97)	(34)	
Asset to equity ratio <sup>(3)</sup>	1.83	1.64	0.19	12	
(Unaudited)					
		Three months ended June 30		Increase (Decrease)	
		2018	2017	Amount	%
<b>Condensed Statements of Income</b>					
Revenues	460.3	488.1	(27.8)	(6)	
Direct costs <sup>(4)</sup>	237.7	216.3	21.4	10	
Gross profit	222.6	271.8	(49.2)	(18)	
Operating expenses	296.7	243.2	53.5	22	
Operating profit (loss)	(74.1)	28.6	(102.7)	(359)	
Other expenses - net	(14.4)	(245.0)	230.6	94	
Loss before income tax	(88.5)	(216.4)	127.9	(59)	
Net loss	(80.1)	(216.9)	136.8	(63)	
EBITDA <sup>(5)</sup>	66.0	157.5	(91.5)	(58)	
Core income (loss) <sup>(6)</sup>	(79.4)	6.2	(85.6)	(1381)	
Net loss attributable to equity holders of the parent company	(77.7)	(213.0)	135.3	(64)	
Loss per share <sup>(7)</sup>	(0.008)	(0.022)	0.014	(64)	

	(Unaudited)			
	Three months ended June 30		Increase (Decrease)	
	2018	2017	Amount	%
<b>Condensed Statements of Cash Flows</b>				
Net cash from operating activities	151.0	334.2	(183.2)	(55)
Net cash used in investing activities	(169.9)	(177.1)	7.2	(4)
Net cash provided by (used in) financing activities	328.4	(68.5)	396.9	(579)

### Financial Soundness Indicators

	(Unaudited)			
	As of/three months ended June 30		Increase (Decrease)	
	2018	2017	Amount	%
<b>Liquidity Ratios</b>				
Current ratio <sup>(2)</sup>	1.86	2.10	(0.24)	(11)
Quick ratio <sup>(8)</sup>	1.44	1.72	(0.28)	(16)
Cash ratio <sup>(9)</sup>	0.90	1.17	(0.27)	(23)
<b>Solvency ratios</b>				
Debt-to-equity ratio <sup>(1)</sup>	0.68	0.68	-	-
Asset to equity ratio <sup>(3)</sup>	1.83	1.86	(0.03)	(2)
Debt service cover ratio <sup>(10)</sup>	2.95	1.37	1.58	115
Interest coverage ratio <sup>(11)</sup>	(0.65)	(2.53)	1.88	(74)
<b>Profitability ratios</b>				
EBITDA margin <sup>(12)</sup>	14%	32%	(18)	(56)
Gross profit margin <sup>(13)</sup>	48%	56%	(8)	(14)
Operating profit(loss) margin <sup>(14)</sup>	(16%)	6%	(22)	(367)
Net loss margin <sup>(15)</sup>	(17%)	(44%)	27	(61)
Return on equity (annualized) <sup>(16)</sup>	(4%)	(10%)	6	(60)
Return on assets (annualized) <sup>(17)</sup>	(2%)	(6%)	4	(67)

<sup>(1)</sup> Debt-to-equity ratio is measured as total liabilities, net of unearned tuition and other school fees, divided by total equity.

<sup>(2)</sup> Current ratio is measured as current assets divided by current liabilities.

<sup>(3)</sup> Asset to equity ratio is measured as total assets divided by total equity.

<sup>(4)</sup> Direct costs is calculated by adding the costs of educational services and educational materials and supplies sold.

- (5) EBITDA is Net loss excluding provision for income tax, interest expense, interest income, depreciation and amortization and equity in net losses of associates and joint ventures.*
- (6) Core income (loss) is computed as consolidated income (loss) after income tax derived from the Group's main business – education and other recurring income*
- (7) Loss per share is measured as net loss attributable to equity holders of the parent company divided by the weighted average number of outstanding common shares*
- (8) Quick ratio is measured as current assets less inventories, prepayments and noncurrent asset held for sale divided by current liabilities.*
- (9) Cash ratio is measured as cash and cash equivalents divided by current liabilities.*
- (10) Debt service cover ratio is measured as EBITDA for the last twelve months divided by total principal and interest due for the next twelve months*
- (11) Interest coverage ratio is measured as net income (loss) before income tax and interest expense divided by interest expense*
- (12) EBITDA margin is measured as EBITDA divided by total revenues.*
- (13) Gross profit margin is measured as gross profit divided by total revenues*
- (14) Operating profit margin is measured as operating profit (loss) divided by total revenues.*
- (15) Net loss margin is measured as net loss after income tax divided by total revenues.*
- (16) Return on equity is measured as net loss attributable to equity holders of the Parent Company (annualized) divided by average equity attributable to equity holders of the parent company.*
- (17) Return on assets is measured as net loss (annualized) divided by average total assets*

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

S	T	I		E	D	U	C	A	T	I	O	N		S	Y	S	T	E	M	S		H	O	L	D	I	N	G	S
I	N	C	.		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S									

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

7	t	h		F	l	o	o	r	,		S	T	I		H	o	l	d	i	n	g	s		C	e	n	t	e	r
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t	y																												

Form Type

1	7	-	A
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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

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### COMPANY INFORMATION

Company's Email Address <b>info@stiholdings.com.ph</b>	Company's Telephone Number <b>(632) 844 9553</b>	Mobile Number <b>N/A</b>
No. of Stockholders <b>1,259</b>	Annual Meeting (Month / Day) <b>Last Friday of September</b>	Fiscal Year (Month / Day) <b>03/31</b>

### CONTACT PERSON INFORMATION

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

Name of Contact Person <b>Arsenio C. Cabrera, Jr.</b>	Email Address <b>accabrera@htc-law.com.ph</b>	Telephone Number/s <b>(632) 813-7111</b>	Mobile Number
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### CONTACT PERSON'S ADDRESS

<b>5/F SGV-II BUILDING, 6758 AYALA AVENUE, MAKATI CITY</b>
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**NOTE 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**


The management of **STI Education Systems Holdings, Inc. and subsidiaries (the Group)** is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended March 31, 2018, 2017 and 2016, in accordance with accounting principles generally accepted in the Philippines as described in Note 2 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial that are free from material misstatement, whether due to fraud or error.

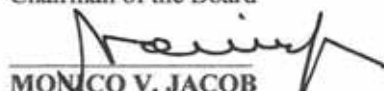
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the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

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.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with the Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

  
**EUSEBIO H. TANCO**  
Chairman of the Board

  
**MONICO V. JACOB**  
President and Chief Executive Officer

  
**YOLANDA M. BAUTISTA**  
Treasurer and Chief Financial Officer

Signed this 12th of July 2018

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

SUBSCRIBED AND SWORN to me this JUL 12 2018 day of MAKATI CITY, 2018 at \_\_\_\_\_ City. Affiants exhibited to me their respective Passport/SSS numbers/Driver's License Numbers and Tax Identification Numbers as follows:

Name	Number	Date/Place of Issuance
Eusebio H. Tanco	Passport No. EC2037045	09/04/14, DFA Manila
Monico V. Jacob	Passport No. EC7728486	05/17/16, DFA NCR East
Yolanda M. Bautista	SSS No. 03-2678038-9	Makati City

Doc/ No. 488  
Page No. 79  
Book No. II  
Series of 2018



  
**RONALD LUKE T. SARTHOU, JR.**  
Notary Public for Makati City  
Appointment No. M-390  
Until 31 December 2018  
5/F SGV II Building,  
6758 Ayala Avenue, Makati City  
Roll of Attorneys No. 63690  
PTR No. 6628741 / Makati / 11 January 2018  
BP No. 026134 / Pangasinan / 11 January 2018  
MCLE Compliance No. V-0009015  
NBI No. S630DRVR78-CB81989

## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
STI Education Systems Holdings, Inc.  
7th Floor, STI Holdings Center  
6764 Ayala Avenue  
Makati City

### Opinion

We have audited the consolidated financial statements of STI Education Systems Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at March 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended March 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended March 31, 2018 in accordance with accounting principles generally accepted in the Philippines as described in Note 2 to the consolidated financial statements.

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's 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 our 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 period. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**\*SGVFS031556\***

### ***Accounting for Investment in an Associate***

The Group has a 20% investment in Maestro Holdings, Inc. (Maestro Holdings), an associate, which is accounted for using equity method. On June 30, 2017, the Group ceased the use of the equity method of accounting for its investment in Maestro Holdings, having met the criteria for classification as noncurrent asset held for sale under Philippine Financial Reporting Standards (PFRS) 5, *Noncurrent Asset Held for Sale and Discontinued Operation*.

This matter is significant to our audit because (a) the Group's share in net loss of Maestro Holdings and Subsidiaries (Maestro Holdings Group) for the year ended March 31, 2018 amounted to ₱223.4 million, which reduced the Group's consolidated net income; and (b) the classification of the investment as asset held for sale, which amounted to ₱716.6 million as at March 31, 2018 representing 5% of the consolidated total assets, involves significant management judgment. The Group's share in the net loss of Maestro Holdings Group is significantly affected by the valuation of pre-need and other reserve liabilities which involves significant judgments and use of assumptions.

The disclosures on the investment in Maestro Holdings are included in Notes 10 and 13 to the consolidated financial statements.

### ***Audit response***

Our audit procedures include, among others, obtaining the consolidated financial information of Maestro Holdings Group for the three-month period ended June 30, 2017 and recalculating the Group's share in net losses. For the valuation of pre-need and other reserve liabilities, we involved our internal specialist in reviewing the methodology and assumptions by assessing the basis of each assumption used and by comparing them against the regulatory requirements. For the classification and measurement of the noncurrent asset held for sale, we evaluated management's assessment of the requirements under PFRS 5 by inspection of supporting documents such as correspondences with interested buyers, inquiries of management and reading of minutes of Board of Directors meetings. We also reviewed the Group's disclosures relative to the investment in Maestro Holdings in the consolidated financial statements.

### ***Impairment of Goodwill***

Under PFRS, the Group is required to annually test the amount of goodwill for impairment. As at March 31, 2018, the Group's goodwill attributable to each of the Group's cash-generating units (CGUs) that are expected to benefit from the business combination (i.e., each school operation) amounted to ₱241.2 million, which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically discount rate, forecasted revenue growth, earnings before interest, taxes, depreciation and amortization (EBITDA) margins and long-term growth rate.

The Group's disclosure about goodwill are included in Notes 5 and 16 to the consolidated financial statements.

### *Audit response*

We involved our internal specialist in evaluating the methodology and assumptions used. These assumptions include discount rate, forecasted revenue growth, EBITDA margins and long-term growth rate. We compared the key assumptions used, such as forecasted revenue growth, EBITDA margins, and long-term growth rate against the historical performance of the CGUs and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of the goodwill.

### **Other Information**

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended March 31, 2018 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended March 31, 2018, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 above 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **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 PFRSs, 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.



## **Auditor's Responsibilities 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, 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 auditor's 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 auditor's 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 entities 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 audit. We remain solely responsible for our audit opinion.

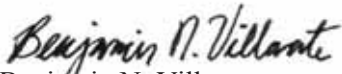
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 period and are therefore the key audit matters. We describe these matters in our auditor's 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.

The engagement partner on the audit resulting in this independent auditor's report is Benjamin N. Villacorte.

SYCIP GORRES VELAYO & CO.



Benjamin N. Villacorte

Partner

CPA Certificate No. 111562

SEC Accreditation No. 1539-A (Group A),  
March 3, 2016, valid until March 3, 2019

Tax Identification No. 242-917-987

BIR Accreditation No. 08-001998-120-2016,  
February 15, 2016, valid until February 14, 2019

PTR No. 6621344, January 9, 2018, Makati City

July 12, 2018

\*SGVFS031556\*

**STI EDUCATION SYSTEMS HOLDINGS, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	March 31	
	2018	2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 6, 34 and 35)	<b>₱1,857,507,750</b>	₱3,198,723,556
Receivables (Notes 7, 30, 34 and 35)	<b>517,981,482</b>	443,059,848
Inventories (Note 8)	<b>139,581,592</b>	123,577,199
Prepaid expenses and other current assets (Notes 9, 27, 28, 34 and 35)	<b>135,778,279</b>	149,024,884
	<b>2,650,849,103</b>	3,914,385,487
Noncurrent asset held for sale (Notes 10 and 13)	<b>716,586,558</b>	–
Total Current Assets	<b>3,367,435,661</b>	3,914,385,487
<b>Noncurrent Assets</b>		
Property and equipment (Notes 11 and 28)	<b>8,426,842,079</b>	6,875,570,837
Investment properties (Note 12)	<b>1,863,718,647</b>	1,891,231,534
Investments in and advances to associates and joint ventures (Notes 13, 14 and 35)	<b>41,871,654</b>	856,701,443
Available-for-sale financial assets (Notes 15, 34 and 35)	<b>68,093,740</b>	51,602,130
Deferred tax assets - net (Note 29)	<b>32,897,980</b>	32,875,741
Pension assets - net (Note 27)	<b>53,474,883</b>	2,763,398
Goodwill, intangible and other noncurrent assets (Notes 16, 28, 34 and 35)	<b>561,494,360</b>	427,185,971
Total Noncurrent Assets	<b>11,048,393,343</b>	10,137,931,054
<b>TOTAL ASSETS</b>	<b>₱14,415,829,004</b>	₱14,052,316,541
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Notes 17, 34 and 35)	<b>₱782,343,048</b>	₱460,093,058
Current portion of interest-bearing loans and borrowings (Notes 18, 34 and 35)	<b>167,400,000</b>	812,800,000
Current portion of obligations under finance lease (Notes 28, 34 and 35)	<b>7,134,449</b>	5,667,168
Unearned tuition and other school fees	<b>149,368,406</b>	100,320,948
Nontrade payable (Note 1)	<b>67,000,000</b>	67,000,000
Income tax payable	<b>17,490,337</b>	19,585,731
Total Current Liabilities	<b>1,190,736,240</b>	1,465,466,905
<b>Noncurrent Liabilities</b>		
Bonds payable (Note 19)	<b>2,951,879,134</b>	2,947,028,638
Interest-bearing loans and borrowings - net of current portion (Notes 18, 34 and 35)	<b>1,071,208,112</b>	916,400,000
Obligations under finance lease - net of current portion (Notes 28, 34 and 35)	<b>14,627,824</b>	7,172,214
Pension liabilities - net (Note 27)	<b>42,455,457</b>	48,092,221
Other noncurrent liabilities (Note 20)	<b>106,743,001</b>	119,353,609
Deferred tax liabilities (Note 29)	<b>235,730,783</b>	236,505,372
Total Noncurrent Liabilities	<b>4,422,644,311</b>	4,274,552,054
Total Liabilities (Carried Forward)	<b>5,613,380,551</b>	5,740,018,959

(Forward)

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	<b>March 31</b>	
	<b>2018</b>	<b>2017</b>
Total Liabilities (Brought Forward)	<b>₱5,613,380,551</b>	₱5,740,018,959
<b>Equity Attributable to Equity Holders of the Parent Company</b> (Note 21)		
Capital stock	<b>4,952,403,462</b>	4,952,403,462
Additional paid-in capital	<b>1,119,127,301</b>	1,119,127,301
Cost of shares held by a subsidiary	<b>(498,142,921)</b>	(498,142,921)
Cumulative actuarial gain	<b>96,727,608</b>	44,398,122
Unrealized mark-to-market gain on available-for-sale financial assets (Note 15)	<b>847,989</b>	462,127
Other equity reserve (Note 3)	<b>(1,667,792,370)</b>	(1,667,792,370)
Other comprehensive income associated with noncurrent asset held for sale (Note 13)	<b>90,645,302</b>	-
Share in associates':		
Unrealized mark-to-market loss on available-for-sale financial assets (Note 13)	<b>(114)</b>	(16,188,913)
Cumulative actuarial gain (Note 13)	<b>215,592</b>	722,894
Remeasurement loss on life insurance reserves (Note 13)	-	(18,078,114)
Other equity reserve (Note 13)	-	718,885
Retained earnings (Note 13)	<b>4,611,356,907</b>	4,303,426,945
Total Equity Attributable to Equity Holders of the Parent Company	<b>8,705,388,756</b>	8,221,057,418
<b>Equity Attributable to Non-controlling Interests</b>	<b>97,059,697</b>	91,240,164
Total Equity	<b>8,802,448,453</b>	8,312,297,582
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱14,415,829,004</b>	₱14,052,316,541

*See accompanying Notes to Consolidated Financial Statements.*

**STI EDUCATION SYSTEMS HOLDINGS, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended March 31		
	2018	2017	2016
<b>REVENUES</b>			
Sale of services:			
Tuition and other school fees	<b>₱2,612,702,587</b>	₱2,538,918,364	₱2,274,860,553
Educational services	<b>208,333,217</b>	199,155,782	184,262,754
Royalty fees	<b>20,545,886</b>	19,148,926	15,935,475
Others	<b>62,786,149</b>	22,234,062	28,647,142
Sale of educational materials and supplies	<b>178,303,107</b>	153,502,823	73,015,944
	<b>3,082,670,946</b>	2,932,959,957	2,576,721,868
<b>COSTS AND EXPENSES</b>			
Cost of educational services (Note 23)	<b>882,087,561</b>	823,940,675	749,840,018
Cost of educational materials and supplies sold (Note 24)	<b>131,916,522</b>	120,843,322	54,933,802
General and administrative expenses (Note 25)	<b>1,194,318,933</b>	1,066,094,306	1,069,134,580
	<b>2,208,323,016</b>	2,010,878,303	1,873,908,400
<b>INCOME BEFORE OTHER INCOME (EXPENSES) AND INCOME TAX</b>	<b>874,347,930</b>	922,081,654	702,813,468
<b>OTHER INCOME (EXPENSES)</b>			
Equity in net losses of associates and joint ventures (Note 13)	<b>(222,036,414)</b>	(244,097,915)	(154,635,023)
Interest expense (Note 22)	<b>(219,411,899)</b>	(79,245,342)	(63,223,407)
Rental income (Notes 12, 28 and 30)	<b>114,629,851</b>	111,477,617	63,152,578
Interest income (Note 22)	<b>28,527,141</b>	4,907,330	5,785,710
Dividend and other income (Notes 3 and 15)	<b>4,555,297</b>	3,264,786	2,830,674
Gain (loss) on sale of property and equipment	<b>14,790</b>	135,199	(466,998)
Effect of derecognition of a subsidiary (Note 20)	–	(60,829,455)	–
Excess of consideration received from collection of receivables (Notes 12 and 33)	–	–	553,448,521
	<b>(293,721,234)</b>	(264,387,780)	406,892,055
<b>INCOME BEFORE INCOME TAX</b>	<b>580,626,696</b>	657,693,874	1,109,705,523
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)</b>			
Current	<b>84,487,773</b>	103,832,952	123,414,765
Deferred	<b>(6,679,096)</b>	(4,561,593)	103,237,746
	<b>77,808,677</b>	99,271,359	226,652,511
<b>NET INCOME (Carried Forward)</b>	<b>502,818,019</b>	558,422,515	883,053,012

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	<b>Years Ended March 31</b>		
	<b>2018</b>	2017	2016
<b>NET INCOME</b> (Brought Forward)	<b>₱502,818,019</b>	₱558,422,515	₱883,053,012
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Items to be reclassified to profit or loss in subsequent years:			
Share in associates' unrealized mark-to-market gain (loss) on available-for-sale financial assets (Note 13)	<b>124,968,590</b>	(148,323,150)	(292,749,090)
Unrealized mark-to-market gain (loss) on available-for-sale financial assets (Note 15)	<b>391,610</b>	847,120	(377,254)
Share in associates' remeasurement gain (loss) on life insurance reserves (Note 13)	<b>226,977</b>	(4,022,703)	11,269,319
	<b>125,587,177</b>	(151,498,733)	(281,857,025)
Items not to be reclassified to profit or loss in subsequent years:			
Share in associates' remeasurement gain on pension liability (Note 13)	<b>176,372</b>	18,979,723	561,443
Remeasurement gain (loss) on pension liability (Note 27)	<b>58,838,953</b>	32,270,210	(5,306,329)
Income tax effect	<b>(5,882,268)</b>	(3,227,021)	537,225
	<b>53,133,057</b>	48,022,912	(4,207,661)
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>	<b>178,720,234</b>	(103,475,821)	(286,064,686)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱681,538,253</b>	₱454,946,694	₱596,988,326
<b>Net Income Attributable To</b>			
Equity holders of the Parent Company	<b>₱496,017,439</b>	₱550,204,057	₱874,228,253
Non-controlling interests	<b>6,800,580</b>	8,218,458	8,824,759
	<b>₱502,818,019</b>	₱558,422,515	₱883,053,012
<b>Total Comprehensive Income Attributable To</b>			
Equity holders of the Parent Company	<b>₱672,418,815</b>	₱448,129,130	₱592,012,475
Non-controlling interests	<b>9,119,438</b>	6,817,564	4,975,851
	<b>₱681,538,253</b>	₱454,946,694	₱596,988,326
<b>Basic/Diluted Earnings Per Share on Net Income Attributable to Equity Holders of the Parent Company</b> (Note 31)	<b>₱0.050</b>	₱0.055	₱0.088

See accompanying Notes to Consolidated Financial Statements.

# STI EDUCATION SYSTEMS HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED MARCH 31, 2018, 2017 AND 2016

### Equity Attributable to Equity Holders of the Parent Company (Note 21)

	Capital Stock		Additional Paid-in Capital		Cost of Shares Held by a Subsidiary		Cumulative Gain - Actuarial	Mark-to-market Available-for-sale Financial Assets (Note 15)	Unrealized Mark-to-market Gain (Loss) on Available-for-sale Financial Assets (Note 15)	Other comprehensive income associated with noncurrent asset held for sale	Share in Associates' Unrealized Mark-to-market Gain (Loss) on Available-for-sale Financial Assets (Note 13)	Share in Associates' Cumulative Actuarial Gain (Loss) (Note 13)	Share in Associates' Reinsurance Gain (Loss) on Life Insurance Reserves	Share in Associates' Equity Reserve	Retained Earnings	Total	Equity Attributable to Non-controlling Interests	Total Equity												
	Balance at April 1, 2017, as previously reported	Prior period adjustments (Note 13)	Paid-in Capital	Additional	Subsidiary	Actuarial													Gain	Assets (Note 15)	Assets (Note 13)	Other comprehensive income associated with noncurrent asset held for sale	Share in Associates' Unrealized Mark-to-market Gain (Loss) on Available-for-sale Financial Assets (Note 13)	Share in Associates' Cumulative Actuarial Gain (Loss) (Note 13)	Share in Associates' Reinsurance Gain (Loss) on Life Insurance Reserves	Share in Associates' Equity Reserve	Retained Earnings	Total	Equity Attributable to Non-controlling Interests	Total Equity
Balance at April 1, 2017, as previously reported	P4,952,403,462	-	P1,119,127,301	(P498,142,921)	P44,398,122	-	-	P462,127	-	-	(P48,710,891)	P722,894	P718,885	P4,553,788,630	P8,456,975,239	P94,444,400	P8,551,419,639													
Prior period adjustments (Note 13)	-	-	-	-	-	-	-	-	-	32,521,978	(18,078,114)	-	(250,361,685)	(235,917,821)	(3,204,236)	(2,391,122,057)														
Balance at April 1, 2017, as restated	4,952,403,462	-	1,119,127,301	(498,142,921)	44,398,122	-	-	462,127	-	(16,188,913)	(18,078,114)	722,894	718,885	4,303,426,945	8,221,057,418	91,240,164	8,312,297,582													
Net income	-	-	-	-	-	-	-	-	-	52,329,486	52,329,486	169,358	496,017,439	496,017,439	6,800,580	502,818,019														
Other comprehensive income (loss)	-	-	-	-	-	-	-	385,862	-	123,292,735	223,935	-	-	-	176,401,376	2,318,858	178,720,234													
Total comprehensive income (loss)	-	-	-	-	-	-	-	385,862	-	123,292,735	223,935	169,358	496,017,439	496,017,439	672,418,815	9,119,438	681,538,253													
Reclassification to noncurrent asset held for sale	-	-	-	-	-	-	-	-	-	(107,103,936)	(17,854,179)	(67,660)	(718,885)	(188,087,477)	-	-	(188,087,477)													
Dividend declaration (Note 21)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
Share of non-controlling interest on dividends declared by a subsidiary (Note 21)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
Balance at March 31, 2018	P4,952,403,462	-	P1,119,127,301	(P498,142,921)	P96,727,608	-	-	P847,989	-	(P114)	P215,592	P-	P-	P4,611,356,907	P8,705,388,756	P97,059,697	P8,802,448,453													
Balance at April 1, 2016, as previously reported	P4,952,403,462	-	P1,119,079,467	(P500,009,337)	P15,729,797	-	-	(P373,642)	-	P1,209,178,74	(P18,002,502)	P-	P-	P4,107,181,601	P8,138,654,121	P91,649,812	P8,230,303,933													
Prior period adjustments (Note 13)	-	-	-	-	-	-	-	-	-	9,228,832	(14,109,316)	-	(165,908,733)	(170,789,217)	(2,319,659)	(173,108,876)														
Balance at April 1, 2016, as restated	4,952,403,462	-	1,119,079,467	(500,009,337)	15,729,797	-	-	(373,642)	-	130,146,706	(18,002,502)	-	3,941,272,868	7,967,864,904	89,330,153	8,057,195,057														
Net income	-	-	-	-	-	-	-	-	-	(146,335,619)	18,725,396	-	-	550,204,057	8,218,458	558,427,515														
Other comprehensive income (loss)	-	-	-	-	-	-	-	835,769	-	(3,968,798)	(3,968,798)	-	-	(102,074,927)	(1,400,894)	(1,403,475,821)														
Total comprehensive income (loss)	-	-	-	-	-	-	-	835,769	-	(146,335,619)	18,725,396	-	-	550,204,057	8,218,458	558,427,515														
Dividend declaration (Note 21)	-	-	-	-	-	-	-	835,769	-	(146,335,619)	18,725,396	-	-	550,204,057	448,139,130	6,817,564	454,946,694													
Acquisition of non-controlling interests (Notes 3 and 21)	-	-	-	-	-	-	-	-	-	(188,049,980)	(188,049,980)	-	-	(188,049,980)	-	-	(188,049,980)													
Share in associates' acquisition of its subsidiary's non-controlling interests (Note 13)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,519,771)	9,519,771	-													
Disposal of shares held by a subsidiary (Note 21)	-	-	-	-	-	-	-	-	-	-	-	-	718,885	-	718,885	9,763	728,648													
Share of non-controlling interest on dividends declared by a subsidiary (Note 21)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,914,250	-	1,914,250													
Balance at March 31, 2017	P4,952,403,462	-	P1,119,127,301	(P498,142,921)	P44,398,122	-	-	P462,127	-	(P16,188,913)	P722,894	P718,885	P4,303,426,945	P8,221,057,418	P91,240,164	P8,312,297,582														

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Equity Attributable to Equity Holders of the Parent Company (Note 21)

	Share in Associates										Total Equity				
	Capital Stock	Additional Paid-in Capital	Cost of Shares Held by a Subsidiary	Cumulative Actual Gain	Unrealized Mark-to-market Gain (Loss) on Available-for-sale Financial Assets (Note 14)	Other Equity Reserve	Other comprehensive income associated with non-current asset held for sale	Unrealized Mark-to-market Gain (Loss) on Available-for-sale Financial Assets (Note 12)	Share in Associates' Actual Gain (Loss) (Note 12)	Share in Associates' Retained Earnings		Share in Associates' Gain (Loss) on Life Insurance Reserves	Share in Associates' Equity Reserve	Retained Earnings	Total
Balance at April 1, 2015, as previously reported	₱4,952,403,462	₱1,119,079,467	(₱500,009,337)	₱20,414,150	(₱937)	(₱1,653,497,803)	₱-	₱418,977,664	(₱18,556,430)	₱-	₱-	₱3,233,915,182	₱7,572,725,418	₱82,980,575	₱7,655,705,993
Prior period adjustments (Note 13)	-	-	-	-	-	-	-	-	-	(25,227,626)	-	21,179,415	(4,048,211)	(54,983)	(4,103,194)
Balance at April 1, 2015, as restated	4,952,403,462	1,119,079,467	(500,009,337)	20,414,150	(937)	(1,653,497,803)	-	418,977,664	(18,556,430)	(25,227,626)	-	3,255,094,597	7,568,677,207	82,925,592	7,651,602,799
Net income	-	-	-	-	-	-	-	-	-	-	-	-	874,228,253	8,824,759	883,053,012
Other comprehensive income (loss)	-	-	-	(4,684,353)	(372,705)	-	-	(288,830,958)	553,928	-	11,118,310	-	(282,215,778)	(3,848,908)	(286,064,686)
Total comprehensive income	-	-	-	(4,684,353)	(372,705)	-	-	(288,830,958)	553,928	-	11,118,310	-	592,012,475	4,975,851	596,988,326
Dividend declaration (Note 21)	-	-	-	-	-	-	-	-	-	-	-	-	(188,049,982)	-	(188,049,982)
Acquisition of non-controlling interests by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(188,049,982)	-	(188,049,982)
Share of non-controlling interest on dividends declared by subsidiaries (Note 21)	-	-	-	-	-	(4,774,796)	-	-	-	-	-	-	(4,774,796)	4,774,796	-
Balance at March 31, 2016	₱4,952,403,462	₱1,119,079,467	(₱500,009,337)	₱15,729,797	(₱373,642)	(₱1,658,272,599)	₱-	₱130,146,706	(₱18,002,502)	(₱14,109,316)	₱-	₱3,941,272,868	₱7,967,864,904	₱89,330,153	₱8,057,195,057
														(3,346,086)	(3,346,086)

See accompanying Notes to Consolidated Financial Statements.



**STI EDUCATION SYSTEMS HOLDINGS, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended March 31		
	2018	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱580,626,696</b>	₱657,693,874	₱1,109,705,523
Adjustments to reconcile income before income tax to net cash flows:			
Depreciation and amortization (Notes 11, 12 and 16)	<b>398,836,776</b>	375,621,499	358,130,553
Equity in net losses of associates and joint ventures (Note 13)	<b>222,036,414</b>	244,097,915	154,635,023
Interest expense (Note 22)	<b>219,411,899</b>	79,124,092	63,223,407
Interest income (Notes 22)	<b>(28,527,141)</b>	(4,907,330)	(5,785,710)
Dividend income (Note 15)	<b>(4,438,297)</b>	(3,264,786)	(2,830,674)
Net change in pension assets and liabilities (Note 27)	<b>2,787,099</b>	4,986,604	3,856,648
Provision for impairment losses on investment in and advances to an associate (Note 25)	<b>591,839</b>	1,643,844	519,414
Loss (gain) on sale of property and equipment	<b>(14,790)</b>	(135,199)	466,998
Effect of derecognition of a subsidiary (Note 13)	–	60,829,455	–
Excess of consideration received from collection of receivables (Note 32)	–	–	(553,448,521)
Operating income before working capital changes	<b>1,391,310,495</b>	1,415,689,968	1,128,472,661
Decrease (increase) in:			
Receivables	<b>(44,359,784)</b>	(140,068,422)	(23,278,719)
Inventories	<b>(17,194,516)</b>	(83,893,498)	(4,138,069)
Prepaid expenses and other current assets	<b>20,077,929</b>	(52,471,204)	(128,975)
Increase (decrease) in:			
Accounts payable and other current liabilities	<b>44,352,600</b>	(147,291,865)	(248,891,821)
Unearned tuition and other school fees	<b>49,047,458</b>	46,216,182	33,521,956
Other noncurrent liabilities	<b>(12,610,608)</b>	30,871,502	31,364,795
Net cash generated from operations	<b>1,430,623,574</b>	1,069,052,663	916,921,828
Income and other taxes paid	<b>(83,612,782)</b>	(131,955,347)	(71,122,774)
Interest received	<b>28,527,141</b>	4,907,330	5,785,710
Net cash from operating activities	<b>1,375,537,933</b>	942,004,646	851,584,764
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Property and equipment (Notes 3, 11 and 36)	<b>(1,614,691,820)</b>	(1,578,753,015)	(335,180,807)
Investment properties (Notes 12 and 36)	<b>(3,631,991)</b>	(34,352,144)	(6,360,205)
Subsidiary, net of cash acquired (Note 3)	<b>5,828,110</b>	–	–
Increase in:			
Investments in and advances to associates and joint ventures	<b>(548,841)</b>	(1,643,844)	(52,956,814)
Intangible assets and other noncurrent assets	<b>(183,108,754)</b>	(45,178,798)	(52,144,657)
Noncurrent receivables (Note 33)	–	–	(15,214,930)

(Forward)

\*SGVFS031556\*

	<b>Years Ended March 31</b>		
	<b>2018</b>	2017	2016
Dividends received (Note 15)	<b>15,982,712</b>	4,626,924	2,437,946
Proceeds from sale of property and equipment	<b>16,000</b>	352,436	510,210
Nontrade payable (Note 1)	-	-	(28,650,000)
<b>Net cash used in investing activities</b>	<b>(1,780,154,584)</b>	(1,654,948,441)	(487,559,257)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from:			
Availment of long-term loans	<b>570,000,000</b>	-	-
Issuance of bonds (Note 18)	-	3,000,000,000	-
Availment of short-term loans (Note 18)	-	1,993,000,000	-
Payments of:			
Short-term loans (Note 18)	<b>(985,000,000)</b>	(1,248,000,000)	-
Long-term loans (Note 18)	<b>(67,800,000)</b>	(166,800,000)	(236,000,000)
Long-term loan transaction costs	<b>(7,791,888)</b>	-	-
Obligations under finance lease (Note 28)	<b>(6,917,665)</b>	(6,004,730)	(9,438,557)
Bond issuance costs (Note 19)	<b>(845,760)</b>	(52,971,362)	-
Interest paid	<b>(238,385,492)</b>	(76,111,185)	(65,863,875)
Dividends paid	<b>(196,558,444)</b>	(181,786,027)	(188,049,982)
Dividends paid to non-controlling interests (Note 21)	<b>(3,299,906)</b>	(14,437,088)	(3,346,086)
<b>Net cash from (used in) financing activities</b>	<b>(936,599,155)</b>	3,246,889,608	(502,698,500)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,341,215,806)</b>	2,533,945,813	(138,672,993)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>3,198,723,556</b>	664,777,743	803,450,736
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	<b>₱1,857,507,750</b>	₱3,198,723,556	₱664,777,743

*See accompanying Notes to Consolidated Financial Statements.*

**STI EDUCATION SYSTEMS HOLDINGS, INC.  
AND SUBSIDIARIES**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Corporate Information**

a. General

STI Education Systems Holdings, Inc. (“STI Holdings” or the “Parent Company”) and its subsidiaries (hereafter collectively referred to as the “Group”) are all incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (“SEC”). STI Holdings was originally established in 1928 as the Philippine branch office of Theo H. Davies & Co., a Hawaiian corporation. It was reincorporated as a Philippine corporation and registered with the SEC on June 28, 1946. STI Holdings’ shares were listed on the Philippine Stock Exchange (“PSE”) on October 12, 1976. On June 25, 1996, the SEC approved the extension of the Parent Company’s corporate life for another 50 years. The primary purpose of the Parent Company is to invest in, purchase or otherwise acquire and own, hold, use, sell, assign, transfer, lease, mortgage, pledge, exchange, or otherwise dispose of real properties as well as personal and movable property of any kind and description, including shares of stock, bonds, debentures, notes, evidence of indebtedness and other securities or obligations of any corporation or corporations, association or associations, domestic or foreign and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned, but not to act as dealer in securities, and to invest in and manage any company or institution. STI Holdings aims to focus on education and education-related activities and investments.

STI Holdings’ registered office address, which is also its principal place of business, is 7th Floor, STI Holdings Center, 6764 Ayala Avenue, Makati City.

b. STI Education Services Group, Inc. and Subsidiaries (collectively referred to as “STI ESG”)

In September 2012, STI ESG became a subsidiary of the Parent Company through a share-for-share swap agreement with the shareholders of STI ESG. STI Holdings’ ownership of STI ESG is at 98.47% as of March 31, 2018 and 98.66% as of March 31, 2017.

STI ESG is involved in establishing, maintaining, and operating educational institutions to provide pre-elementary, elementary, secondary, and tertiary as well as post-graduate courses, post-secondary and lower tertiary non-degree programs. STI ESG also develops, adopts and/or acquires, entirely or in part, such curricula or academic services as may be necessary in the pursuance of its main activities, relating but not limited to information technology services, information technology-enabled services, education, hotel and restaurant management, engineering and business studies. STI ESG is also offering Senior High School (“SHS”).

STI ESG has investments in several entities which own and operate STI schools. STI schools may be operated either by: (a) STI ESG; (b) its subsidiaries; or (c) independent entrepreneurs (referred to as the “franchisees”) under the terms of licensing agreements with STI ESG. All franchisees are covered by licensing agreements, which require courseware to be obtained from STI ESG.

Other features of the licensing agreements are as follows:

- Exclusive right to use proprietary marks and information such as but not limited to courseware programs, operational manuals, methods, standards, systems, that are used exclusively in the STI network of schools;
- Continuing programs for faculty and personnel development, including evaluation and audit of pertinent staff;
- Development and adoption of the enrollment and registration system;
- Assistance on matters pertaining to financial and accounting procedures, faculty recruitment and selection, marketing and promotion, record keeping and others.

All STI schools start the school calendar every June of each year.

#### *Merger with Several Majority and Wholly-owned Subsidiaries*

On December 9, 2010, STI ESG's stockholders approved the following mergers:

- Phase 1: The merger of three (3) majority owned schools and fourteen (14) wholly-owned schools with STI ESG, with STI ESG as the surviving entity. The Phase 1 merger was approved by the Commission on Higher Education ("CHED") and the SEC on March 15, 2011 and May 6, 2011, respectively.
- Phase 2: The merger of one (1) majority owned school and eight (8) wholly-owned pre-operating schools with STI ESG, with STI ESG as the surviving entity. The Phase 2 merger was approved by the CHED and the SEC on July 18, 2011 and August 31, 2011, respectively.

On September 25, 2013, STI ESG's Board of Directors ("BOD") approved an amendment to the Phase 1 and 2 mergers whereby STI ESG would issue shares at par value, to the stockholders of the non-controlling interests. In 2014, STI ESG issued 1.9 million additional shares at par value to the stockholders of one of the merged schools. As at July 12, 2018, the amendment is pending approval by the SEC.

Also on September 25, 2013, the BOD of the STI ESG approved the Phase 3 merger whereby STI College Taft, Inc. ("STI Taft") and STI College Dagupan, Inc. ("STI Dagupan") will be merged with STI ESG as the surviving entity. On August 5, 2016, STI ESG filed its application for merger with the SEC with endorsement from Department of Education ("DepEd") and CHED. On August 30, 2017, the SEC approved the application for merger of STI Taft and STI Dagupan with STI ESG. In December 2017, STI ESG subscribed to 5,952,273 of its own shares and issued a total of 5,311 shares to minority holders of the absorbed entities with par value of ₱1.0 per share at a price of ₱1.82 per share. Consequently, STI ESG's capital stock increased by ₱5.9 million from ₱3,081.9 million to ₱3,087.8 million and STI ESG recognized treasury shares amounting to ₱10.8 million. Similarly, additional paid in capital increased by ₱7.0 million from ₱379.9 million to ₱386.9 million.

As at July 12, 2018, STI ESG's request for confirmatory ruling on the tax-free merger from the Bureau of Internal Revenue ("BIR") is still pending.

c. STI West Negros University, Inc. (“STI WNU”, formerly West Negros University Corp.)

In October 2013, the Parent Company acquired majority ownership interest in STI WNU. As at March 31, 2018 and 2017, the Parent Company owns 99.5% of STI WNU. The consideration for the acquisition of STI WNU includes contingent consideration amounting to ₱151.5 million with the corresponding liability presented as “Nontrade payable” in the consolidated statements of financial position amounting to ₱67.0 million as at March 31, 2018 and 2017. Nontrade payable amounting to ₱28.7 million was paid in 2016.

STI WNU owns and operates STI West Negros University in Bacolod City. It offers elementary, secondary and tertiary education and graduate courses.

On December 9, 2015, the SEC approved the amendment of STI WNU’s Articles of Incorporation allowing STI WNU to provide maritime training services that will offer and conduct training required by the Maritime Industry Authority (“MARINA”) for officers and crew on board Philippines and/or foreign registered ships operating in the Philippines and/or international waters.

d. Attenborough Holdings Corp. (“AHC”)

AHC is a holding company which is a party to the Joint Venture Agreement and Shareholders’ Agreement among the Parent Company, Philippine Women’s University (“PWU”) and Unlad Resources Development Corporation (“Unlad”). Under the Agreements, AHC is set to own up to 20% of Unlad. AHC is also a party to the Omnibus Agreement it executed with the Parent Company and Unlad (see Note 33).

Since February 2015, STI Holdings owns 100% of AHC.

On March 1, 2016, AHC executed a Deed of Assignment wherein AHC assigned to STI Holdings its loan to Unlad, including capitalized foreclosure expenses, amounting to ₱66.7 million for a cash consideration of ₱73.8 million (see Note 33).

e. Information and Communications Technology Academy, Inc. (“iACADEMY”)

iACADEMY is a premier school that specializes in course offerings in animation, multimedia arts and design, fashion design and technology, software engineering and game programming and design. It also offers Senior High School. It started in 2002 as a wholly-owned subsidiary of STI ESG until its acquisition by STI Holdings in September 2016. The school is located at iACADEMY Plaza in Makati, with top-of-the-line multimedia arts laboratories and computer suites.

On September 27, 2016, the Parent Company purchased 100 million iACADEMY shares or 100% of iACADEMY’s issued and outstanding capital stock from STI ESG for a purchase price of ₱113.5 million. The Parent Company, also subscribed to 100 million out of the 400 million increase in the authorized capital stock of iACADEMY, which was approved by the SEC on November 9, 2016, at an aggregate subscription price of ₱100 million (see Note 3). As at March 31, 2018 and 2017, iACADEMY is a wholly-owned subsidiary of the Parent Company.

On October 19, 2016, iACADEMY signed a Licensing Agreement to Offer a Graduate Business Program with DePaul University (“DePaul”) of Chicago, Illinois, United States of America. The agreement is in accordance with the CHED’s approval for iACADEMY to operate as a Transnational Education provider for the Master in Business Administration program in partnership with DePaul as the degree granting institution.

The Government Authority (“GA”) is valid up to April 26, 2018, and shall be subject to revocation if iACADEMY fails to operate in accordance with the laws of the Republic of the Philippines and/or fails to maintain the prescribed standards of instruction and/or fails to comply with the rules and regulations pertaining to the organization, administration and supervision of private/public HEIs in the Philippines. This GA applies only to the iACADEMY Plaza campus. iACADEMY has already requested CHED for the extension of the GA. As at July 12, 2018, iACADEMY has not received any response from CHED on this matter.

On September 7, 2017, the Board of Governors (“BOG”) of iACADEMY approved the merger of iACADEMY and Neschester, with iACADEMY as the surviving entity. The stockholders of both companies confirmed, ratified and approved the merger on the same date. The Plan of Merger between iACADEMY and Neschester was filed with the SEC on January 24, 2018 and was approved on April 10, 2018. In addition, on September 7, 2017, the Stockholders and BOG of iACADEMY also approved the increase in authorized capital stock from ₱500.0 million to ₱1.0 billion. The increase in authorized capital stock was likewise approved by SEC on April 10, 2018. On May 11, 2018, iACADEMY issued 494,896,693 shares to STI Holdings in exchange for the net assets of Neschester as a result of the merger.

f. Neschester Corporation (“Neschester”)

Neschester was incorporated on December 10, 2007 primarily to own, use, improve, develop, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartment and other structures.

On August 2, 2016, STI Holdings subscribed to all of the unissued authorized capital stock of Neschester totaling to 670,000 common shares of stock of Neschester at a subscription price of ₱200.0 million. STI Holdings also purchased all of the issued shares of Neschester owned by the former stockholders of Neschester totaling 550,000 common shares at an aggregate purchase price of ₱173.2 million. As a result, Neschester became a wholly-owned subsidiary of STI Holdings (see Note 3).

The major asset of Neschester is a parcel of land in Makati City, which is the site of iACADEMY’s Yakal campus (See Note 11).

The establishment, operation, administration and management of schools are subject to the existing laws, rules and regulations, policies, and standards of the DepEd, Technical Education and Skills Development Authority (“TESDA”) and the CHED pursuant to Batas Pambansa Bilang 232, otherwise known as the “Education Act of 1982,” Republic Act (“RA”) No. 7796, otherwise known as the “TESDA Act of 1994,” and RA No. 7722, otherwise known as the “Higher Education Act of 1994,” respectively.

The accompanying consolidated financial statements were approved and authorized for issue by the Executive Committee, as authorized by BOD and the Audit Committee of STI Holdings, on July 12, 2018.

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## 2. Basis of Preparation and Summary of the Group's Significant Accounting Policies

### Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for quoted available-for-sale ("AFS") financial assets which are measured at fair value, certain inventories which have been measured at net realizable value, certain investments in associates and joint ventures which have been measured at recoverable amount and refundable deposits which are measured at amortized cost. The consolidated financial statements are presented in Philippine peso (₱), which is the Parent Company's functional and presentation currency, and all values are rounded to the nearest peso, except when otherwise indicated.

### Statement of Compliance

The accompanying consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Philippines which includes all applicable Philippine Financial Reporting Standards ("PFRSs") and accounting standards set forth in Pre-Need Rule 31, As Amended: Accounting Standards for Pre-Need Plans and Pre-Need Uniform Chart of Accounts, otherwise known as PNUCA, as required by the SEC for PhilPlans First, Inc. ("PhilPlans"). PhilPlans is a pre-need company and is a wholly-owned subsidiary of Maestro Holdings, Inc. ("Maestro Holdings", formerly known as STI Investments, Inc.), an associate of STI ESG.

PFRSs include Philippine Accounting Standards ("PAS") and Philippine Interpretations based on equivalent interpretations from the International Financial Reporting Interpretations Committee ("IFRIC") adopted by the Philippine Financial Reporting Standards Council ("FRSC").

### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the new pronouncements that became effective beginning on or after April 1, 2017. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

As of March 31, 2018, the Group classified its investment in Maestro Holdings, an associate, as held for sale. As required by the amendments to PFRS 12, the Group continues to apply the disclosure requirements of PFRS 12, other than the summarized financial information, in Note 13.

- Amendments to Philippine Accounting Standards ("PAS") 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Group has provided the required information in Note 36 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended March 31, 2017.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied the amendments retrospectively. However, the application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

#### Standards Issued but Not Yet Effective

Pronouncements that are issued, but not yet effective as at March 31, 2018 are listed below. The Group intends to adopt these standards when they become effective. Unless otherwise indicated, the adoption of these pronouncements are not expected to have any significant impact on the consolidated financial statements.

#### *Effective in fiscal year 2019*

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.



The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Group is currently assessing the impact of adopting PFRS 15.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

For the fiscal year ended March 31, 2018, the Group performed its initial impact assessment of all three phases of PFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information becoming available to the Group when it adopts PFRS 9 in fiscal year ending March 31, 2019.

(a) Classification and measurement

Trade and other receivables are held to collect contractual cash flows and thus qualify for amortized cost measurement.

Investments in unquoted equity shares currently carried at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Group intends to apply the option to present fair value changes for these investments in OCI. The Group is in the process of determining how to measure the fair value of these unquoted investments.

Quoted equity shares currently held as AFS are expected to be measured at fair value through profit or loss, which will increase volatility in profit or loss.

(b) Impairment

PFRS 9 requires the Group to record expected credit losses on all of its debt financial assets. The Group plans to apply the simplified approach and to record lifetime expected losses on all trade receivables that do not contain significant financing component. For the Group's debt securities and other receivables that will be measured at amortized cost or at fair value through other comprehensive income ("FVOCI"), the general approach for measuring expected credit losses is required to be applied. Thus, credit losses for these financial assets will be measured either on 12-month or lifetime basis depending on the extent of the deterioration of their credit quality. The Group is currently quantifying the impact of the change in measuring credit losses.

(c) Hedge accounting

The hedging requirements of PFRS 9 will not have a significant impact on the Group's consolidated financial statements since the Group does not have existing hedge relationship.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss ("FVPL"). They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or nonmonetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance

consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

*Effective in fiscal year 2020*

▪ Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Group is currently assessing the impact of adopting the amendments to PFRS 9.

▪ PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of “low-value” assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today’s accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs.

The Group is currently assessing the impact of PFRS 16.

▪ Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

▪ Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

*Deferred effectivity*

▪ Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the FRSC deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group has not early adopted the previously mentioned pronouncements. The Group continues to assess the impact of the above new pronouncements effective subsequent to March 31, 2018 on its consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Parent Company controls an investee, if and only if, the Parent Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

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
- The Parent Company's voting rights and potential voting rights

The consolidated financial statements include the accounts of STI College of Kalookan, Inc. ("STI Caloocan") as at March 31, 2018 and 2017 and STI Diamond College, Inc. ("STI Diamond") for the five-month period ended August 31, 2016. Both STI Caloocan and STI Diamond are non-stock corporations and controlled by STI ESG by virtue of management contracts. STI Diamond was deconsolidated in September 2016.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the unrealized other comprehensive income deferred in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

The subsidiaries of STI Holdings, which are all incorporated in the Philippines, are as follows:

Subsidiaries	Principal Activities	Effective Percentage of Ownership					
		2018		2017		2016	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
STI ESG	Educational Institution	99	–	99	–	99	–
STI WNU	Educational Institution	99	–	99	–	99	–
AHC	Holding Company	100	–	100	–	100	–
Neschester Corporation	Real Estate	100	–	100	–	–	–
iACADEMY	Educational Institution	100	–	100	–	–	99
STI College Tuguegarao, Inc. (“STI Tuguegarao”)	Educational Institution	–	99	–	99	–	99
STI Caloocan <sup>(a)</sup>	Educational Institution	–	99	–	99	–	99
STI College Batangas, Inc. (“STI Batangas”)	Educational Institution	–	99	–	99	–	99
STI College Iloilo, Inc. (“STI Iloilo”)	Educational Institution	–	99	–	99	–	99
STI College Tanauan, Inc. (“STI Tanauan”)	Educational Institution	–	99	–	99	–	99
STI Lipa, Inc. (“STI Lipa”)	Educational Institution	–	99	–	99	–	99
STI College Pagadian, Inc. (“STI Pagadian”)	Educational Institution	–	99	–	99	–	99
STI College Novaliches, Inc. (“STI Novaliches”)	Educational Institution	–	99	–	99	–	99
STI College of Santa Maria <sup>(b)</sup>	Educational Institution	–	99	–	–	–	–
De Los Santos-STI College <sup>(c)</sup>	Educational Institution	–	51	–	51	–	51
STI Dagupan <sup>(d)</sup>	Educational Institution	–	–	–	99	–	99
STI Taft <sup>(d)</sup>	Educational Institution	–	–	–	99	–	74
STI College Quezon Avenue, Inc. (“STI QA”) <sup>(e)</sup>	Educational Institution	–	51	–	51	–	51
STI Diamond <sup>(f)</sup>	Educational Institution	–	–	–	–	–	99

<sup>(a)</sup> A subsidiary of STI ESG through a management contract (See Note 5)

<sup>(b)</sup> A subsidiary starting April 2017.

<sup>(c)</sup> On June 28, 2016, De Los Santos-STI College wrote the CHED advising the latter of the suspension of its operations for school years 2016-2017 and 2017-2018 as a result of the implementation of the Government’s K to 12 program. In the same letter, De Los Santos-STI College requested that it be allowed to keep all of its existing permits and licenses for its academic programs. It also mentioned that the grant of such request would allow De Los Santos-STI College to immediately resume offering its academic programs to incoming freshmen students for its planned resumption of operation in SY 2018-2019. These academic programs are: BS Nursing, BS Radiologic Technology, BS Psychology, BS Physical Therapy, BS Hotel and Restaurant Management and BS Tourism. CHED, in a letter reply dated July 1, 2016, said that De Los Santos-STI College shall apply again for initial permits if it intends to offer the said programs in SY 2018-2019. De Los Santos-STI College shall request CHED for a reconsideration.

<sup>(d)</sup> The SEC approved the merger of STI Taft and STI Dagupan with STI ESG, with STI ESG as the surviving entity on August 30, 2017 (see Note 20).

<sup>(e)</sup> A wholly-owned subsidiary of De Los Santos-STI College

<sup>(f)</sup> Ceased to be a subsidiary in September 2016 (see Notes 19 and 20)

**Accounting Policies of Subsidiaries.** The separate financial statements of subsidiaries are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries as at March 31 of each year, except for the accounts of STI Tuguegarao, STI Diamond (consolidated until August 2016), STI Caloocan, STI Iloilo and Neschester Corporation, whose financial reporting dates end on December 31. Adjustments are made for the effects of significant transactions or events that occur between the financial reporting date of the above-mentioned subsidiaries and the financial reporting date of the Group’s consolidated financial statements.

**Non-Controlling Interests.** Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Parent Company and are presented in the profit or loss and within equity in the consolidated statements of financial position, separately from equity attributable to equity holders of the Parent Company.

On transactions with non-controlling interests without loss of control, the difference between the fair value of the consideration and the book value of the share in the net assets acquired or disposed is treated as an equity transaction and is presented as part of “Other equity reserve” within equity section in the consolidated statements of financial position.

#### Business Combination Involving Entities under Common Control

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory (“business combinations under common control”), the Group may account such business combinations under the acquisition method of accounting or pooling of interests

method, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the non-controlling interest, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value of the consideration received, is also accounted for as an equity transaction. The Group records the difference as excess of consideration over carrying amount of disposed subsidiary and presents as separate component of equity in the combined consolidated statement of financial position.

Comparatives shall be restated to include balances and transactions of the entities that had been acquired at the beginning of the earliest period presented as if the companies had always been combined.

#### Business Combination 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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 is measured at fair value with changes in fair value recognized either in either profit or loss. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities measured at acquisition date. If the cost of acquisition is less than the fair value of the net assets of the acquiree, the difference is recognized directly in profit or loss. If the initial accounting for business combination can be determined only provisionally by the end of the period by which the combination is effected because either the fair value 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 for the combination using provisional values. Adjustment to these provisional values as a result of completing the initial accounting shall be made within 12 months from the acquisition date. The carrying amount of an identifiable asset, liability, or

contingent liability that is recognized from that date and goodwill or any gain recognized shall be adjusted from the acquisition date by the 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 ("CGU") 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 has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

#### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification. An asset is current when:

- It is expected to be realized or intended to be sold or consumed in the normal operating cycle
- It is held primarily for the purpose of trading
- It is expected to be realized within twelve months after the reporting period, or
- It is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

#### Fair Value Measurement

The Group measures financial instruments such as AFS financial assets at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in the notes to the consolidated financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.



The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Management determines the policies and procedures for both recurring fair value measurement and non-recurring measurement.

External valuers are involved for valuation of significant assets, such as investment property. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

Management, in conjunction with the Group's external valuers, also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of up to three months or less from date of acquisition and are subject to an insignificant risk of change in value.

### Financial Instruments - Initial Recognition and Subsequent Measurement

*Date of Recognition.* The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

*Initial Recognition of Financial Instruments.* Financial instruments are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

*Day 1 Difference.* Where the transaction price in a non-active market is different from the fair value from other observable current market transactions of the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in the profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the 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 amount.

*Classification of Financial Instruments.* A financial instrument is classified as liability if it provided for a contractual obligation to: (a) deliver cash or another financial asset to another entity; or (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or (c) satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own shares. If the Group does not have the unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. Financial assets are categorized as either financial assets at FVPL, held-to-maturity ("HTM") investments, loans and receivables or AFS financial assets. Financial liabilities, on the other hand, are categorized as financial liabilities at FVPL and other financial liabilities. The Group determines the classification at initial recognition and re-evaluates this designation at every reporting date, where appropriate. The Group has no financial instruments at FVPL and HTM investments.

#### a. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is recognized as "Interest income" in profit or loss. Losses arising from impairment are recognized as provision for impairment loss on receivables in profit or loss.

Loans and receivables are included in current assets when the Group expects to realize or collect the assets within 12 months from the financial reporting date. Otherwise, these are classified as noncurrent assets.

The Group's cash and cash equivalents, receivables, advances to associates and joint ventures (included under the "Investments in and advances to associates and joint ventures" account) and deposits (included under the "Prepaid expenses and other current assets" and under "Goodwill, intangible and other noncurrent assets" accounts) are classified in this category.

b. AFS Financial Assets

AFS financial assets are those non-derivative financial assets that are not classified as at FVPL, loans and receivables or HTM investments. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses being recognized under "Unrealized mark-to-market gain (loss) on available-for-sale financial assets" account in other comprehensive income until these are derecognized. When the investment is disposed of, the cumulative gain or loss previously recorded under "Unrealized mark-to-market gain on available-for-sale financial assets" account under equity is recycled to profit or loss. Interest earned on the investments is reported as interest income using the effective interest rate method. Dividends earned on investments are recognized in profit or loss when the right to receive payment has been established. AFS financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from financial reporting date.

The fair value of AFS financial assets consisting of any investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the financial reporting date.

The Group's investments in club and ordinary shares are classified in this category.

Unlisted investments in shares of stock, for which no quoted market prices and no other reliable sources of their fair values are available, are carried at cost.

c. Other Financial Liabilities

Other financial liabilities at amortized cost pertain to issued financial instruments or their components that are not classified or designated at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder as to settle 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. The financial instruments are classified as current if they are expected to be settled or disposed of within 12 months from financial reporting date. Otherwise, these are classified as noncurrent.

These include liabilities arising from operations such as accounts payable and other current liabilities (excluding government and other statutory liabilities), nontrade payable, bonds payable, interest-bearing loans and borrowings, obligations under finance lease, and other noncurrent liabilities (excluding advance rent).

Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective

evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial Assets Carried at Amortized Cost.* The Group first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral, if any, have been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type and past due status.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss for assets with credit risk characteristics similar to those in the group. Historical loss is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any difference between loss estimates and actual loss experience.

*Quoted AFS Financial Assets.* In the case of equity investments classified as AFS financial assets, an objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is to be evaluated against the original cost of the

investment and “prolonged” against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income under “Unrealized mark-to-market gain on available-for-sale financial assets” account, is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed in profit or loss; increases in fair value after impairment are recognized directly in other comprehensive income.

*Unquoted AFS Financial Assets.* If there is objective evidence that an impairment loss has been incurred in an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

#### Derecognition of Financial Assets and Liabilities

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

- a. the Group’s rights to receive cash flows from the asset have expired;
- b. 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
- c. the Group has transferred its right to receive cash flows from the asset and either  
(a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards 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.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or 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 is 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. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default and event of insolvency or bankruptcy of the Group and all of the counterparties.

#### Inventories

Inventories are valued at the lower of cost and net realizable value (“NRV”). Cost is determined using the weighted average method. The NRV of educational materials is the selling price in the ordinary course of business, less estimated costs necessary to make the sale. The NRV of promotional and school materials and supplies is the current replacement cost.

#### Prepaid Expenses

Prepaid expenses are carried at cost and are amortized on a straight-line basis over the period of expected usage, which is equal to or less than 12 months or within the normal operating cycle.

#### Input Value-added Taxes (“VAT”)

Input VAT represents VAT imposed on the Group by its suppliers for the acquisition of goods and services required under Philippine taxation laws and regulations. The portion of excess input VAT over output VAT is presented as part of “Prepaid taxes” under the “Prepaid expenses and other current assets” account in the consolidated statement of financial position. Input VAT is stated at its estimated NRV.

#### Creditable Withholding Taxes (“CWT”)

CWT represents the amount of tax withheld by counterparties from the Group. These are recognized upon collection and are utilized as tax credits against income tax due as allowed by the Philippine taxation laws and regulations. CWT is presented as part of “Prepaid taxes” under the “Prepaid expenses and other current assets” account in the consolidated statement of financial position. CWT is stated at its estimated NRV.

#### Noncurrent Asset Held for Sale

The Group classifies a noncurrent asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such noncurrent asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale.

The criteria for held for sale classification are regarded as met only when the asset is available for immediate sale in its present condition and the sale is highly probable. Management must be committed to a plan to sell, which is expected to be completed within one year from the date of the classification, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. Actions required to complete the plan to sell should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Equity method of accounting for investment in shares of an associate ceases upon classification of the investment as a noncurrent asset held for sale. Noncurrent asset held for sale is presented separately as part of current assets in the consolidated statement of financial position.

#### Property and Equipment

Property and equipment, except land, are stated at cost less accumulated depreciation, amortization and any impairment in value, excluding the costs of day-to-day servicing. The initial cost of property and equipment comprises its construction cost or purchase price and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred and the recognition criteria are met. Land is stated at cost less any impairment in value.

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

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Buildings	20 to 25 years
Office and school equipment	3 to 5 years
Office furniture and fixtures	3 to 5 years
Leasehold improvements	5 years or terms of the lease agreement, whichever is shorter
Transportation equipment	3 to 5 years or terms of the lease agreement, whichever is shorter
Computer equipment and peripherals	3 years
Library holdings	5 years
Machineries and equipment	10 years

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is charged to current operations.

Construction in-progress represents structures under construction and is stated at cost less any impairment in value. This includes cost of construction and other direct costs, including any interest on borrowed funds during the construction period. Construction in-progress is not depreciated until the relevant assets are completed and become available for operational use.

#### Investment Properties

Investment properties include land and buildings held by the Group for capital appreciation and rental purposes. Buildings are carried at cost less accumulated depreciation and any impairment in value, while land is carried at cost. The carrying amount includes the cost of constructing a significant portion of an existing investment property if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Depreciation of buildings is computed on a straight-line basis over 20–25 years. The asset's useful life and method of depreciation are reviewed and adjusted, if appropriate, at each financial year-end.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for its intended use or sale. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the year less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalizable rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to all borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during the year shall not exceed the amount of borrowing costs incurred during that year.

Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred in the year in which they occur.

#### Asset Acquisition

When property is acquired, through corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business.

When such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

#### Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group has interests in Philippine Healthcare Educators, Inc. ("PHEI") and STI-PHNS Outsourcing Corporation ("STI-PHNS"), both joint ventures. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.



The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's interests in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial reporting dates of the associates, joint ventures and the Parent Company are identical, except for Synergia Human Capital Solutions, Inc. ("Synergia"), Global Resource for Outsourced Workers, Inc. ("GROW") and Maestro Holdings which have December 31 as financial reporting date, and the associates' and joint ventures' accounting policies conform to those used by the Group for like transactions and events in similar circumstances. Adjustments are made for the Group's share in the effects of significant transactions or events that occur between the financial reporting date of the above-mentioned associates and joint ventures and the financial reporting date of the Group's consolidated financial statements.

After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss on its investment in associates and joint ventures. The Group determines at each financial reporting date whether there is any objective evidence that the investment in associates and joint ventures is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and joint venture and its carrying value and recognizes the amount in profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The associates of STI ESG, which are all incorporated in the Philippines, and STI ESG's effective interest are as follows:

Associate	Principal Activities	Effective Percentage of Ownership					
		2018		2017		2016	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
Accent Healthcare/STI-Banawe, Inc. ("STI Accent") <sup>(a)</sup>	Medical and related services	49	–	49	–	49	–
STI College Alabang, Inc. ("STI Alabang")	Educational Institution	40	–	40	–	40	–
Synergia <sup>(a)</sup>	Management Consulting Services	30	–	30	–	30	–
STI Marikina	Educational Institution	24	–	24	–	24	–
Maestro Holdings <sup>(b)</sup>	Holding Company	20	–	20	–	20	–
GROW	Recruitment Agency	17	2	17	2	17	2
STI Holdings	Holding Company	5	–	5	–	5	–

<sup>(a)</sup>Dormant entities

<sup>(b)</sup>Reclassified as asset held for sale in June 2017

### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization in the case of intangible assets with finite lives, and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. 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. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The Group has assessed the intangible assets as having a finite useful life, which is the shorter of its contractual term or economic life. Amortization is on a straight-line basis over the estimated useful lives of 3 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 values of investments in and advances to associates and joint ventures, property and equipment, investment properties, intangible assets and advances to suppliers are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded securities or other available fair value indicators.

Impairment losses are recognized in the consolidated statements of comprehensive income in those expense categories consistent with the function of the impaired asset, except for assets previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognized in equity up to the amount of any previous revaluation.

For nonfinancial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

*Goodwill.* Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGUs, to which goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which the goodwill has been allocated, an impairment loss is recognized in the consolidated statement of comprehensive income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill as at March 31 of each year.

#### Unearned Tuition and Other School Fees

Fees pertaining to the school year commencing after the financial reporting date are recorded under "Unearned tuition and other school fees" in the consolidated statement of financial position. Unearned tuition and other school fees are amortized over the related school term.

#### Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects a provision to be reimbursed, such as under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flow at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

#### Capital Stock and Additional Paid-in Capital

Common stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of consideration received in excess of par value are recognized as additional paid-in capital.

#### Cost of Shares Held by a Subsidiary

Cost of shares held by a subsidiary is accounted for similar to treasury shares which are recorded at cost. Own equity instruments which are reacquired are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or the cancellation of the Group's own equity instruments.

#### Retained Earnings and Dividend on Common Stock of the Parent Company

The amount included in retained earnings includes profit attributable to the Parent Company's equity holders and reduced by dividends on capital stocks. Dividends on capital stock are recognized as liability and deducted from equity when approved by the BOD of the Parent Company. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting period.

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

EPS is computed by dividing income attributed to equity holders of the Parent Company for the year by the weighted average number of shares issued and outstanding after giving retroactive effect to any stock split and stock dividend declaration, if any.

Diluted EPS is calculated by dividing the net income attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive convertible common shares.

#### Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably. The Group assesses whether it is acting as a principal or an agent in every revenue arrangements. It is acting as a principal when it has the primary responsibility for providing the goods or services. The Group also acts as a principal when it has the discretion in establishing the prices and bears inventory and credit risk. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and value-added tax.

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

*Tuition and Other School Fees.* Revenue from tuition and other school fees is recognized as income over the corresponding school term to which they pertain. Fees received pertaining to the school year commencing after the financial reporting date are recorded under the “Unearned tuition and other school fees” account in the consolidated statement of financial position. Unearned tuition and other school fees are amortized over the related school term.

*Educational Services.* Revenue is recognized as services are rendered.

*Royalty Fees.* Revenue from royalty fees is recognized on an accrual basis in accordance with the terms of the licensing agreements.

*Management Fees.* Revenue is recognized when services are rendered (included as part of “Other revenues” account in the consolidated statement of comprehensive income).

*Sale of Educational Materials and Supplies.* Revenue is recognized at the time of sale when significant risks and rewards of ownership have been transferred.

*Excess of consideration received from collection of receivables.* Excess of consideration received from collection of receivables is recognized when the consideration has been transferred.

*Rental Income.* Rental income is recognized on a straight-line basis over the term of the lease agreement.

*Interest Income.* Interest income is recognized as the interest accrues considering the effective yield on the asset.

*Dividend Income.* Revenue is recognized when the Group’s right to receive the payment is established.

Costs and Expenses

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

Pension Costs

The Group has the following pension plans (“Plan”) covering substantially all of its regular and permanent employees:

<u>Entity</u>	<u>Type of Plan</u>
STI ESG	Funded, noncontributory defined benefit plan
STI WNU	Funded, noncontributory defined benefit plan
iACADEMY	Unfunded, noncontributory defined benefit plan
Indirect Subsidiaries (except De Los Santos - STI College and STI QA)	Unfunded, noncontributory defined benefit plan
De Los Santos-STI College and STI QA	Funded, defined contribution plan

The pension expense and the liability recognized by iACADEMY were computed using assumptions and methods that are consistent with PAS 19.

*Defined Benefit Plans.* The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

*Defined Contribution Plan.* De Los Santos-STI College and STI QA are members of the Catholic Educational Association of the Philippines Retirement Plan ("CEAP"). CEAP is a funded, noncontributory, defined contribution plan covering De Los Santos-STI College's and STI QA's qualified employees under which De Los Santos-STI College and STI QA pay fixed contributions based on the employees' monthly salaries. De Los Santos-STI College and STI QA, however, are covered under Republic Act No. 7641, the Philippine Retirement Law, which provides for its qualified employees a defined benefit ("DB") minimum guarantee. The DB minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641.

Accordingly, De Los Santos-STI College and STI QA accounts for their retirement obligations under the higher of the DB obligation relating to the minimum guarantee and the obligation arising from the defined contribution (“DC”) plan. For the DB minimum guarantee plan, the liability is determined based on the present value of the excess of the projected DB obligation over the projected DC obligation at the end of the reporting period. The DB obligation is calculated annually by a qualified independent actuary using the projected unit credit method. De Los Santos - STI College and STI QA determine the net interest expense (income) on the net DB liability (asset) for the period by applying the discount rate used to measure the DB obligation at the beginning of the annual period to the then net DB liability (asset), taking into account any changes in the net DB liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the DB plan are recognized in profit or loss.

The DC liability, on the other hand, is measured at the fair value of the DC assets upon which the DC benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the DC benefits. Remeasurements of the net DB liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

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. De Los Santos-STI College and STI QA recognize gains or losses on the settlement of a DB plan when the settlement occurs.

#### Leases

The determination whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset.

*Group as a Lessee.* Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against profit or loss.

Capitalized leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term.

*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 over the lease term on the same basis as rental income.

## Taxes

*Current Tax.* Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the financial reporting date.

*Deferred Tax.* Deferred tax is provided using the liability method on temporary differences at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or 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 income nor taxable income or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefit of net operating loss carryover (“NOLCO”), unused tax credits from excess minimum corporate income tax (“MCIT”) over regular corporate income tax (“RCIT”), and to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits NOLCO and MCIT can be utilized, except:

- when the deferred tax asset relating to the deductible temporary difference 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 income nor taxable income or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the financial reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transactions either in OCI or directly in equity.

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



VAT. Revenue, expenses and assets are recognized net of the amount of VAT, except:

- when the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; or
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the “Prepaid expenses and other current assets” or “Accounts payable and other current liabilities” accounts in the consolidated statement of financial position.

#### Operating Segment

For management purposes, the Group is organized into business units based on the geographical location of the students and assets. Financial information about operating segments is presented in Note 4.

#### Contingencies

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. A contingent asset is not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

#### Events after the Reporting Period

Post year-end events that provide additional information about the Group’s financial position at the financial reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

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### **3. Acquisitions and Business Combinations**

#### 2018

On May 23, 2017, STI Sta. Maria entered into a Deed of Assignment with Halili Reyes Educational Institution, Inc. (“HREI”) where HREI assigned, transferred and conveyed in a manner absolute and irrevocable, and free and clear of all liens and encumbrances, to STI Sta. Maria all its rights, title and interest in the acquired school’s assets and liabilities for a price of ₱20.0 million. The assignment of the net assets shall retroact to April 1, 2017. Consequently, the ₱18.0 million initial deposit made, which was previously recognized under “Deposits for asset acquisitions” in Note 16, was applied to the purchase price and the STI ESG paid the remaining balance of ₱2.0 million in 2018.

The purchase price consideration has been allocated to the assets and liabilities based on the fair values at the date of acquisition resulting in goodwill amounting to ₱1.8 million. The carrying values of the financial assets and liabilities and other assets recognized at the date of acquisition approximate their fair values due to the short-term nature of the transactions.

The following are the identifiable assets and liabilities as of the date of acquisition:

<i>Assets</i>	
Cash and cash equivalents	₱7,828,110
Receivables	8,483,088
Inventories	674,354
Prepaid expenses	2,356,576
Property and equipment-net	1,529,891
	<hr/>
	20,872,019
<i>Liabilities</i>	
Accounts payable and other current liabilities	2,648,715
Total identifiable net assets at fair value	18,223,304
Purchase consideration transferred	20,000,000
	<hr/>
Goodwill	₱1,776,696
	<hr/>

Analysis of cash flow on acquisition is as follows:

Cash paid during the year	(₱2,000,000)
Cash acquired from the subsidiary	7,828,110
	<hr/>
Net cash inflow on acquisition	₱5,828,110
	<hr/>

## 2017

*Neschester.* As discussed in Note 1, on August 2, 2016, the Parent Company subscribed to all of the unissued authorized capital stock of Neschester totaling to 670,000 common shares of stock of Neschester at a subscription price of ₱200.0 million. The Parent Company also purchased all of the issued shares of Neschester from the former stockholders of Neschester totaling 550,000 common shares at an aggregate purchase price of ₱173.2 million. As a result, the Parent Company owns 100% of the issued, outstanding and authorized capital stock of Neschester effective March 31, 2017.

Neschester has no operations and its major asset is a parcel of land in Makati City which is now the site of iACADEMY's Yakal campus. The acquisition of Neschester was accounted for as an asset acquisition (see Note 4). The allocated acquisition cost of the land, recognized under "Property and equipment" account amounted to ₱359.5 million (see Note 11).

*iACADEMY.* On September 27, 2016, the Parent Company entered into a deed of sale with STI ESG wherein the Parent Company acquired from STI ESG 100% ownership in iACADEMY. As a result, iACADEMY became a direct wholly-owned subsidiary of the Parent Company. The Parent Company's acquisition of iACADEMY is accounted for as a business combination under common control and management opted to use the pooling of interests method. The carrying value of non-controlling interests in iACADEMY amounting to ₱1.7 million was reallocated to equity attributable to the equity holders of the Parent Company and recorded as part of "other equity reserve".

*STI Taft.* On December 1, 2015, the BOD of STI Taft approved the application for an increase in authorized capital stock from 5,000 shares to 750,000 shares with ₱100 par value per share. On the same date, the BOD of STI Taft approved the conversion of STI Taft's advances from STI ESG amounting to ₱49.0 million to deposit for future stock subscriptions. On April 4, 2016, the SEC approved STI Taft's increase in authorized capital stock to ₱75.0 million. Consequently, the deposit for future stock subscriptions was reclassified as part of the investment cost. As at September 30, 2016, STI Taft became a 99.9%-owned subsidiary of STI ESG. This transaction resulted in the dilution of the non-controlling interest and an equity adjustment of ₱11.3 million for the year ended March 31, 2017.

On August 30, 2017, the SEC approved the application for merger of STI Taft with STI ESG, with STI ESG as the surviving entity. In December 2017, STI ESG subscribed to 5,287,836 of its own shares and issued a total of 4,446 shares to minority holders of with par value of ₱1.0 per share, in exchange for book value per share of ₱1.82 or an aggregate cost of ₱9.6 million.

#### 2016

*STI Dagupan.* On February 27, 2015, the BOD of STI Dagupan approved the application for an increase in authorized capital stock from ₱0.5 million to ₱35.0 million and the opening for subscription of 72,000 common shares with an aggregate par value of ₱7.2 million. Subsequently, STI ESG subscribed to 32,000 shares or an aggregate par value of ₱3.2 million. The BOD of STI Dagupan also approved the equity conversion of STI Dagupan's advances from STI ESG amounting to ₱19.8 million. This transaction resulted in the dilution of non-controlling interest and an equity adjustment of ₱4.8 million in 2016. STI ESG's ownership over STI Dagupan increased from 77% to 99.9% effective March 31, 2016.

On August 30, 2017, the SEC approved the application for merger of STI Dagupan with STI ESG, with STI ESG as the surviving entity. In December 2017, STI ESG subscribed to 664,437 of its own shares and issued a total of 865 shares to minority holders with par value of ₱1.0 per share, in exchange for book value per share of ₱1.82 or an aggregate cost of ₱1.2 million.

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#### 4. Segment Information

For management purposes, the Group is organized into business units based on the geographical location of the students and assets, and has five reportable segments as follows:

- a. Metro Manila
- b. Northern Luzon
- c. Southern Luzon
- d. Visayas
- e. Mindanao

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

On a consolidated basis, the Group's performance is evaluated based on net income for the year and EBITDA, defined as earnings before provision for income tax, interest expense, interest income, depreciation and amortization, equity in net earnings/losses of associates and joint ventures and nonrecurring gains/losses such as effect of derecognition of a subsidiary and excess of consideration received from collection of receivables.

The following table shows the reconciliation of the consolidated net income to consolidated EBITDA:

	2018	2017	2016
Consolidated net income (see Note 13)	<b>₱502,818,019</b>	₱558,422,515	₱883,053,012
Depreciation and amortization	<b>398,836,776</b>	375,621,499	358,130,553
Equity in net losses of associates and joint ventures (see Note 13)	<b>222,036,414</b>	244,097,915	154,635,023
Interest expense	<b>219,411,899</b>	79,245,342	63,223,407
Provision for income tax	<b>77,808,677</b>	99,271,359	226,652,511
Interest income	<b>(28,527,141)</b>	(4,907,330)	(5,785,710)
Effect of derecognition of a subsidiary	-	60,829,455	-
Excess of consideration received from collection of receivables	-	-	(553,448,521)
<b>Consolidated EBITDA</b>	<b>₱1,392,384,644</b>	<b>₱1,412,580,755</b>	<b>₱1,126,460,275</b>

#### Inter-Segment Transactions

Segment revenue, segment expenses and operating results include transfers among geographical segments. The transfers are accounted for at market prices charged to unrelated customers for similar services. Such transfers are eliminated upon consolidation.

Geographical Segment Data

The following tables present revenue and income information regarding geographical segments for the years ended March 31, 2018, 2017 and 2016:

	2018					Consolidated
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	
<b>Revenues</b>						
External revenue	₱1,881,164,072	₱137,130,546	₱682,081,346	₱ 294,336,309	₱87,958,673	₱3,082,670,946
<b>Results</b>						
Income before other income (expenses) and income tax	548,633,149	17,897,080	257,182,223	55,546,214	(4,910,736)	874,347,930
Equity in net losses of associates and joint ventures	(222,036,414)	—	—	—	—	(222,036,414)
Interest income	27,812,300	71,317	167,874	448,301	27,349	28,527,141
Interest expense	(210,981,377)	—	(9,164)	(8,421,358)	—	(219,411,899)
Other income	115,634,997	60,000	1,243,528	2,138,909	122,504	119,199,938
Provision for income tax	(73,170,026)	—	—	(4,638,651)	—	(77,808,677)
<b>Net Income (Loss)</b>	<b>₱185,892,629</b>	<b>₱18,028,397</b>	<b>₱258,584,461</b>	<b>₱45,073,415</b>	<b>(₱4,760,883)</b>	<b>₱502,818,019</b>
<b>EBITDA</b>						<b>₱1,392,384,644</b>

	2017					Consolidated
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	
<b>Revenues</b>						
External revenue	₱1,836,727,660	₱97,241,868	₱634,017,925	₱271,085,360	₱93,887,144	₱2,932,959,957
<b>Results</b>						
Income before other income and income tax	583,950,772	26,150,744	239,436,678	58,447,854	14,095,606	922,081,654
Equity in net losses of associates and joint ventures	(244,097,915)	—	—	—	—	(244,097,915)
Interest income	4,284,258	72,610	132,412	379,784	38,266	4,907,330
Interest expense	(67,593,217)	—	(24,993)	(11,627,132)	—	(79,245,342)
Effect of derecognition of a subsidiary	(60,829,455)	—	—	—	—	(60,829,455)
Other income	112,084,266	78,310	766,625	1,920,238	28,163	114,877,602
Provision for income tax	(95,740,613)	—	—	(3,530,746)	—	(99,271,359)
<b>Net Income</b>	<b>₱232,058,096</b>	<b>₱26,301,664</b>	<b>₱240,310,722</b>	<b>₱45,589,998</b>	<b>₱14,162,035</b>	<b>₱558,422,515</b>
<b>EBITDA</b>						<b>₱1,412,580,755</b>

2016

	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
<b>Revenues</b>						
External revenue	₱1,625,742,978	₱97,832,577	₱502,632,346	₱264,327,111	₱86,186,856	₱2,576,721,868
<b>Results</b>						
Income before other income and income tax	₱432,575,558	₱22,486,144	₱174,459,222	₱64,899,071	₱8,393,473	₱702,813,468
Equity in net losses of associates and joint ventures	(154,635,023)	-	-	-	-	(154,635,023)
Interest income	4,870,649	49,067	161,569	660,372	44,053	5,785,710
Interest expense	(49,946,774)	(2,700)	(405,822)	(12,868,111)	-	(63,223,407)
Excess of consideration received from collection of receivables	553,448,521	-	-	-	-	553,448,521
Other income	64,413,966	7,300	532,642	562,346	-	65,516,254
Provision for income tax	(221,828,928)	-	-	(4,823,583)	-	(226,652,511)
<b>Net Income</b>	<b>₱628,897,969</b>	<b>₱22,539,811</b>	<b>₱174,747,611</b>	<b>₱48,430,095</b>	<b>₱8,437,526</b>	<b>₱883,053,012</b>
<b>EBITDA</b>						<b>₱1,126,460,275</b>

The following tables present certain assets and liabilities information regarding geographical segments as at March 31, 2018 and 2017:

	March 31, 2018					
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
<b>Assets and Liabilities</b>						
Segment assets <sup>(a)</sup>	₱11,439,012,452	₱132,951,846	₱922,464,706	₱683,618,491	₱151,714,860	₱13,329,762,355
Noncurrent asset held for sale	716,586,558	-	-	-	-	716,586,558
Investments in and advances to associates and joint ventures	41,871,654	-	-	-	-	41,871,654
Pension assets - net	53,474,883	-	-	-	-	53,474,883
Goodwill	225,554,342	-	-	15,681,232	-	241,235,574
Deferred tax assets	24,899,250	916,408	345,862	6,693,489	42,971	32,897,980
<b>Total Assets</b>	<b>₱12,501,399,139</b>	<b>₱133,868,254</b>	<b>₱922,810,568</b>	<b>₱705,993,212</b>	<b>₱151,757,831</b>	<b>₱14,415,829,004</b>
Segment liabilities <sup>(b)</sup>	₱894,382,099	₱50,474,180	₱100,258,912	₱40,286,714	₱37,542,887	₱1,122,944,792
Interest-bearing loans and borrowings	1,056,608,112	-	-	182,000,000	-	1,238,608,112
Bonds payable	2,951,879,134	-	-	-	-	2,951,879,134
Pension liabilities - net	10,500,694	39,293	400,120	31,504,743	10,607	42,455,457
Obligations under finance lease	21,512,977	-	-	249,296	-	21,762,273
Deferred tax liabilities	235,730,783	-	-	-	-	235,730,783
<b>Total Liabilities</b>	<b>₱5,170,613,799</b>	<b>₱50,513,473</b>	<b>₱100,659,032</b>	<b>₱254,040,753</b>	<b>₱37,553,494</b>	<b>₱5,613,380,551</b>
<b>Other Segment Information</b>						
Capital expenditure -						
Property and equipment						₱1,906,079,177
Depreciation and amortization						398,836,776
Noncash expenses other than depreciation and amortization						101,270,162

<sup>(a)</sup> Segment assets exclude noncurrent asset held for sale, investments in and advances to associates and joint ventures, net pension assets, goodwill and deferred tax assets.

<sup>(b)</sup> Segment liabilities exclude interest-bearing loans and borrowings, bonds payable, net pension liabilities, obligations under finance lease and deferred tax liabilities.

March 31, 2017

	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
<b>Assets and Liabilities</b>						
Segment assets <sup>(a)</sup>	₱11,185,319,211	₱49,589,935	₱900,604,541	₱663,822,349	₱121,181,045	₱12,920,517,081
Investments in and advances to associates and joint ventures	856,701,443	—	—	—	—	856,701,443
Pension assets - net	2,763,398	—	—	—	—	2,763,398
Goodwill	223,777,646	—	—	15,681,232	—	239,458,878
Deferred tax assets - net	24,649,787	316,278	342,397	7,512,232	55,047	32,875,741
<b>Total Assets</b>	<b>₱12,293,211,485</b>	<b>₱49,906,213</b>	<b>₱900,946,938</b>	<b>₱687,015,813</b>	<b>₱121,236,092</b>	<b>₱14,052,316,541</b>
Segment liabilities <sup>(b)</sup>	₱648,983,384	₱17,560,937	₱42,558,090	₱33,767,650	₱23,483,285	₱766,353,346
Interest-bearing loans and borrowings	1,520,200,000	—	—	209,000,000	—	1,729,200,000
Bonds payable	2,947,028,638	—	—	—	—	2,947,028,638
Pension liabilities - net	10,143,720	666,374	429,565	36,811,729	40,833	48,092,221
Obligations under finance lease	12,222,083	—	172,021	445,278	—	12,839,382
Deferred tax liabilities - net	236,505,372	—	—	—	—	236,505,372
<b>Total Liabilities</b>	<b>₱5,375,083,197</b>	<b>₱18,227,311</b>	<b>₱43,159,676</b>	<b>₱280,024,657</b>	<b>₱23,524,118</b>	<b>₱5,740,018,959</b>
<b>Other Segment Information</b>						
Capital expenditure -						
Property and equipment						₱1,599,419,108
Depreciation and amortization						375,621,499
Noncash expenses other than depreciation and amortization						89,864,801

<sup>(a)</sup> Segment assets exclude investments in and advances to associates and joint ventures, goodwill and net deferred tax assets.

<sup>(b)</sup> Segment liabilities exclude interest-bearing loans and borrowings, net pension liabilities, obligations under finance lease and net deferred tax liabilities.

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## 5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. The estimates used are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements, giving due consideration to materiality. Actual results could differ from such estimates.

The Group believes the following represents a summary of these significant judgments, estimates and assumptions and related impact and associated risks in its consolidated financial statements.

### Judgments

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

*Determination of Control Arising from a Management Contract.* STI ESG has management contracts with STI Diamond and STI Caloocan. Management has concluded that STI ESG in substance has the power to direct the relevant activities and has the means to obtain majority of the benefits of STI Diamond and STI Caloocan, both non-stock corporations, through the management contracts. Management has assessed that it has control over STI Diamond and STI Caloocan and accordingly, consolidates the two entities effective from the date control was obtained.

In August 2016, the management contract between STI ESG and STI Diamond was terminated. Any rights to the residual interest in STI Diamond were transferred to an entity outside of the Group resulting in the deconsolidation of STI Diamond (see Note 20).

*Asset Acquisitions.* In February 2015 and August 2016, the Parent Company acquired the remaining 60% ownership in AHC and 100% ownership in Neschester, respectively, making these entities wholly-owned subsidiaries of the Parent Company. Since these entities have no operations, management considered the substance of the assets and activities of the acquired entities and assessed that the acquisition of these subsidiaries does not represent a business, but rather an acquisition of the assets, the primary assets of the subsidiaries at the date of acquisition (see Note 3). The cost of the acquisition is allocated to the assets acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

*Asset Acquisition Accounted for as a Business Combination.* In May 2014, STI WNU acquired the net assets of STI Bacolod, for a total consideration of ₱24.0 million. STI Bacolod was owned by a franchisee of STI ESG. Management considered the substance of the assets and activities of the acquired entity and assessed that the acquisition of the net assets represents a business. The cost of the acquisition is allocated to the assets acquired based upon their fair values, and as a result, a goodwill of ₱15.7 million is recognized (see Note 16).

As a result of the acquisition of STI Bacolod, the net assets and activities were merged with STI WNU. Consequently, the goodwill arising from the acquisition was re-allocated to the entire business of STI WNU.



*Noncurrent Asset Held for Sale.* On June 27, 2017, STI ESG's BOD approved the disposition of STI ESG's shares in Maestro Holdings to enable the Group to focus on its core business of offering educational services. Management considered the investment in the shares of Maestro Holdings to meet the criteria to be classified as held for sale for the following reasons:

- The BOD approved the disposition of the shares in Maestro Holdings
- The investment in the shares of Maestro Holdings is available for immediate sale in its present condition
- Actions to locate a buyer and complete the sale have been initiated
- The shares will be sold at a price approximating its current fair value
- Management expects to complete the sale within one year from the date of classification

As a result of the classification as noncurrent asset held for sale, STI ESG ceased the use of the equity method of accounting for its investment in Maestro Holdings. The carrying value as at June 30, 2017, which is the date of reclassification of the noncurrent asset held for sale, amounted to ₱716.6 million (see Notes 10 and 13).

As at March 31, 2018, there was no write-down of the noncurrent asset held for sale as the carrying amount did not fall below its fair value less costs to sell.

*Contingencies.* The Group is currently a party in a number of cases involving claims and disputes related to collection of receivables and labor. The Group's estimate of the probable costs for the resolution of these claims has been developed in consultation with outside legal counsels handling defense in these matters and is based upon an analysis of potential results. Management and its legal counsels believe that the Group has substantial legal and factual bases for its position and are of the opinion that losses arising from these legal actions, if any, will not have a material adverse impact on the consolidated financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Note 33).

#### Estimates and Assumptions

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

*Estimating Allowance for Impairment Loss on Loans and Receivables.* The Group reviews its receivables and advances to associates and joint ventures and other related parties at each reporting date to assess whether an allowance for impairment loss should be recorded in the consolidated statement of financial position. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant receivables and advances, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the receivables and advances since it was granted or acquired.

Receivables, net of allowance for doubtful accounts, amounted to ₱518.0 million and ₱443.1 million as at March 31, 2018 and 2017, respectively. Provision for impairment loss on receivables recognized in the consolidated financial statements amounted to ₱82.2 million, ₱70.6 million and ₱70.7 million in 2018, 2017 and 2016, respectively (see Note 7).

*Estimating Useful Lives of Nonfinancial Assets.* Management determines the estimated useful lives and the related depreciation and amortization charges for its property and equipment, investment properties (excluding land) and intangible assets based on the period over which the property and equipment, investment properties and intangible assets are expected to provide economic benefits. Management's estimation of the useful lives of property and equipment, investment properties and intangible assets is based on a collective assessment of industry practice, internal technical evaluation, and experience with similar assets while for intangible assets with a finite life, estimated useful life is based on the contractual term of the intangible assets. These estimations are reviewed periodically and could change significantly due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. A reduction in the estimated useful lives of property and equipment, investment properties and intangible assets would increase recorded expenses and decrease noncurrent assets.

There were no changes in the estimated useful lives of the Group's property and equipment, investment properties and intangible assets in 2018 and 2017.

The carrying values of nonfinancial assets subject to depreciation and amortization are as follows:

	<b>2018</b>	2017
Property and equipment (see Note 11)	<b>4,425,873,189</b>	3,604,977,505
Investment properties (see Note 12)	<b>550,333,088</b>	581,477,966
Intangible assets (see Note 16)*	<b>17,307,719</b>	27,400,516

\*Presented under "Goodwill, intangible and other noncurrent assets" account (see Note 16)

*Impairment of Nonfinancial Assets.* PFRSs requires nonfinancial assets to be tested for impairment when certain impairment indicators are present, irrespective of whether there are any indications of impairment. Nonfinancial assets include property and equipment, investment properties, investment in and advances to associates and joint ventures and intangible assets and other noncurrent assets.

Management is required to make estimates and assumptions to determine the future cash flows to be generated from the continued use and ultimate disposition of these assets in order to determine the value of these assets. While the Group believes that the assumptions used are reasonable and appropriate, these estimates and assumptions can materially affect the consolidated financial statements. Future adverse events may cause management to conclude that the affected assets are impaired and may have a material impact on the financial condition and results of operations of the Group. The carrying value of property and equipment, investment properties, investment in and advances to associates and joint ventures and intangible assets and other noncurrent assets are disclosed in Notes 11, 12, 13 and 16, respectively. There were no impairment losses in 2018, 2017 and 2016.

*Goodwill.* Acquisition method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date. It also requires the acquirer to recognize any goodwill as the excess of the acquisition cost over the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The Group's business acquisitions have resulted in goodwill which is subject to an annual impairment testing. This requires an estimation of the value in use of the CGUs to which

the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amounts of CGUs have been determined based on value in use calculations using cash flow projections covering a five-year period based on long-range plans approved by management.

Management used an appropriate discount rate for cash flows equal to the prevailing rates of return for a group having substantially the same risks and characteristics. Management used the weighted average cost of capital wherein the source of the costs of equity and debt financing are weighted. The weighted average cost of capital is the overall required return on the Group. A pretax discount rate of 11.5% to 12.3% was used as at March 31, 2018. The Group's growth rate used in extrapolating its cash flows beyond the period covered by its recent budgets was 5.0%.

Impairment testing as at March 31, 2018 and 2017 showed that the CGUs recoverable amounts were greater than their carrying amounts, and there were no events in 2018 and 2017 that would eliminate such difference, hence, no provision for impairment was recognized in 2018 and 2017. Goodwill amounted to ₱241.2 million and ₱239.5 million as at March 31, 2018 and 2017, respectively (see Note 16).

*Realizability of Deferred Tax Assets.* Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of NOLCO and MCIT to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of NOLCO and MCIT can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Deferred tax assets recognized amounted to ₱40.6 million and ₱34.9 million as at March 31, 2018 and 2017, respectively (see Note 29). Deductible temporary differences and unused carryforward benefits of NOLCO and MCIT for which no deferred tax assets were recognized by the Group amounted to ₱86.1 million and ₱121.2 million at March 31, 2018 and 2017, respectively.

*Determining Pension Liabilities.* The determination of the obligation and cost for pension benefits is dependent on the selection of certain assumptions provided by the Group to its actuaries in calculating such amounts. Those assumptions were described in Note 27 and included among others, discount rate and future salary increases. In accordance with Revised PAS 19, *Employee Benefits*, actual results that differ from the Group's assumptions are included in OCI and are not reclassified to profit or loss in subsequent periods. While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's pension and other pension obligations.

The carrying value of net pension assets amounted to ₱53.5 million and ₱2.8 million as at March 31, 2018 and 2017, respectively. The carrying value of net pension liabilities amounted to ₱42.5 million and ₱48.1 million as at March 31, 2018 and 2017, respectively (see Note 27).

## 6. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand and in banks	<b>₱820,934,331</b>	₱2,414,468,046
Cash equivalents	<b>1,036,573,419</b>	784,255,510
	<b>₱1,857,507,750</b>	₱3,198,723,556

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are short-term placements which are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term investment rates.

Interest earned from cash in banks and cash equivalents amounted to ₱27.7 million, ₱3.4 million and ₱3.8 million in 2018, 2017 and 2016, respectively (see Note 22).

## 7. Receivables

This account consists of:

	2018	2017
Tuition and other school fees	<b>₱516,500,305</b>	₱420,707,108
Educational services (see Note 30)	<b>40,014,195</b>	47,862,238
Rent, utilities and other related receivables (see Note 30)	<b>36,430,823</b>	45,861,725
Advances to officers and employees (see Note 30)	<b>24,505,141</b>	22,689,625
Current portion of advances to associates, joint ventures and other related parties (see Note 30)	<b>143,571</b>	143,571
Others	<b>28,907,861</b>	29,548,075
	<b>646,501,896</b>	566,812,342
Less allowance for doubtful accounts	<b>128,520,414</b>	123,752,494
	<b>₱517,981,482</b>	₱443,059,848

The terms and conditions of the above receivables are as follows:

- a. Tuition and other school fees receivables include receivables from students and DepED. These receivables are noninterest-bearing and are normally collected on or before the date of major examinations while receivables from DepEd are expected to be collected within the year.
- b. Educational services receivables pertain to receivables from franchisees arising from educational services, royalty fees and other charges. These receivables are generally noninterest-bearing and are normally collected within 30 days. Interest is charged on past due accounts.

Interest earned from past due accounts amounted to ₱0.6 million, ₱1.5 million and ₱1.4 million in 2018, 2017 and 2016, respectively (see Note 22).

- c. Rent, utilities and other related receivables are normally collected within the next fiscal year.

- d. Advances to officers and employees are normally liquidated within one year (see Note 30).
- e. For the terms and conditions relating to advances to associates, joint ventures and other related parties, refer to Note 30.
- f. Other receivables include receivables from a former franchisee, vendors and SSS amounting to ₱1.4 million, ₱4.6 million and ₱2.8 million, respectively, as at March 31, 2018 and amounting to ₱1.4 million, ₱3.9 million and ₱0.2 million, respectively, as at March 31, 2017. These receivables are expected to be collected within the year.

The movements in the allowance for doubtful accounts as a result of individual and collective assessments are as follows:

	2018		
	Tuition and Other School Fees	Others	Total
Balance at beginning of year	₱121,104,957	₱2,647,537	₱123,752,494
Provisions (see Note 25)	82,102,024	112,913	82,214,937
Write-off	(77,447,017)	-	(77,447,017)
Balance at end of year	<b>₱125,759,964</b>	<b>₱2,760,450</b>	<b>₱128,520,414</b>

	2017		
	Tuition and Other School Fees	Others	Total
Balance at beginning of year	₱106,932,717	₱10,883,524	₱117,816,241
Provisions (reversals) (see Note 25)	77,028,287	(6,451,000)	70,577,287
Write-off	(62,856,047)	(1,784,987)	(64,641,034)
Balance at end of year	<b>₱121,104,957</b>	<b>₱2,647,537</b>	<b>₱123,752,494</b>

As at March 31, 2018 and 2017, allowance for doubtful accounts amounting to ₱2.8 million and ₱2.6 million, respectively, relates to significant accounts under “Others” that were individually assessed as impaired. The remaining balance of ₱125.7 million and ₱121.1 million as at March 31, 2018 and 2017, respectively, relates to accounts under “Tuition and other school fees” that were collectively assessed as impaired.

## 8. Inventories

This account consists of:

	2018	2017
At net realizable value:		
Educational materials	₱124,412,501	₱111,579,144
Promotional materials	12,710,309	9,178,463
School materials and supplies	2,458,782	2,819,592
	<b>₱139,581,592</b>	<b>₱123,577,199</b>

The cost of inventories carried at net realizable value amounted to ₱150.5 million and ₱134.3 million as at March 31, 2018 and 2017, respectively. Allowance for inventory obsolescence amounted to ₱10.9 million and ₱10.7 million as at March 31, 2018 and 2017, respectively. Provision for

inventory obsolescence resulting from excess of cost over net realizable value of inventories amounted to ₱1.1 million in 2018 and nil in 2017 and 2016 (see Note 25).

Inventory items amounting to ₱0.8 million were written-off in March 31, 2018 and nil in March 31, 2017 and 2016.

Inventories charged to cost of educational materials and supplies sold amounted to ₱131.9 million, ₱120.8 million and ₱54.9 million in 2018, 2017 and 2016, respectively (see Note 24).

Educational materials include inventory of school uniforms amounting to ₱114.4 million and ₱100.6 million as at March 31, 2018 and 2017, respectively. This also includes textbooks and other educational-related materials amounting to ₱10.0 million and ₱11.0 million as at March 31, 2018 and 2017, respectively.

Promotional materials primarily pertain to marketing materials and proware materials amounting to ₱3.6 million and ₱1.7 million, respectively, as at March 31, 2018 and ₱9.1 million and ₱7.4 million, respectively, as at March 31, 2017.

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## 9. Prepaid Expenses and Other Current Assets

This account consists of:

	<b>2018</b>	2017
Prepaid taxes	<b>₱105,657,910</b>	₱122,652,271
Prepaid subscriptions and licenses	<b>12,029,975</b>	2,242,896
Prepaid rent	<b>6,444,172</b>	8,560,620
Excess contributions to CEAP (see Note 27)	<b>3,518,596</b>	3,603,282
Software maintenance cost	<b>2,205,737</b>	2,414,514
Prepaid insurance	<b>766,864</b>	723,958
Deposits (see Note 28)	<b>589,366</b>	5,079,750
Others	<b>4,565,659</b>	3,747,593
	<b>₱135,778,279</b>	₱149,024,884

Prepaid taxes represent CWT, input VAT, prepaid business, and real property taxes. As at March 31, 2018, input VAT primarily pertains to purchase of uniforms and acquisition of a lot in Iloilo City while input VAT as at March 31, 2017 primarily arose from the acquisition of properties in EDSA, Pasay City which will be the site of the new STI Academic Center Pasay-EDSA. On August 30, 2017, STI ESG reclassified ₱46.8 million from “Prepaid taxes” to “Land” under “Property and equipment” account with the SEC approval of the merger of STI Taft and STI ESG, with STI ESG as the surviving entity (see Note 11). On the other hand, STI ESG entered into a contract to sell in January 2018 for the acquisition of a lot situated at Barangay San Rafael Iloilo City from which STI ESG recognized input VAT amounting to ₱22.0 million. This lot is the future site of STI Iloilo. Prepaid business and real property taxes are recognized as expense over the period covered.

Prepaid subscriptions and licenses pertain substantially to Microsoft license subscriptions which are amortized over the period of coverage.

Prepaid rent represents advance rent paid for the lease of land and building spaces which are applied to the monthly rental in accordance with the term of the lease agreements.

Excess contributions to CEAP pertain to contributions made by De Los Santos-STI College and STI QA to CEAP which are already considered forfeited pension benefits of those employees who can no longer avail their pension benefits either because they did not meet the required tenure of ten years or they did not reach the retirement age of sixty when they left the service or when De Los Santos-STI College has already advanced the benefits of qualified employees. The excess contributions will be offset against De Los Santos-STI College's and STI QA's future required contributions to CEAP.

Software maintenance cost includes annual support and maintenance charges for the use of the Group's accounting and enrollment systems which are amortized in accordance with the terms of the agreements.

Prepaid insurance represents fire insurance coverage on building, including equipment and furniture, health coverage of employees and life and accident insurance of the students which were paid in advance and are recognized as expense over the period of coverage, which is normally within one year.

Deposits pertain to security deposits made for warehouse and office space rentals which will expire within one year and will be applied against future lease payments in accordance with the respective lease agreements.

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#### 10. Noncurrent Asset Held for Sale

Noncurrent asset held for sale amounting to ₱716.6 million represents the carrying value of STI ESG's 20% ownership in Maestro Holdings. Maestro Holdings owns 100% of PhilPlans, 99.89% of PhilhealthCare, Inc. ("PhilCare"), 70.6% of Philippine Life Financial Assurance Corporation ("PhilLife") and 100% of Banclife Insurance Co. Inc. ("Banclife"). On June 27, 2017, STI ESG's BOD approved the disposal of this 20% stake in Maestro Holdings to enable the Group to focus on its core business of offering educational services.

With the classification as noncurrent asset held for sale, STI ESG ceased the use of the equity method of accounting for its investment in Maestro Holdings on June 30, 2017.

As at March 31, 2018, the carrying amount of the noncurrent asset held for sale did not fall below its fair value less costs to sell.

Condensed financial information of Maestro Holdings as at and for the three months ended June 30, 2017 are disclosed in Note 13.

### 11. Property and Equipment

The rollforward analysis of this account follows:

	2018									
	Land	Buildings	Office and School Equipment	Office Furniture and Fixtures	Leasehold Improvements	Transportation Equipment (see Note 28)	Computer Equipment and Peripherals	Library Holdings	Construction In-Progress	Total
<b>Cost, Net of Accumulated Depreciation and Amortization</b>										
Balance at beginning of year	₱2,984,860,600	₱3,215,847,552	₱1,679,937,611	₱81,200,005	₱60,336,785	₱14,695,980	₱46,913,898	₱18,045,674	₱285,732,732	₱6,875,570,837
Additions	220,044,713	142,444,914	41,765,102	28,118,876	58,007,013	23,404,636	62,630,631	9,308,373	1,320,354,919	1,906,079,177
Reclassifications	-	807,586,524	291,650	-	2,171,867	-	16,200	(42,167)	(810,024,074)	-
Disposal	-	-	(1,205)	-	-	(330,000)	(5)	-	-	(331,210)
Addition as a result of business combination (Note 3)	-	-	462,403	14,750	-	-	923,020	129,718	-	1,529,891
Depreciation and amortization (see Notes 23 and 25)	-	(180,075,063)	(61,977,213)	(33,514,048)	(29,123,390)	(9,790,736)	(33,152,401)	(8,373,765)	-	(356,006,616)
<b>Balance at end of year</b>	<b>₱3,204,905,313</b>	<b>₱3,985,803,927</b>	<b>₱1,484,778,348</b>	<b>₱75,819,583</b>	<b>₱91,392,275</b>	<b>₱27,979,880</b>	<b>₱77,331,343</b>	<b>₱19,067,833</b>	<b>₱796,063,577</b>	<b>₱8,426,842,079</b>
<b>At March 31, 2018:</b>										
Cost	₱3,204,905,313	₱5,020,822,380	₱614,119,790	₱300,518,648	₱419,615,412	₱82,594,881	₱451,931,852	₱197,266,055	₱796,063,577	₱11,087,837,908
Accumulated depreciation and amortization	-	1,035,018,453	465,641,442	224,699,065	328,223,137	54,615,001	374,600,509	178,198,222	-	2,660,995,829
<b>Net book value</b>	<b>₱3,204,905,313</b>	<b>₱3,985,803,927</b>	<b>₱1,484,778,348</b>	<b>₱75,819,583</b>	<b>₱91,392,275</b>	<b>₱27,979,880</b>	<b>₱77,331,343</b>	<b>₱19,067,833</b>	<b>₱796,063,577</b>	<b>₱8,426,842,079</b>

	2017									
	Land	Buildings	Office and School Equipment	Office Furniture and Fixtures	Leasehold Improvements	Transportation Equipment (see Note 28)	Computer Equipment and Peripherals	Library Holdings	Construction In-Progress	Total
<b>Cost, Net of Accumulated Depreciation and Amortization</b>										
Balance at beginning of year	₱2,072,955,019	₱2,956,925,994	₱1,678,613,381	₱86,721,158	₱83,574,397	₱17,919,135	₱35,854,912	₱20,646,692	₱167,979,793	₱5,610,438,481
Additions	911,905,581	262,995,022	50,904,125	25,987,967	2,606,294	6,252,282	41,863,364	6,094,515	290,809,958	1,599,419,108
Reclassifications	-	161,120,186	9,268,564	-	2,668,269	-	-	-	(173,057,019)	-
Disposal	-	-	(75,257)	(9,680)	-	(132,300)	-	-	-	(217,237)
Depreciation and amortization (see Notes 23 and 25)	-	(165,193,650)	(60,021,202)	(31,499,440)	(28,512,175)	(9,343,137)	(30,804,378)	(8,695,533)	-	(334,069,515)
<b>Balance at end of year</b>	<b>₱2,984,860,600</b>	<b>₱3,215,847,552</b>	<b>₱1,679,937,611</b>	<b>₱81,200,005</b>	<b>₱60,336,785</b>	<b>₱14,695,980</b>	<b>₱46,913,898</b>	<b>₱18,045,674</b>	<b>₱285,732,732</b>	<b>₱6,875,570,837</b>
<b>At March 31, 2017:</b>										
Cost	₱2,984,860,600	₱4,070,859,106	₱574,945,215	₱275,672,568	₱385,264,288	₱71,300,806	₱469,352,030	₱188,852,767	₱285,732,732	₱9,306,840,112
Accumulated depreciation and amortization	-	855,011,554	407,007,604	194,472,563	324,927,503	56,604,826	422,438,132	170,807,093	-	2,431,269,275
<b>Net book value</b>	<b>₱2,984,860,600</b>	<b>₱3,215,847,552</b>	<b>₱1,679,937,611</b>	<b>₱81,200,005</b>	<b>₱60,336,785</b>	<b>₱14,695,980</b>	<b>₱46,913,898</b>	<b>₱18,045,674</b>	<b>₱285,732,732</b>	<b>₱6,875,570,837</b>



The cost of fully depreciated property and equipment still being used by the Group amounted to ₱941.1 million and ₱945.7 million as at March 31, 2018 and 2017, respectively. There were no idle assets as at March 31, 2018 and 2017.

#### Additions

*Acquisitions.* On September 30, 2017, STI ESG purchased a parcel of land located along Rizal Street, Legazpi City with an area of 4,149 square meters for a total cost of ₱74.7 million. As at March 31, 2018, the aggregate cost of the land amounted to ₱76.4 million inclusive of taxes, registration and other fees related to the acquisition. This will be the future site of STI Legazpi.

On July 5, 2017, STI ESG executed a Deed of Absolute Sale with Abacus Global Technovisions, Inc. for the purchase of a parcel of land with an area of 2,873 square meters situated at Poblacion, City of Lipa, Province of Batangas for a total consideration of ₱86.2 million. On the same date, STI ESG executed Deeds of Absolute Sale with Asean Commodity Enterprises for the purchase of land aggregating to 349 square meters at Poblacion, City of Lipa, Province of Batangas for a total consideration of ₱10.5 million. As at March 31, 2018, the aggregate cost of the land amounted to ₱99.0 million inclusive of taxes, registration and other fees related to the acquisition. This will be the future site of STI Lipa.

In January 2017, STI ESG purchased three parcels of land in P. Celle corner EDSA, Pasay City with a combined land area of 3,911 square meters for a total cost of ₱552.4 million. As at March 31, 2018, the aggregate cost of the land amounted to ₱601.8 million inclusive of taxes, registration and other fees related to the acquisition. This will be the site of the nine-storey STI Academic Center Pasay-EDSA, with roof deck, which is expected to accommodate up to 6,500 senior high school and college students.

In August 2016, the Parent Company acquired Neschester and its major asset is a parcel of land in Makati City with a carrying value of ₱359.5 million as at March 31, 2018 and 2017 (see Note 3).

*Property and Equipment under Construction.* As at March 31, 2018, the construction in-progress account includes costs incurred for the following: (a) construction of school buildings which will be the new site of STI Lipa, STI Sta. Mesa, STI Pasay-EDSA and STI San Jose del Monte; (b) construction of firing range and renovation of the University Gymnasium of STI WNU; and (c) remaining development of iACADEMY's Yakal campus. The related contract costs amounted to ₱3,794.3 million, inclusive of materials, cost of labor and overhead and all other costs necessary for the completion of the projects. iACADEMY's Yakal campus building was launched as iACADEMY Nexus last February 12, 2018 and 8 floors out of 14 floors are already operational as at March 31, 2018; while the renovation and upgrade of STI WNU school facilities were completed in April 2018. The construction project in Lipa is expected to be completed by end of July 2018 while the rest of the school building construction projects are expected to be completed in November 2018 or in time for the second semester.

As at March 31, 2017, the construction in-progress account includes costs incurred for the following: (a) construction of classrooms and faculty rooms in STI Batangas; (b) renovation works in STI Novaliches; (c) construction of swimming pool and firing range in STI WNU; and (d) land development and building for the Yakal campus of iACADEMY. The related contract costs amounted to ₱1,050.6 million, inclusive of materials, cost of labor and overhead and all other costs

necessary for the completion of the projects. The construction of classrooms and faculty rooms in STI Batangas was completed in July 2017 while the renovation works in STI Novaliches were completed in September 2017.

*Reclassification to Land.* The amount of ₱46.8 million previously recorded as input VAT and classified as part of prepaid taxes was reclassified to “Land” under “Property and equipment” account, forming part of the acquisition cost of the 3,911 square meter property along EDSA, Pasay City purchased by STI ESG in January 2017. This will be the site of STI Academic Center Pasay-EDSA where the existing students of STI Taft, a separate corporate entity then, will eventually transfer. On August 30, 2017, the SEC approved the merger of STI Taft with STI ESG, with STI ESG as the surviving entity. With the approval of the merger, the related input VAT on the purchase of the said EDSA property amounting to ₱46.8 million was reclassified as part of the acquisition cost of the land.

*Capitalized Borrowing Costs.* Total borrowing costs capitalized as part of property and equipment amounted to ₱28.6 million and ₱1.9 million in 2018 and 2017, respectively. The average interest capitalization rates were 5.96% and 3.82% for STI ESG and iACADEMY, respectively, in 2018; and 4.42% and 3.75% for STI WNU and iACADEMY, respectively, in 2017, which were the effective rates of the general borrowings.

#### Finance Leases

Certain transportation equipment were acquired under finance lease agreements. The carrying value of these equipment items amounted to ₱20.2 million and ₱12.1 million as at March 31, 2018 and 2017, respectively (see Note 28).

#### Collaterals

Transportation equipment, which were acquired under finance lease, are mortgaged as security for the related finance lease liabilities as at March 31, 2018 and 2017.

On July 6, 2017, iACADEMY’s BOG authorized iACADEMY to obtain a long-term loan amounting to ₱800.0 million for the construction of its Yakal campus and the re-financing of the bridge loan from a local bank in the amount of ₱200.0 million. The long-term loan is secured by a real estate mortgage on the Yakal land owned by Neschester and the building now constructed thereon owned by iACADEMY, and all other facilities, machineries, equipment and improvements therein (see Note 18). The total carrying value of the mortgaged land and building amounted to ₱1,101.9 million.

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## 12. Investment Properties

The rollforward analysis of this account follows:

	2018		Total
	Land	Building	
<b>Cost:</b>			
Balance at beginning of year	<b>₱1,309,753,568</b>	<b>₱665,357,550</b>	<b>₱1,975,111,118</b>
Additions	<b>3,631,991</b>	–	<b>3,631,991</b>
Balance at end of year	<b>1,313,385,559</b>	<b>665,357,550</b>	<b>1,978,743,109</b>
<b>Accumulated depreciation:</b>			
Balance at beginning of year	–	<b>83,879,584</b>	<b>83,879,584</b>
Depreciation (see Note 25)	–	<b>31,144,878</b>	<b>31,144,878</b>
Balance at end of year	–	<b>115,024,462</b>	<b>115,024,462</b>
<b>Net book value</b>	<b>₱1,313,385,559</b>	<b>₱550,333,088</b>	<b>₱1,863,718,647</b>

\*SGVFS031556\*

	2017		
	Land	Building	Total
<b>Cost:</b>			
Balance at beginning of year	₱1,275,401,424	₱665,357,550	₱1,940,758,974
Additions	34,352,144	–	34,352,144
Balance at end of year	1,309,753,568	665,357,550	1,975,111,118
<b>Accumulated depreciation:</b>			
Balance at beginning of year	–	52,734,708	52,734,708
Depreciation (see Note 25)	–	31,144,876	31,144,876
Balance at end of year	–	83,879,584	83,879,584
<b>Net book value</b>	<b>₱1,309,753,568</b>	<b>₱581,477,966</b>	<b>₱1,891,231,534</b>

As at March 31, 2018 and 2017, investment properties primarily include parcels of land and buildings and improvements located in Quezon City and Davao City currently held by the Parent Company for capital appreciation.

These properties were obtained by the Parent Company from Unlad through the Deeds of Dacion executed on March 31, 2016 (pursuant to a Memorandum of Agreement (“MOA”) as discussed in Note 33) for a total dacion price of ₱911.0 million as settlement of the outstanding obligations of Unlad and PWU to the Parent Company (recognized as “Noncurrent receivables” in the consolidated statement of financial position prior to settlement), arising from the loans extended by the Parent Company to PWU and Unlad when the Parent Company acceded, in November 2011, to the Joint Venture Agreement and Shareholders’ Agreement (the “Agreements”) by and among PWU, Unlad, an Individual and Mr. Eusebio H. Tanco (“EHT”), STI Holdings’ BOD Chairman, for the formation of a strategic arrangement with regard to the efficient management and operation of PWU (see Note 33).

PWU is a private non-stock, non-profit educational institution, which provides basic, secondary and tertiary education to its students while Unlad is a real estate company controlled by the Benitez Family and has some assets which are used to support the educational thrust of PWU.

The properties were recognized at fair value amounting to ₱1,280.5 million at dacion date.

#### Fair Value

As at March 31, 2018 and 2017, the fair values of the Group’s investment properties are as follows:

	2018	2017
Quezon City properties*	<b>₱1,803,872,000</b>	₱1,006,724,000
Davao property	<b>353,619,000</b>	273,815,000
	<b>₱2,157,491,000</b>	₱1,280,539,000

\*Include buildings and improvements valued at ₱43.0 million and ₱29.1 million as at March 31, 2018 and 2017, respectively

The fair values of the Group’s investment properties were determined by an independent professionally qualified appraiser accredited by SEC. The fair value represents 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.

Management assessed that the fair value of these properties at March 31, 2017 is not significantly different from the fair value determined as at March 31, 2016, the dacion date. In 2018, management obtained an updated appraisal report.

Land

Level 3 fair value of land has been derived using the market approach. The sales comparison approach is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by process involving comparison. Listings and offerings may also be considered. Sales prices of comparable land in close proximity (external factor) are adjusted for differences in key attributes (internal factors) such as location and size.

The following shows the valuation technique used in measuring the fair value of the land, as well as the significant unobservable inputs used:

	<b>As at March 31, 2018</b>	As at March 31, 2017
Fair value	<b>₱2,114,503,000</b>	₱1,251,415,000
Valuation technique	<b>Market Approach</b>	
Unobservable input	<b>External factors – net price per square meter</b>	
	<b>Internal factors – location, size, depth, influence, and time element</b>	
Relationship of unobservable inputs to fair value	<b>The higher the price per square meter, the higher the fair value</b>	

Buildings

Level 3 fair values of STI ESG’s condominium units have also been derived using the market approach.

The following table shows the valuation technique used in measuring the fair value of the building, as well as the significant unobservable inputs used:

	<b>As at March 31, 2018</b>	As at March 31, 2017
Fair value	<b>₱1,295,040,000</b>	₱949,982,000
Valuation technique	<b>Market approach</b>	
Unobservable input	<b>Net price per square meter</b>	
Relationship of unobservable inputs to fair value	<b>The higher the price per square meter, the higher the fair value</b>	

Level 3 fair values of the Parent Company’s buildings and improvements have been derived using the cost approach. The cost approach is a comparative approach to the value of property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is an equivalent to the original or one that could furnish equal utility with no undue cost resulting from delay. As at March 31, 2018 and 2017, the fair value of the Parent Company’s buildings and improvements under investment properties amounted to ₱43.0 million and ₱29.1 million, respectively.

The highest and best use of the Quezon City and Davao properties is commercial land development and institutional land development, respectively, while the highest and best use of STI ESG’s land and building is commercial utility.

Rental

Rental income earned from investment properties amounted to ₱93.2 million, ₱83.9 million and ₱33.7 million in 2018, 2017 and 2016, respectively (see Note 28). Direct operating expenses, including real property taxes, insurance, janitorial, security services and repairs and maintenance, arising from investment properties amounted to ₱14.4 million, ₱0.8 million and ₱1.0 million in 2018, 2017 and 2016, respectively.

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**13. Investments in and Advances to Associates and Joint Ventures**

The details and movements in this account follow:

	2018	2017
<b>Investments at Equity</b>		
<b>Acquisition cost:</b>		
Balance at beginning of year	₱220,681,533	₱238,181,302
Reversal	(43,000)	-
Reclassification to noncurrent asset held for sale	(174,075,126)	-
Cancellation of subscription payable balance by Maestro Holdings	-	(17,499,769)
Balance at end of year	<b>46,563,407</b>	220,681,533
<b>Accumulated equity in net earnings:</b>		
Balance at beginning of year	2,592,530,676	2,837,396,623
Equity in net losses	(222,036,414)	(244,097,915)
Dividends received	(1,535,756)	(768,032)
Reclassification to noncurrent asset held for sale	(450,634,987)	-
Balance at end of year	<b>1,918,323,519</b>	2,592,530,676
<b>Accumulated share in associates' other comprehensive loss:</b>		
Balance at beginning of year	(1,957,239,414)	(1,823,873,284)
Unrealized mark-to-market gain (loss) on AFS financial assets	124,968,590	(148,323,150)
Remeasurement gain (loss) on life insurance reserves	226,977	(4,022,703)
Remeasurement gain on pension liability	176,372	18,979,723
Reclassification to noncurrent asset held for sale	(91,147,797)	-
Balance at end of year	<b>(1,923,015,272)</b>	(1,957,239,414)
<b>Share in associates' other equity reserve:</b>		
Balance at beginning of year	728,648	-
Share in associates' other equity reserve	-	728,648
Reclassification to noncurrent asset held for sale	(728,648)	-
Balance at end of year	-	728,648
	<b>41,871,654</b>	856,701,443
<b>Advances</b> (see Note 30)	<b>37,868,986</b>	37,277,147
Less allowance for impairment loss	<b>37,868,986</b>	37,277,147
	-	-
	<b>₱41,871,654</b>	₱856,701,443

The associates and joint ventures of the Group are all incorporated in the Philippines.

Movements in the allowance for impairment of investments and advances are as follows:

	2018	2017
Balance at beginning of year	<b>₱37,277,147</b>	₱35,633,303
Provision for impairment (see Note 25)	<b>591,839</b>	1,643,844
Balance at end of year	<b>₱37,868,986</b>	₱37,277,147

The carrying values of the Group's investments in and advances to associates and joint ventures are as follows:

	2018	2017
Associates:		
STI Accent	<b>₱37,868,986</b>	₱37,277,147
STI Alabang	<b>23,225,758</b>	20,864,819
GROW	<b>15,199,032</b>	15,507,702
Maestro Holdings	-	814,846,445
Joint venture -		
PHEI (see Note 14)	<b>3,446,864</b>	5,482,477
	<b>79,740,640</b>	893,978,590
Allowance for impairment loss	<b>37,868,986</b>	37,277,147
	<b>₱41,871,654</b>	₱856,701,443

As at March 31, 2018 and 2017, the carrying amount of the investments in STI Marikina, Synergia and STI-PHNS amounted to nil.

Information about the significant associates and their major transactions are discussed below:

*Maestro Holdings.* Maestro Holdings is a holding company that holds investments in PhilPlans, PhilCare, PhilLife and Banclife. PhilPlans is a leading pre-need company, providing innovative pension, education and life plans. It owns 65% of Rosehills Memorial Management, Inc. (RMMI), a company engaged in the operation and management of a memorial park, memorial and interment services and sale of memorial products. PhilCare is a Health Maintenance Organization (HMO) that provides effective and quality health services and operates through its own clinics and through nationwide accredited clinics and hospitals. PhilLife provides financial services, such as individual, family and group life insurance, investment plans and loan privilege programs. Banclife is formerly engaged in life insurance business in the Philippines. It ceased operations in March 2013.

On December 7, 2015, the BOD of Maestro Holdings approved the opening for subscription of 437,500 common shares out of its authorized but unissued common stock at a subscription price of ₱800 per share or an aggregate subscription price of ₱350.0 million to all stockholders of record Maestro Holdings in accordance with their existing shareholdings, subject to the conditions that: (a) each stockholder shall pay 50% of the stockholder's subscription on or before December 18, 2015; and (b) the balance of each stockholder's subscription shall be payable upon call by the BOD. The purpose of the said capital call is to raise funds for capital infusion in PhilLife and for future investments. In 2016, STI ESG subscribed to 87,479 shares of Maestro Holdings amounting to ₱70.0 million. As at March 31, 2016, STI ESG's outstanding subscriptions payable amounted to ₱17.5 million. On June 10, 2016, the BOD of Maestro Holdings cancelled the balance of the subscription due from its stockholders.

In 2016, Maestro Holdings subscribed to additional 1,629,682,642 shares in PhilLife for ₱39.0 million. The additional subscription increased Maestro Holdings' interest in PhilLife from 70.00% to 70.60% which resulted in an equity adjustment of ₱3.6 million. The Group recorded its share in the adjustment amounting to ₱0.7 million under "Other equity reserve" account in the consolidated statement of financial position.

On January 15, 2016, Maestro Holdings entered into a Contract to Sell with Eujo Philippines, Inc. ("Eujo") for the latter's sale of its equity interest in PhilLife. On December 28, 2016, the parties amended the contract to sell with respect to the inclusion of certain conditions precedent to the completion of the sale and the agreement of the parties prior to the fulfillment of such conditions which includes the execution and delivery of an irrevocable voting proxy over the PhilLife shares in favor of Maestro Holdings and the delivery of duly endorsed original stock certificates covering the PhilLife shares to Maestro Holdings.

The amended contract to sell also provides that if PhilLife fails to achieve either condition precedent within the prescribed period, Maestro Holdings shall have the option to cancel the contract to sell and the amended contract to sell and return the shares as well as the proxies covering the shares to Eujo or refrain from delivering the balance to Eujo and cause the execution by Eujo of a deed of absolute sale covering the shares. If Maestro Holdings opts to cancel the contract to sell and the amended contract to sell, Eujo shall return the initial payment to Maestro Holdings within thirty days from receipt of a notice to this effect.

In 2016, Maestro Holdings paid a total of ₱178.9 million initial payments. The payment of the balance of the purchase price amounting to ₱19.9 million shall be made within thirty days from the date of fulfillment of either of the agreed conditions precedent to the completion of the sale. Upon consummation of the sale, Maestro Holdings will increase its interest in PhilLife from 70.60% to 90.70%.

As at March 31, 2018, the conditions precedent to the completion of the sale over the equity interest in PhilLife have not been met.

In 2018, Maestro Holdings restated its prior year financial statements to reflect, among others, the following changes: (a) with the completion of the correction in system process, the benefits expense and payable pertaining to education plan contracts with maturity dates from July to December are now recognized in the proper maturity dates; (b) change in the methodology in the determination of legal policy reserves in life insurance contracts from net premium valuation to gross premium valuation as required under IC Circular Letters 2016-66 and 2017-36; (c) recognition of fair value decline below cost of certain AFS equity securities to profit or loss.

Accordingly, the Group has made the necessary adjustments to recognize its share in the restated net earnings and comprehensive income of the associate and the Group's prior year financial statements have been restated to reflect the adjustments. A third consolidated statement of financial position as at April 1, 2016 is not presented as the restatements affect limited accounts only as described in the following tables.

The impact of the prior period adjustments on the consolidated financial statements are as follows:

	March 31, 2017		
	As previously reported	Increase (Decrease)	As restated
<b>Consolidated statement of financial position</b>			
<i>Assets</i>			
Investments in and advances to associates and joint ventures	₱1,095,823,500	(₱239,122,057)	₱856,701,443
<i>Equity attributable to equity holders of the Parent Company</i>			
Share in associates':			
Unrealized mark-to-market loss on available-for-sale financial assets	(48,710,891)	32,521,978	(16,188,913)
Remeasurement on life insurance reserves	–	(18,078,114)	(18,078,114)
Retained earnings	4,553,788,630	(250,361,685)	4,303,426,945
Non-controlling interest	94,444,400	(3,204,236)	91,240,164
	March 31, 2016		
	As previously reported	Increase (Decrease)	As restated
<b>Consolidated statement of financial position</b>			
<i>Assets</i>			
Investments in and advances to associates and joint ventures	₱1,424,813,516	(₱173,108,876)	₱1,251,704,640
<i>Equity attributable to equity holders of the Parent Company</i>			
Share in associates':			
Unrealized mark-to-market gain on available-for-sale financial assets	120,917,874	9,228,832	130,146,706
Remeasurement on life insurance reserves	–	(14,109,316)	(14,109,316)
Retained earnings	4,107,181,601	(165,908,733)	3,941,272,868
Non-controlling interest	91,649,812	(2,319,659)	89,330,153
	April 1, 2015		
	As previously reported	Increase (Decrease)	As restated
<b>Consolidated statement of financial position</b>			
<i>Assets</i>			
Investments in and advances to associates and joint ventures	₱1,622,404,035	(₱4,103,194)	₱1,618,300,841
<i>Equity attributable to equity holders of the Parent Company</i>			
Share in associates':			
Remeasurement loss on life insurance reserves	–	(25,227,626)	(25,227,626)
Retained earnings	3,233,915,182	21,179,415	3,255,094,597
Non-controlling interest	82,980,575	(54,983)	82,925,592



	For the year ended March 31, 2017		
	As previously reported	Increase (Decrease)	As restated
<b>Consolidated statement of comprehensive income</b>			
<i>Other income - net</i>			
Equity in net loss of associates and joint ventures	(₱158,497,925)	(₱85,599,990)	(₱244,097,915)
Net income	644,022,505	(85,599,990)	558,422,515
<i>Net income attributable to:</i>			
Parent Company	634,657,007	(84,452,950)	550,204,057
Non-controlling interests	9,365,498	(1,147,040)	8,218,458
<i>Other comprehensive income (loss)</i>			
Share in associates' unrealized mark- to-market loss on available- for-sale financial assets	(171,932,663)	23,609,513	(148,323,150)
Share in associates' remeasurement loss on life insurance reserves	-	(4,022,703)	(4,022,703)
<i>Total comprehensive income</i>			
<i>attributable to:</i>			
Parent Company	513,257,732	(65,128,602)	448,129,130
Non-controlling interests	7,702,142	(884,578)	6,817,564
	For the year ended March 31, 2016		
	As previously reported	Increase (Decrease)	As restated
<b>Consolidated statement of comprehensive income</b>			
<i>Other income - net</i>			
Equity in net earnings (loss) of associates and joint ventures	₱34,994,156	(₱189,629,179)	(₱154,635,023)
Net income	1,072,682,191	(189,629,179)	883,053,012
<i>Net income attributable to:</i>			
Parent Company	1,061,316,401	(187,088,148)	874,228,253
Non-controlling interests	11,365,790	(2,541,031)	8,824,759
<i>Other comprehensive income (loss)</i>			
Share in associates' unrealized mark-to-market loss on available-for-sale financial assets	(302,103,268)	9,354,178	(292,749,090)
Share in associates' remeasurement loss on life insurance reserves	-	11,269,319	11,269,319
<i>Total comprehensive income</i>			
<i>attributable to:</i>			
Parent Company	758,753,481	(166,741,006)	592,012,475
Non-controlling interests	7,240,527	(2,264,676)	4,975,851
	For the year ended March 31		
Impact on basic and diluted earnings per share (EPS)	2017	2016	
Decrease in EPS			
Basic/Diluted earnings per share on net income attributable to equity holders of the Parent Company		₱0.01	₱0.02

Condensed financial information for Maestro Holdings is as follows:

	June 30, 2017	March 31, 2017 (As restated)	March 31, 2016 (As restated)
Current assets	<b>₱5,324,841,521</b>	₱5,359,021,990	₱4,713,777,468
Noncurrent assets	<b>38,954,994,859</b>	39,365,900,062	40,716,957,434
Current liabilities	<b>(3,822,814,937)</b>	(4,699,748,798)	(3,965,246,744)
Noncurrent liabilities	<b>(36,416,273,771)</b>	(35,593,250,762)	(35,061,508,143)
Total equity	<b>4,040,747,672</b>	4,431,922,492	6,403,980,015
Less equity attributable to equity holders of non-controlling interests	<b>458,421,345</b>	358,379,894	322,433,706
Equity attributable to equity holders of the parent company	<b>3,582,326,327</b>	4,073,542,598	6,081,546,309
Proportion of the Group's ownership	<b>20%</b>	20%	20%
Carrying amount of the investment	<b>₱716,586,558</b>	₱814,846,444	₱1,216,309,261

	June 30, 2017 (Three Months)	For the year ended March 31	
		2017 (As restated)	2016 (As restated)
Revenues	<b>₱1,530,208,762</b>	₱9,074,321,307	₱9,031,836,809
Expenses	<b>(2,538,092,480)</b>	(9,301,746,619)	(8,717,640,036)
Provision for income tax	<b>(4,384,215)</b>	(991,651,559)	(1,094,433,038)
Loss from operations	<b>(1,012,267,933)</b>	(1,219,076,871)	(780,286,265)
Other comprehensive income (loss)	<b>624,885,148</b>	(665,834,942)	(1,407,188,375)
Total comprehensive loss	<b>(387,382,785)</b>	(1,884,911,813)	(2,187,474,640)
Less total comprehensive income attributable to equity holders of non-controlling interests	<b>103,625,679</b>	36,996,581	18,390,859
Total comprehensive loss attributable to equity holders of the parent company	<b>(491,008,464)</b>	(1,921,908,394)	(2,205,865,499)
Proportion of the Group's ownership	<b>20%</b>	20%	20%
Share in total comprehensive loss	<b>(₱98,201,693)</b>	(₱384,381,679)	(₱441,067,218)

*Others.* The carrying amount of the Group's investments in STI Alabang, STI Accent, GROW, STI Marikina and Synergia represents the aggregate carrying values of individually immaterial associates.

The aggregate financial information of individually immaterial associates follows:

	As at March 31		
	2018	2017	2016
Current assets	<b>₱151,461,875</b>	₱124,099,948	₱97,898,857
Noncurrent assets	<b>37,978,667</b>	34,475,792	40,206,299
Current liabilities	<b>(132,038,222)</b>	(112,396,042)	(91,631,271)
Noncurrent liabilities	<b>(10,022,871)</b>	(5,400,271)	(13,170,177)
	<b>₱47,379,449</b>	₱40,779,427	₱33,303,708

	For the Years Ended March 31		
	2018	2017	2016
Revenues	<b>₱393,216,180</b>	₱331,404,510	₱144,896,937
Expenses	<b>391,963,354</b>	303,618,688	122,266,369
Total comprehensive income	<b>1,252,826</b>	27,785,822	22,630,568
Share in comprehensive income	<b>₱457,389</b>	₱6,519,408	₱5,735,952

STI Accent is engaged in providing medical and other related services. It ceased operations on June 20, 2012 after the contract of usufruct between STI Accent and Dr. Fe Del Mundo Medical Center Foundation Philippines, Inc. to operate the hospital and its related healthcare service businesses was rescinded in May 2012. As at March 31, 2018 and 2017, allowance for impairment loss on STI ESG's investment in STI Accent and related advances amounted to ₱37.9 million and ₱37.3 million, respectively.

For terms and conditions relating to advances to associates and joint ventures, refer to Note 30.

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#### 14. Interests in Joint Ventures

##### PHEI

On March 19, 2004, STI ESG, together with the University of Makati ("UMak") and another shareholder, incorporated PHEI in the Philippines. STI ESG and UMak each owns 40.00% of the equity of PHEI with the balance owned by another shareholder. PHEI is envisioned as the College of Nursing of UMak.

The following are certain key terms under the agreement signed in 2003 by STI ESG and UMak:

- a. STI ESG shall be primarily responsible for the design of the curriculum for the Bachelor's Degree in Nursing ("BSN") and Master's Degree in Nursing Informatics, with such curriculum duly approved by the University Council of UMak;
- b. UMak will allow the use of its premises as a campus of BSN while the premises of iACADEMY will be the campus of the post graduate degree; and
- c. STI ESG will recruit the nursing faculty while UMak will provide the faculty for basic courses that are non-technical in nature.

##### STI-PHNS

On September 16, 2005, GROW and PHNS International Holdings, Inc., a company incorporated in Dallas, Texas, USA, entered into a Joint Venture Agreement ("JVA"). Under the JVA, the parties have agreed to incorporate a joint venture company in the Philippines and set certain terms with regards to capitalization, organization, conduct of business and the extent of their participation in the management of affairs of the joint venture company for the primary purpose of engaging, directly or indirectly, in the business of medical transcription and other related business in the Philippines. As a result of the JVA, the parties incorporated STI-PHNS where each have a 50.00% ownership of the outstanding capital stock of STI-PHNS.

A Deed of Assignment between GROW and STI ESG was executed on May 5, 2006 to transfer all the rights of GROW in the JVA to the latter.

STI-PHNS ceased operations in 2014. On April 7, 2016, the BOD of STI-PHNS ratified the resolution approving the cessation of the business activities of STI-PHNS effective March 1, 2013 and approved the resolution to shorten the corporate term of STI-PHNS until June 30, 2017. On the same date, the BOD of Summit Technologies, Inc. ("Summit") ratified the resolution approving the cessation of operations and closure of the business of Summit effective February 28, 2013 and March 1, 2013, respectively, and approved the resolution to shorten the corporate term of Summit until June 30, 2017. Summit is a 89.51%-subsidiary of STI-PHNS. Summit is primarily engaged in encoding, transcribing, translating or converting information, data, documents, files and records of

whatever form into usable electronic information or database for use with software programs or other information or database application. The amendment to the STI-PHNS' and Summit's Articles of Incorporation for shortening of the corporate term were approved by the SEC on July 12, 2016 and June 7, 2016, respectively.

The allowance for impairment loss on STI ESG's investment in STI-PHNS amounted to ₱5.6 million as at March 31, 2018 and 2017.

The Group's share in the net earnings (losses) of its joint ventures, which are individually immaterial amounted to (₱2.7) million, ₱0.5 million and ₱0.7 million in 2018, 2017 and 2016, respectively. The unrecognized share in the net losses of the joint ventures, which are individually immaterial, amounted to ₱4.1 million in as at March 31, 2018 and 2017.

## 15. Available-for-sale Financial Assets

This account consists of:

	2018	2017
Quoted equity shares - at fair value	<b>₱4,931,225</b>	₱4,518,720
Unquoted equity shares - at cost	<b>63,162,515</b>	47,083,410
	<b>₱68,093,740</b>	₱51,602,130

### a. Quoted Equity Shares

The quoted equity shares above pertain to listed shares in the PSE, as well as trade club shares. These are carried at fair value with cumulative changes in fair values presented as a separate component in equity under the "Unrealized mark-to-market gain on available-for-sale financial assets" account in the consolidated statements of financial position. The fair values of these shares are based on the quoted market price as at financial reporting date.

The rollforward analysis of the "Unrealized mark-to-market gain on available-for-sale financial assets" account follows:

	2018	2017
Balance at beginning of year	<b>₱461,811</b>	(₱385,309)
Unrealized mark-to-market gain on AFS financial assets	<b>391,610</b>	847,120
Balance at end of year (see Note 21)	<b>₱853,421</b>	₱461,811

Dividend income earned from AFS financial assets amounted to ₱4.4 million, ₱3.3 million, and ₱2.8 million in 2018, 2017 and 2016, respectively.

### b. Unquoted Equity Shares

Unquoted equity shares pertain to unlisted shares of stocks. The fair value of these unquoted equity shares is not reasonably determinable due to the unpredictable nature of future cash flows and the lack of suitable method of arriving at a reliable fair value, hence, these are carried at cost less impairment, if any. In 2018, STI ESG reclassified its deposit for asset acquisitions related to the purchase of equity shares to AFS financial asset amounting to ₱16.1 million upon issuance of shares to ESG (see note 16).

c. Pledged Shares

On June 3, 2013, STI ESG executed a deed of pledge on all of its De Los Medical Center shares in favor of Neptune Stroika Holdings, Inc., a wholly-owned subsidiary of Metro Pacific Investments Corporation (MPIC), to cover the indemnity obligations of STI ESG enumerated in its investment agreement entered into in 2013 with MPIC. The completion of MPIC's subscription resulted in the cessation of De Los Santos-STI Megaclinic and De Los Santos Medical Center as associates of STI ESG effective June 2013. Consequently, STI ESG's effective percentage ownership in De Los Santos Medical Center was diluted and such was reclassified to AFS financial assets. The carrying value of the pledged investment in De Los Santos Medical Center amounted to ₱25.9 million as at March 31, 2018 and 2017.

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**16. Goodwill, Intangible and Other Noncurrent Assets**

This account consists of:

	2018	2017
Goodwill	<b>₱241,235,574</b>	₱239,458,878
Advances to suppliers	<b>169,277,560</b>	29,663,654
Deposits for asset acquisitions	<b>76,270,833</b>	72,764,000
Rental and utility deposits (see Note 28)	<b>51,520,552</b>	45,641,805
Intangible assets	<b>17,307,719</b>	27,400,516
Deferred input VAT	<b>3,906,938</b>	9,767,344
Others	<b>1,975,184</b>	2,489,774
	<b>₱561,494,360</b>	₱427,185,971

Goodwill

Goodwill acquired through business combinations have been allocated to the following entities which are considered as separate CGUs:

	2018	2017
STI Caloocan	<b>₱64,147,877</b>	₱64,147,877
STI Cubao	<b>28,327,670</b>	28,327,670
STI Novaliches (see Note 20)	<b>21,803,322</b>	21,803,322
STI Taft	<b>19,030,844</b>	19,030,844
STI Bacolod	<b>15,681,232</b>	15,681,232
STI Tuguegarao	<b>13,638,360</b>	13,638,360
STI Global City	<b>11,360,085</b>	11,360,085
STI Shaw	<b>11,213,342</b>	11,213,342
STI Lipa	<b>8,857,790</b>	8,857,790
STI Ortigas-Cainta	<b>7,476,448</b>	7,476,448
STI Dagupan	<b>6,835,818</b>	6,835,818
STI Meycauayan	<b>5,460,587</b>	5,460,587
STI Tanauan	<b>4,873,058</b>	4,873,058
STI Iloilo	<b>3,806,173</b>	3,806,173
STI Pagadian	<b>3,396,880</b>	3,396,880
STI Makati	<b>3,261,786</b>	3,261,786
STI Las Piñas	<b>2,922,530</b>	2,922,530
STI Batangas	<b>2,585,492</b>	2,585,492
STI Kalibo	<b>2,474,216</b>	2,474,216
STI Naga	<b>2,305,368</b>	2,305,368
STI Sta Maria (see Note 3)	<b>1,776,696</b>	-
	<b>₱241,235,574</b>	₱239,458,878

As a result of the deconsolidation of STI Diamond as discussed in Note 20, the Group reallocated the associated goodwill to STI Novaliches as at March 31, 2017. The assets and liabilities of STI Diamond have all been transferred to STI Novaliches.

Management performs its annual impairment test every March 31 for each reporting period for all the CGUs. The recoverable amounts are computed based on value-in-use calculations using cash flow projections. Future cash flows are discounted using a pre-tax discount rate of 11.5% to 12.3%. The cash flow projections are based on a four-year financial planning period as approved by senior management. The growth rate used to extrapolate the cash flows of the unit beyond the four-year period is 5.0%. Management used forecasted revenue growth of 2% to 32% on most CGUs while management used forecasted revenue growth of 3% to 118% on select CGUs with expansion projects.

Management has determined, based on this analysis, that there are no impairment loss in 2018, 2017 and 2016.

*Key assumptions used in the value-in-use calculations*

The calculations of value-in-use for the CGUs are most sensitive to the following assumptions:

- Forecasted revenue growth - Revenue forecasts are management's best estimates considering factors such as historical/industry trend, target market analysis, government regulations and other economic factors.
- EBITDA margins - It is a measure of a firm's profit that includes all expenses except interest and income tax expenses. It is the difference between operating revenues and operating expenses. Earnings before tax differs for each CGU and are based on historical data and future plans for each CGU which may be affected by expected capital expenditures and number of projected students.
- Discount rate - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The Group used the WACC rate as affected by beta of companies with similar activities and capital structure with the CGUs. WACC is also affected by costs of debt and capital based on average lending rates for 10-year term due to assumption that the CGUs will exist beyond 10 years.
- Long-term growth rate - This represents the compounded annualized rate of growth of a CGU's revenues, earnings, dividends or even macro concepts such as gross domestic product (GDP).

*Sensitivity to changes in assumptions*

With regard to the assessment of value-in-use of the cash-generating units, management believes that a reasonably possible change in the assumptions would not cause the carrying values of the cash-generating units to materially exceed their recoverable amounts.

Advances to Suppliers

Advances to suppliers pertain to advance payments made in relation to the acquisition of property and equipment and construction of buildings (see Note 11). These will be reclassified to the "Property and equipment" account when the goods are received or the services are rendered.

Deposits for Asset Acquisitions

The “Deposits for asset acquisitions” as at March 31, 2018 pertains to payments made for a property in Iloilo which has been identified as the future site of STI Academic Center Iloilo. In January 2018, STI ESG entered into a contract for the acquisition of a lot situated at Barangay San Rafael, Iloilo City for ₱183.05 million. The contract requires 30% down payment and the remaining balance to be paid in 18 equal monthly installments, without interest, of ₱7.1 million starting January 2018 up to June 2019. STI ESG made a down payment inclusive of VAT and related taxes, net of ₱200.0 thousand reservation fee, in the amount of ₱67.5 million in January 2018 and settled the installments due as at March 31, 2018.

The balance as at March 31, 2017 on the other hand, includes deposits paid for the purchase of land located in Poblacion, Lipa City, Batangas, the site of STI Academic Center Lipa, deposit for the purchase of proprietary shares in a development in Batangas and deposits made for the acquisition of the net assets of an STI franchised school located in Santa Maria, Bulacan (see Note 3).

Rental and Utility Deposits

This account includes security deposits paid to utility companies and for warehouse and office space rentals to be applied against future lease payments in accordance with the respective lease agreements.

Intangible Assets

Intangible assets represent the Group’s accounting and school management software.

The rollforward analyses of this account follow:

	2018	2017
Cost, net of accumulated amortization:		
Balance at beginning of year	₱27,400,516	₱40,125,283
Additions	1,592,485	1,104,037
Effect of derecognition of a subsidiary	–	(3,421,696)
Amortization (see Note 25)	(11,685,282)	(10,407,108)
Balance at end of year	<b>₱17,307,719</b>	₱27,400,516
Cost	<b>₱62,110,703</b>	₱60,518,218
Accumulated amortization	<b>44,802,984</b>	33,117,702
Net carrying amount	<b>₱17,307,719</b>	₱27,400,516

**17. Accounts Payable and Other Current Liabilities**

This account consists of:

	2018	2017
Accounts payable	<b>₱517,387,683</b>	₱230,907,098
Dividends payable (see Note 21)	<b>26,815,767</b>	25,278,074
Accrued expenses:		
Rent	<b>46,348,807</b>	40,929,809
School-related expenses	<b>41,253,424</b>	24,772,365
Contracted services	<b>32,306,912</b>	29,632,054
Salaries, wages and benefits	<b>20,000,943</b>	22,076,587
Interest	<b>10,584,218</b>	12,387,255
Utilities	<b>5,855,548</b>	5,259,861

(Forward)

	2018	2017
Advertising and promotion	<b>₱3,537,635</b>	₱3,963,957
Others	<b>7,431,392</b>	12,920,630
Statutory payables	<b>23,111,901</b>	15,090,909
Network events fund	<b>8,857,657</b>	6,959,471
Current portion of payable to STI Diamond (see Note 20)	<b>7,053,619</b>	3,712,143
Current portion of refundable deposits	<b>5,432,332</b>	1,413,374
Student organization fund	<b>5,398,120</b>	4,153,806
Others	<b>20,967,090</b>	20,635,665
	<b>₱782,343,048</b>	₱460,093,058

The terms and conditions of the above liabilities are as follows:

- a. Accounts payable are noninterest-bearing and are normally settled within a 30 to 60-day term.
- b. Accrued expenses, network events fund, student organization fund and other payables are expected to be settled within the next fiscal year.
- c. Statutory payables primarily include taxes payable, remittances to government agencies. These are normally settled within the first month of the next fiscal year.
- d. Refundable deposits pertain to security deposits received from existing lease agreements and are expected to be settled within the next fiscal year.
- e. Dividends payable pertains to dividends declared and are due on demand.
- f. For terms and conditions with related parties, refer to Note 30.

## 18. Interest-bearing Loans and Borrowings

This account consists of:

	2018	2017
Corporate notes facility	<b>₱916,400,000</b>	₱984,200,000
Term loan facility	<b>322,208,112</b>	-
Short-term loans	-	745,000,000
	<b>1,238,608,112</b>	1,729,200,000
Less current portion	<b>167,400,000</b>	812,800,000
	<b>₱1,071,208,112</b>	₱916,400,000

### Corporate Notes Facility

On March 20, 2014, STI ESG entered into a Corporate Notes Facility Agreement (“Credit Facility Agreement”) with China Banking Corporation (“China Bank”) granting STI ESG a credit facility amounting to ₱3.0 billion with a term of either 5 or 7 years. The facility is available in two tranches of ₱1.5 billion each. The net proceeds from the issuance of the notes were be used for capital expenditures and other general corporate purposes.



On May 9, 2014, the first drawdown date, STI ESG elected to have a 7-year term loan with floating interest based on the 1-year PDST-F plus a margin of two percent (2.00%) per annum, which interest rate shall in no case be lower than the BSP overnight rate plus a margin of three-fourths percent (0.75%) per annum, which is subject to repricing.

In 2015, STI ESG availed a total of ₱1,200.0 million loans with interest ranging from 4.34% to 4.75%. STI ESG has made payments totaling to ₱40.8 million, ₱100.8 million and ₱216.0 million in 2018, 2017 and 2016, respectively.

An Accession Agreement to the Credit Facility Agreement was executed on December 16, 2014 among STI ESG, STI WNU and China Bank whereby STI WNU acceded to the Credit Facility entered into by STI ESG with China Bank in March 2014. In addition, an Amendment and Supplemental Agreement was also executed by the parties on the same date. By virtue of the Accession Agreement, a sub limit of ₱500.0 million was made available to STI WNU and Unlad Resources Development Corporation. The Amendment and Supplemental Agreement allowed STI WNU to draw up to ₱300.0 million from the facility.

On December 19, 2014, STI ESG advised China Bank that it will not be availing of tranche 2 of the Credit Facility Agreement thus limiting the facility available to STI ESG to ₱1.5 billion. On the same date, STI WNU availed the amount of ₱300.0 million under the same terms and conditions as that of STI ESG Credit Facility, which has a term of seven (7) years with floating interest based on the 1-year PDST-F plus a margin of two percent (2.00%) per annum, which interest rate shall in no case be lower than the BSP overnight rate plus a margin of three-fourths percent (0.75%) per annum and is subject to annual repricing every January 31. This loan is secured by a Comprehensive Surety issued by the Parent Company.

STI WNU has made payments on the Corporate Notes Facility totaling to ₱27.0 million and ₱66.0 million as at March 31, 2018 and 2017, respectively. Part of the payments made includes a prepayment amounting to ₱40.0 million made on July 31, 2016 and ₱10.0 million made on January 31, 2017. Such prepayments were applied in the last year of amortization of the loan.

These loans are unsecured and are due based on the following schedule:

	STI ESG	STI WNU
2019	₱134,400,000	₱33,000,000
2020	240,000,000	79,600,000
2021	240,000,000	69,400,000
2022	120,000,000	—
	<u>₱734,400,000</u>	<u>₱182,000,000</u>

The Credit Facility Agreement, together with the Accession Agreement, contains, among others, covenants regarding incurring additional debt and declaration of dividends, to the extent that such will result in a breach of the required debt-to-equity and debt service cover ratios. STI ESG was required to maintain a debt-to-equity ratio of not more than 1.0:1 and debt service cover ratio of not less than 1.1:1.

Breakdown of Group's Credit Facility Agreement follows:

	2018	2017
Balance at beginning of year	<b>₱984,200,000</b>	₱1,151,000,000
Repayments	<b>67,800,000</b>	166,800,000
Balance at end of year	<b>916,400,000</b>	984,200,000
Less current portion	<b>167,400,000</b>	67,800,000
Noncurrent portion	<b>₱749,000,000</b>	₱916,400,000

On January 19, 2017, STI ESG, STI WNU and China Bank executed a Second Amendment and Supplemental Agreement to the Corporate Notes Facility Agreement. Significant amendments are as follows:

- a) change in interest rate of either (1) the 1-year benchmark rate plus a margin of 1.5% per annum which interest rate shall in no case be lower than 3.75% per annum or (2) the 3-month benchmark rate plus a margin of 1.5% per annum which interest rate shall in no case be lower than 3.5% per annum.
- b) amendments on the required financial ratios, whereby STI ESG shall maintain the following ratios which shall be computed based on the consolidated financial statements:
  - (1) Debt-to-equity ratio of not more than 1.5x, computed by dividing total debt by total equity. For the purpose of this computation, total debt shall exclude unearned tuition and other school fees;
  - (2) Debt service cover ratio of a minimum of 1.05x.

On February 17, 2017, China Bank likewise advised STI WNU that it has approved that the latter shall maintain a debt-to-equity ratio of not more than 1.5x, computed by dividing the total debt over the total equity and that for the purpose of this computation, total debt shall exclude unearned tuition and other school fees.

The required debt service cover ratio of a minimum of 1.1x for STI WNU remained the same.

As at March 31, 2018 and 2017, STI ESG and STI WNU have complied with the above covenants.

#### Term Loan Facility

On September 28, 2017, iACADEMY, as Borrower, and Neschester, as Third Party Mortgagor, entered into an Omnibus Loan and Security Agreement ("Omnibus Agreement") with China Bank granting iACADEMY a Term Loan Facility amounting to ₱800.0 million to refinance the ₱200.0 million short-term loan and partially finance the cost of construction of iACADEMY's Yakal campus. The long-term loan is secured by a real estate mortgage on the Yakal land owned by Neschester and the building constructed thereon owned by iACADEMY, and all other facilities, machineries equipment and improvements therein (see Note 11). The long-term loan shall mature on the 10th year anniversary of the initial drawdown on the Term Loan Facility (the Loan Maturity Date). The maturity date of subsequent drawdowns made within the availability period shall coincide with the Loan Maturity Date. On May 24, 2018, the local bank approved the extension of the availability period to draw from the Term Loan Facility from June 30, 2018 to August 30, 2018.

iACADEMY made its initial drawdown of ₱200.0 million on September 29, 2017 to fully settle its short-term loan and a second drawdown of ₱130.0 million on January 10, 2018 to partially finance the construction at an interest rate of 4.4025% and 4.4057% respectively, fixed for one year. The loan facility has a term of 10 years, with 3-year grace period on the principal repayment. The

principal is payable semi-annually starting September 29, 2020, while the interest is payable semi-annually in arrears ending on March 31 and September 30 of each year. The interest rate shall be repriced, one business day prior to each of the later interest payment date of the two relevant interest periods.

Future repayment of the loan principal of the initial and second drawdown under the Omnibus Agreement follows:

Fiscal year ending March 31	iACADEMY
Less than 1 year	₱-
More than 1 year but less than 5 years	132,000,000
More than 5 years	198,000,000
	₱330,000,000

iACADEMY incurred costs related to the availment of the loan amounting to ₱8.2 million. These costs are capitalized and amortized using the effective interest rate method. These are presented as a contra-liability account in the consolidated statement of financial position as at March 31, 2018. The carrying value of the transaction costs amounted to ₱7.8 million and nil as at March 31, 2018 and 2017, respectively. Amortization of transaction costs amounted to ₱0.4 million in 2018 and 2017.

The related borrowing costs capitalized as part of “Building” amounted to ₱11.2 million and nil as at March 31, 2018 and 2017, respectively, and as part of “Construction in-progress” amounted to nil and ₱1.8 million as at March 31, 2018 and 2017, respectively (see Note 11).

The Omnibus Agreement, contains, among others, covenants regarding incurring additional debt and declaration of dividends, to the extent that such will result in a breach of the required debt service cover and debt-to-equity ratios. The required financial ratios are:

(1) Debt service cover ratio of a minimum of 1.05x, which is the ratio of EBITDA for immediately preceding twelve (12) months to debt service due in the next 12 months. iACADEMY is compliant to this ratio as of March 31, 2018.

(2) Debt-to-equity ratio of not more than 2.0x, computed by dividing total liabilities (excluding unearned tuition and other school fees) by total equity. iACADEMY’s debt-to-equity ratio as at March 31, 2018 is 2.24x. However on March 26, 2018, China Bank gave its consent on the request of iACADEMY to waive the required debt-to-equity ratio covenant of not more than 2.0x. On May 11, 2018, iACADEMY increased its capital stock from 200,000,000 to 694,896,693 (see Note 1).

#### Short-term Loans

On August 1, 2016, iACADEMY obtained a short-term loan from China Bank amounting to ₱200.0 million. The loan is subject to 3.75% interest per annum. The amount recognized as interest expense from the loan amounted to ₱3.1 million up to December 31, 2016. The loan was treated as bridge financing for the construction of the building for the Yakal campus of iACADEMY. Interest on this loan was capitalized starting January 1, 2017 as part of the cost of the building. STI Holdings signed as co-maker for this bridge financing. On September 29, 2017, this bridge loan was fully paid from the term loan facility arranged with China Bank.

STI ESG’s short term loan balance amounted to nil and ₱545.0 million as at March 31, 2018 and 2017, respectively. STI ESG availed of loans from Bank of the Philippine Islands amounting to ₱240.0 million and ₱1,793.0 million for the years ended March 31, 2018 and 2017, respectively; and made payments aggregating to ₱785.0 million and ₱1,248.0 million for the years ended March 31,

2018 and 2017, respectively. These loans are subject to interest rates ranging from 3.20% to 3.75%. The proceeds from these loans were used for working capital requirements.

#### Interest Expense

Starting February 1, 2016, the one-year PDST-F on the Credit Facility Agreement was changed to PDST-R2 as the basis for determining the interest rate for both STI ESG and STI WNU loans.

On January 31, 2017, STI ESG and STI WNU elected to adopt the interest rate based on the 1-year Benchmark Rate plus a margin of 1.5% per annum which interest rate shall in no case be lower than 3.75% payable every January 31 and July 31 of each year.

Interest expense on the loans amounted to ₱54.3 million, ₱71.6 million and ₱61.7 million in 2018, 2017 and 2016, respectively (see Note 22).

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### 19. Bonds Payable

On March 23, 2017, STI ESG issued the first tranche of its ₱5,000.0 million fixed rate bonds program under its 3-year shelf registration with the SEC, which was listed through the Philippine Dealing and Exchange Corp. The bonds, amounting to an aggregate of ₱3,000.0 million, with interest payable quarterly, were issued with a fixed rate 5.8085% for the 7-year series, due 2024, and 6.3756% for the 10-year series, due 2027, and were rated a high rating of ‘PRS Aa’ by Philippine Rating Services Corporation (“PhilRatings”). Proceeds of the issuance are used to finance the campus expansion projects, refinancing of the short-term loans incurred for the acquisition of land, and for other general corporate requirements of STI ESG.

The bonds include an embedded derivative in the form of an early redemption option that gives STI ESG the option, but not the obligation, to redeem in whole (and not in part), the outstanding bonds before the relevant maturity date, based on a certain price depending on the fixed early redemption option dates. Management has assessed that the early redemption option is closely related to the bonds and would not require to be separated from the value of the bonds and accounted for as a derivative under PAS 39, *Financial Instruments: Recognition and Measurement*.

A summary of the terms of STI ESG’s issued bonds follows:

Year Issued	Interest Payable	Term	Interest Rate	Principal Amount	Carrying Value as at March 31, 2018	Carrying Value as at March 31, 2017	Features
2017	Quarterly	7 years	5.8085%	₱2,180,000,000	<b>₱2,145,524,770</b>	₱2,141,517,787	Callable on the 3rd month after the 5th anniversary of Issue Date and on the 6th anniversary of Issue Date
2017	Quarterly	10 years	6.3756%	820,000,000	<b>806,354,364</b>	805,510,851	Callable from the 7th anniversary issue and every year thereafter until the 9th anniversary issue date
				<b>₱3,000,000,000</b>	<b>₱2,951,879,134</b>	₱2,947,028,638	

Covenants

The bonds provide certain restrictions and requirements with respect to, among others, change in majority ownership and management, merger or consolidation with other corporation resulting in loss of control over the overall resulting entity and sale, lease, transfer or otherwise disposal of all or substantially all of its assets. The Credit Facility Agreement also contains, among others, covenants regarding incurring additional debt and declaration of dividends. STI ESG is required to maintain a debt-to-equity ratio of not more than 1.5:1 and debt service cover ratio of not less than 1.05:1 computed based on the consolidated financial statements.

STI ESG's debt-to-equity and debt service cover ratios as at March 31, 2018 and 2017 are as follows:

	2018	2017
Total liabilities*	<b>₱4,215,264,337</b>	₱4,794,395,544
Total equity	<b>6,621,659,346</b>	6,262,091,871
Debt-to-equity	<b>0.64:1.00</b>	0.77:1.00

\* Excluding unearned tuition and other school fees

	2018	2017
EBITDA	<b>₱1,219,382,693</b>	₱1,298,327,425
Total interest-bearing liabilities	<b>353,487,492</b>	828,360,516
Debt service cover	<b>3.45:1.00</b>	1.57:1.00

Bond Issuance Costs

STI ESG incurred costs related to the issuance of the bonds amounting to ₱53.9 million. These costs are capitalized and amortized using the effective interest rate method. The carrying value of the unamortized bond issuance costs amounted to ₱48.1 million, inclusive of ₱0.8 million additional bond issue cost, and ₱53.0 million as at March 31, 2018 and 2017, respectively. Amortization of bond issuance costs amounting to ₱6.5 million and ₱0.1 million in 2018 and 2017, respectively, is recognized as part of the "Interest expense" account in the consolidated statements of comprehensive income (see Note 22).

Interest Expense

Interest expense, net of amount capitalized as property and equipment, associated with the bonds payable recognized in the consolidated statements of comprehensive income amounted to ₱162.0 million and ₱4.6 million in 2018 and 2017, respectively (see Notes 11 and 22).

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**20. Other Noncurrent Liabilities**

This account consists of:

	2018	2017
Payable to STI Diamond - net of current portion	<b>₱50,063,693</b>	₱57,117,312
Advance rent (see Note 28)	<b>36,101,395</b>	39,135,025
Refundable deposit - net of current portion (see Note 28)	<b>18,151,424</b>	19,867,318
Deferred lease liability (see Note 28)	<b>2,426,489</b>	3,233,954
	<b>₱106,743,001</b>	₱119,353,609

On August 16, 2016, STI Diamond entered into a Deed of Assignment with STI Novaliches where STI Diamond assigned, transferred and conveyed in a manner absolute and irrevocable, and free and clear of all liens and encumbrances, to STI Novaliches all its rights, title and interest in its assets and liabilities for a price of ₱75.7 million, payable quarterly over five years. Consequently, the management contract between STI ESG and STI Diamond was terminated. In addition, any rights to the residual interest in STI Diamond was transferred to an entity outside of the Group. As a result, STI ESG derecognized STI Diamond as a subsidiary. The impact of ₱60.8 million, shown as “Effect of derecognition of a subsidiary” in the consolidated statement of comprehensive income for the year ended March 31, 2017, represents the present value of the purchase price. As at March 31, 2018 and 2017, the total carrying value of the unpaid purchase price amounted to ₱57.1 million and ₱60.8 million, respectively. The current portion of the payable amounting to ₱7.1 million and ₱3.7 million is recorded under the “Accounts payable and other current liabilities” account as at March 31, 2018 and 2017, respectively (see Note 17).

Advance rent pertains to collection received by the Group which will be earned and applied in periods more than one year after the reporting date.

Refundable deposits are held by the Group throughout the term of the lease and are refunded in full to the lessee at the end of the lease term if the lessee has performed fully and observed all of the conditions and provisions in the lease. Refundable deposits are presented in the consolidated statements of financial position at amortized cost. The difference between the fair value at initial recognition and the notional amount of the refundable deposit is charged to “Deferred lease liability” and amortized on a straight-line basis over the respective lease term.

## 21. Equity

### Capital Stock

Details as at March 31, 2018 and 2017 follow:

	Shares	Amount
Common stock - ₱0.50 par value per share		
Authorized	10,000,000,000	₱5,000,000,000
Issued and outstanding	9,904,806,924	4,952,403,462

Set out below is the Parent Company’s track record of registration of its securities:

Date of Approval	Number of Shares		Issue/ Offer Price
	Authorized	Issued	
December 4, 2007*	1,103,000,000	307,182,211	₱0.50
November 25, 2011**	1,103,000,000	795,817,789	0.60
September 28, 2012***	10,000,000,000	5,901,806,924	2.22
November 7, 2012	10,000,000,000	2,627,000,000	0.90
November 28, 2012	10,000,000,000	273,000,000	0.90

\*\*\* Date when the registration statement covering such securities was rendered effective by the SEC.

\*\*\* Date when the Parent Company filed SEC form 10-1(k) (Notice of Exempt Transaction) with the SEC in accordance with the Securities Regulation Code and its Implementing Rules and Regulations.

\*\*\* Date when the SEC approved the increase in authorized capital stock.

As at March 31, 2018 and 2017, the Parent Company has a total number of shareholders on record of 1,259 and 1,256, respectively.

Cost of Shares Held by a Subsidiary

This account represents STI Holdings shares owned by STI ESG as at March 31, 2018 and 2017 which are treated as treasury shares in the consolidated statements of financial position.

Details of the account are as follows:

	2018	2017
Number of shares	<b>500,433,895</b>	500,433,895
Cost	<b>₱498,142,921</b>	₱498,142,921

In 2017, STI ESG sold 1,875,000 STI Holdings shares for a total consideration of ₱1.9 million. As a result, the corresponding cost of these shares amounting to ₱1.9 million was derecognized in the consolidated financial statements and the difference between the consideration and the cost of such shares was recognized as additional paid-in capital.

Dividends received by STI ESG related to these shares amounting to ₱10.0 million each year were offset against the dividends declared in 2018, 2017 and 2016 as shown in the consolidated statements of changes in equity.

Other Comprehensive Income (Loss)

	2018		
	Attributable to Equity Holders of the Parent Company	Non-controlling interests	Total
Cumulative actuarial gain (see Note 27)	₱96,727,608	₱479,211	₱97,206,819
Unrealized mark-to-market gain on AFS financial assets (see Note 15)	847,989	5,432	853,421
Share in associates' cumulative actuarial gain	215,592		
Share in associates' unrealized mark-to-market loss on AFS financial assets (see Note 13)	(114)	(2)	(116)
	<b>₱97,791,075</b>	<b>₱484,641</b>	<b>₱98,060,124</b>
	2017		
	Attributable to Equity Holders of the Parent Company	Non-controlling interests	Total
Cumulative actuarial gain (see Note 27)	₱44,398,122	₱479,211	₱44,877,333
Unrealized mark-to-market gain (loss) on AFS financial assets (see Note 15)	462,127	(316)	461,811
Share in associates' unrealized mark-to-market loss on AFS financial assets (see Note 13)	(16,188,913)	(221,552)	(16,410,465)
Share in associates' remeasurement loss on life insurance reserves	(18,078,114)	(245,537)	(18,323,651)
Share in associates' cumulative actuarial gain (see Note 13)	722,894	10,107	733,001
Share in associates' other equity reserve	718,885	9,764	728,649
	<b>₱12,035,001</b>	<b>₱31,677</b>	<b>₱12,066,678</b>

	2016		
	Attributable to Equity Holders of the Parent Company	Non-controlling interests	Total
Cumulative actuarial gain (see Note 27)	₱15,729,797	₱104,348	₱15,834,145
Unrealized mark-to-market loss on AFS financial assets (see Note 15)	(373,642)	(11,667)	(385,309)
Share in associates' unrealized mark-to-market gain on AFS financial assets (Note 13)	130,146,706	7,588,212	137,734,918
Share in associates' cumulative actuarial loss (see Note 13)	(18,002,502)	(244,220)	(18,246,722)
	₱127,500,359	₱7,436,673	₱134,937,032

Other Comprehensive Income and Other Equity Reserves associated with Noncurrent Asset Held for Sale

As at March 31, 2018, the cumulative balance of other comprehensive income associated with noncurrent asset held for sale consists of:

	Attributable to Equity Holders of the Parent Company	Non-controlling interests	Total
Shares in associates':			
Unrealized mark-to-market gain on AFS financial assets	₱107,103,936	₱1,454,685	₱108,558,621
Remeasurement loss on life insurance reserves	(17,854,179)	(242,495)	(18,096,674)
Cumulative actuarial gain	676,660	9,190	685,850
Other equity reserve	718,885	9,764	728,649
	₱90,645,302	₱1,231,144	₱91,876,446

Retained Earnings

- a) On September 29, 2017, cash dividends amounting to ₱0.02 per share or the aggregate amount of ₱198.1 million were declared by the Parent Company's BOD in favor of all stockholders on record as at October 16, 2017, payable on November 13, 2017.
- b) On September 30, 2016, cash dividends amounting to ₱0.02 per share or the aggregate amount of ₱198.1 million were declared by the Parent Company's BOD in favor of all stockholders on record as at October 14, 2016, payable on November 10, 2016.
- c) On September 25, 2015, cash dividends amounting to ₱0.02 per share or the aggregate amount of ₱198.1 million were declared by the Parent Company's BOD in favor of all stockholders on record as at October 12, 2015, payable on November 5, 2015.

As at March 31, 2018 and 2017, long-outstanding unclaimed dividends amounting to ₱11.9 million pertains to dividend declarations from 1998 to 2016, recognized as "Dividends payable" under "Accounts payable and other current liabilities" account (see Note 17).



- d) Consolidated retained earnings, as restated, include undeclared retained earnings of subsidiaries and share in net earnings of associates amounting to ₱3,145.6 million, ₱3,169.3 million and ₱3,553.4 million as at March 31, 2018, 2017 and 2016, respectively. The Parent Company's retained earnings available for dividend declaration, computed based on the guidelines provided in the SEC Memorandum Circular No. 11, amounted to ₱1,462.0 million, ₱1,431.0 million and ₱572.3 million as at March 31, 2018, 2017 and 2016, respectively.

*Policy on Dividends Declaration*

On September 19, 2017, the BOD of the Parent Company adopted a policy on the declaration of dividends starting with Fiscal Year 2017-2018.

The BOD approved a dividend declaration policy of not less than 25% of the core income of the Parent Company from the previous fiscal year, subject to compliance with the requirements of applicable laws and regulations, statutory limitations and/or restrictions, terms and conditions which may be imposed on the Parent Company by lenders or other financial institutions, and the Parent Company's investment plans and financial condition.

Core income is defined as consolidated net income after income tax derived from the Parent Company's main business which is education, and other recurring income.

The amount of dividends will be reviewed periodically by the BOD in light of the earnings, financial conditions, cash flows, capital requirements and other considerations, while maintaining a level of capitalization that is commercially sound and sufficient to ensure that the Parent Company can operate on a standalone basis.

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

- the level of the Parent Company's earnings, cash flow, return on equity and retained earnings;
- its results for and its financial condition at the end of the year in respect of which the dividend is to be paid and its expected financial performance;
- the projected levels of capital expenditures and other investment programs;
- restrictions on payments of dividends that may be imposed on it by any of its financing arrangements and current or prospective debt service requirements; and
- such other factors as the BOD deems appropriate.

Other Equity Reserve and Non-controlling Interests

- a. As discussed in Note 3, on April 4, 2016, the SEC approved STI Taft's application for an increase in authorized capital stock and consequently, STI Taft's advances from STI ESG amounting to ₱49.0 million was converted into equity. STI Taft became a 99.9%-owned subsidiary of STI ESG. This transaction resulted in the dilution of the non-controlling interests and an equity adjustment of ₱11.3 million for the year ended March 31, 2017.

On August 30, 2017, the SEC approved the application for merger of STI Taft and STI ESG, with STI ESG as the surviving entity. In December 2017, STI ESG subscribed to 5,287,836 of its own shares and issued a total of 4,446 shares to minority holders with par value of ₱1.0 per share, at a price of ₱1.82 per share or an aggregate cost of ₱9.6 million.

- b. In February 2015, STI ESG subscribed to 32,000 shares or an aggregate par value of ₱3.2 million and STI Dagupan's advances from STI ESG amounting to ₱19.8 million was converted into equity (see Note 3). Consequently, STI ESG's ownership over STI Dagupan increased from 77% to 99.9%. This transaction resulted in the dilution of non-controlling interest and an equity adjustment of ₱4.8 million in 2016.

On August 30, 2017, the SEC approved the application for merger of STI Dagupan with STI ESG, with STI ESG as the surviving entity. In December 2017, STI ESG subscribed to 664,437 shares and issued a total of 865 shares to minority holders with par value of ₱1.0 per share, at a price of ₱1.82 per share or an aggregate cost of ₱1.2 million.

- c. In 2017, the Group also recognized its share in adjustment amounting to ₱0.7 million under "Other equity reserve" account arising from Maestro Holdings' subscription to additional 1,629,682,642 shares in PhilLife which increased Maestro Holdings' interest in PhilLife from 70.00% to 70.60% (see Note 13).
- d. As discussed in Note 3, the Parent Company acquired 100% ownership of iACADEMY from STI ESG in September 2016. As a result, non-controlling interests amounting to ₱1.7 million was reallocated to equity attributable to the equity holders of the Parent Company and recorded as part of "other equity reserve".
- e. Dividends declared by subsidiaries to non-controlling interest owners amounted to ₱3.3 million, ₱14.4 million and ₱3.3 million in 2018, 2017 and 2016, respectively.

## 22. Interest Income and Interest Expense

Sources of interest income are as follows:

	2018	2017	2016
Cash and cash equivalents (see Note 6)	<b>₱27,722,535</b>	₱3,371,379	₱3,796,712
Past due accounts receivables (see Note 7)	<b>602,352</b>	1,472,985	1,406,303
Others	<b>202,254</b>	62,966	582,695
	<b>₱28,527,141</b>	₱4,907,330	₱5,785,710

Sources of interest expense are as follows:

	2018	2017	2016
Interest on bonds payable	<b>₱155,541,451</b>	₱4,472,631	₱-
Interest-bearing loans and borrowings (see Note 18)	<b>54,346,029</b>	71,595,015	61,728,023
Amortization of bond issuance costs	<b>6,453,589</b>	121,250	-
Obligations under finance lease (see Note 28)	<b>1,334,147</b>	2,713,547	1,194,458
Others	<b>1,736,683</b>	342,899	300,926
	<b>₱219,411,899</b>	₱79,245,342	₱63,223,407

### 23. Cost of Educational Services

This account consists of:

	2018	2017	2016
Faculty salaries and benefits (see Notes 26 and 27)	<b>₱369,602,766</b>	₱343,736,134	₱307,125,042
Depreciation and amortization (see Note 11)	<b>226,293,347</b>	204,617,024	187,569,647
Student activities and programs	<b>131,067,506</b>	134,087,888	127,724,741
Rental (see Note 28)	<b>105,142,007</b>	100,751,332	91,951,494
School materials and supplies	<b>14,292,901</b>	14,598,501	14,874,271
Software maintenance	<b>17,059,078</b>	9,432,849	7,171,434
Courseware development costs	<b>1,285,625</b>	1,553,931	4,383,111
Others	<b>17,344,331</b>	15,163,016	9,040,278
	<b>₱882,087,561</b>	₱823,940,675	₱749,840,018

### 24. Cost of Educational Materials and Supplies Sold

This account consists of:

	2018	2017	2016
Educational materials and supplies	<b>₱115,578,747</b>	₱106,680,695	₱40,693,912
Promotional materials	<b>15,028,535</b>	12,819,174	12,565,817
Others	<b>1,309,240</b>	1,343,453	1,674,073
	<b>₱131,916,522</b>	₱120,843,322	₱54,933,802

### 25. General and Administrative Expenses

This account consists of:

	2018	2017	2016
Salaries, wages and benefits (see Notes 26 and 27)	<b>₱322,823,847</b>	₱300,442,373	₱290,501,085
Depreciation and amortization (see Notes 11, 12 and 16)	<b>172,543,429</b>	171,004,475	170,560,906
Light and water	<b>131,056,313</b>	114,666,208	110,419,040
Provision for impairment loss on:			
Receivables (see Note 7)	<b>82,214,937</b>	70,577,287	70,722,732
Investments in and advances to associates and joint ventures (see Note 13)	<b>591,839</b>	1,643,844	519,414
Outside services	<b>110,261,517</b>	89,356,089	80,275,811
Professional fees	<b>77,001,661</b>	58,310,075	70,677,003
Advertising and promotions	<b>29,504,100</b>	16,369,980	59,579,821
Rental (see Note 28)	<b>61,576,885</b>	56,024,433	51,427,680
Transportation	<b>29,951,267</b>	29,820,396	27,245,215
Taxes and licenses	<b>47,571,833</b>	39,517,111	25,353,485
Repairs and maintenance	<b>23,427,436</b>	21,639,288	17,779,724

(Forward)

	2018	2017	2016
Meetings and conferences	19,807,155	18,950,866	17,412,689
Entertainment, amusement and recreation	17,163,999	16,834,601	14,750,373
Office supplies	20,189,861	15,194,753	14,246,507
Communication	11,589,826	11,235,848	11,097,991
Insurance	11,868,058	10,583,947	11,108,908
Software maintenance	2,929,618	2,203,386	1,666,137
Association dues	1,657,161	1,362,117	1,271,002
Excess of cost over net realizable value of inventories (see Note 8)	1,074,439	-	-
Others	19,513,752	20,357,229	22,519,057
	<b>₱1,194,318,933</b>	<b>₱1,066,094,306</b>	<b>₱1,069,134,580</b>

## 26. Personnel Costs

This account consists of:

	2018	2017	2016
Salaries and wages	₱608,737,425	₱563,493,729	₱523,402,404
Pension expense (see Note 27)	17,388,947	17,643,671	16,574,152
Other employee benefits	66,300,241	63,041,107	57,649,571
	<b>₱692,426,613</b>	<b>₱644,178,507</b>	<b>₱597,626,127</b>

## 27. Pension Plans

### Defined Benefit Plans

The Group (except iACADEMY, De Los Santos-STI College and STI QA) has separate, funded, noncontributory, defined benefit pension plans covering substantially all of its faculty and regular employees. The benefits are based on the faculties' and employees' salaries and length of service.

Retirement benefits are payable in the event of termination of employment due to: (i) early, normal, or late retirement; (ii) physical disability; (iii) voluntary resignation; or (iv) involuntary separation from service. For plan members retiring under normal, early or late terms, retirement benefit is equal to a percentage of final monthly salary for every year of credited service.

In case of involuntary separation from service, benefit is determined in accordance with the Termination Pay provision under the Philippine Labor Code or similar legislation on involuntary termination.

The funds are administered by a trustee bank under the supervision of the Board of Trustees of the plan. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (Investment policy). The Board of Trustees implements the Investment policy in accordance with the investment strategy as well as various principles and objectives.

The following tables summarize the components of the Group's net pension expense recognized in the consolidated statements of comprehensive income and the pension liability recognized in the consolidated statements of financial position:

	2018	2017	2016
Pension expense (recognized under the "Salaries, wages and benefits" account):			
Current service cost	<b>₱15,263,799</b>	₱13,968,053	₱13,551,312
Net interest cost	<b>1,828,704</b>	3,437,638	2,962,660
	<b>₱17,092,503</b>	₱17,405,691	₱16,513,972
Net pension liabilities (assets) (recognized in the consolidated statements of financial position):			
Pension liabilities	<b>₱42,455,457</b>	₱48,092,221	₱72,612,430
Pension assets	<b>(53,474,883)</b>	(2,763,398)	-
	<b>₱11,019,426</b>	₱45,328,823	₱72,612,430
Present value of defined benefit obligations	<b>₱153,548,419</b>	₱176,920,560	₱158,196,309
Fair value of plan assets	<b>(164,567,845)</b>	(131,591,737)	(85,583,879)
	<b>₱11,019,426</b>	₱45,328,823	₱72,612,430
Changes in the present value of defined benefit obligations:			
Balance at beginning of year	<b>₱176,920,560</b>	₱158,196,309	₱149,996,619
Current service cost	<b>15,263,799</b>	13,968,053	13,551,312
Interest cost	<b>8,418,109</b>	8,125,510	7,211,831
Benefits paid	<b>(8,755,296)</b>	(4,179,469)	(5,577,617)
Actuarial loss (gain) on obligations			
Demographic assumptions	<b>17,662</b>	-	(1,031,141)
Financial assumptions	<b>(27,796,763)</b>	(1,390,486)	(2,709,405)
Deviations of experience from assumptions	<b>(10,519,652)</b>	2,200,643	(3,245,290)
Balance at end of year	<b>₱153,548,419</b>	₱176,920,560	₱158,196,309
Changes in the fair value of plan assets:			
Balance at beginning of year	<b>₱131,591,737</b>	₱85,583,879	₱86,547,166
Contributions	<b>14,601,799</b>	12,419,088	12,657,324
Interest income	<b>6,589,405</b>	4,687,872	4,249,171
Benefits paid	<b>(8,755,296)</b>	(4,179,469)	(5,577,617)
Actuarial gain (loss) on plan assets	<b>20,540,200</b>	33,080,367	(12,292,165)
Balance at end of year	<b>₱164,567,845</b>	₱131,591,737	₱85,583,879
Actual return (loss) on plan assets	<b>₱27,129,605</b>	₱37,768,239	(₱8,042,994)

The principal assumptions used in determining pension liabilities are shown below:

	<b>March 31, 2018</b>	March 31, 2017	March 31, 2016
Discount rate	<b>6.54%–7.06%</b>	5.00%–5.69%	4.00%–6.00%
Future salary increases	<b>4.00%–5.00%</b>	4.00%–6.00%	4.00%–6.00%

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The major categories of the Group’s total plan assets as a percentage of the fair value of the total plan assets are as follows:

	<b>2018</b>	2017	2016
Cash and cash equivalents	<b>35%</b>	38%	37%
Investment in debt securities	<b>3%</b>	4%	6%
Investments in equity securities	<b>62%</b>	58%	57%
	<b>100%</b>	100%	100%

The plan assets of the Group are maintained by Union Bank of the Philippines, United Coconut Planters Bank and Rizal Commercial Banking Corporation Trust and Investments Group (“RCBC Trust”).

Details of the Group’s net assets available for plan benefits and their related market values are as follows:

	<b>2018</b>	2017
Cash	<b>₱1,257</b>	₱12,947,387
Short-term fixed income	<b>57,418,546</b>	37,827,410
Investments in:		
Equity securities	<b>102,011,760</b>	76,885,722
Government securities	<b>5,125,784</b>	3,927,149
Others	<b>10,498</b>	4,069
	<b>₱164,567,845</b>	₱131,591,737

*Short-term Fixed Income.* Short-term fixed income investment includes time deposits and special savings deposits.

*Investments in Equity Securities.* Investments in equity securities pertain to ESG’s Retirement Fund investment in the shares of the Parent Company which has a fair value of ₱1.46 and ₱1.10 per share as at March 31, 2018 and 2017, respectively.

Total unrealized gain from investments in equity securities of related parties amounted to ₱67.1 million, and ₱41.9 million as at March 2018 and 2017, respectively.

The plan may expose the Group to a concentration of equity market risk since the Group’s plan assets are primarily composed of investments in listed equity securities.

*Investments in Government Securities.* Investments in government securities include treasury bills and fixed-term treasury notes with maturities ranging from one to thirteen years and bear interest rates ranging from 5.52% to 6.36%. These securities are fully guaranteed by the Government of the Republic of the Philippines.

Management performs Asset-Liability Matching Study annually. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Group's current strategic investment strategy consists of 62% of equity instruments, 3% of debt instruments and 35% of cash and cash equivalents.

The average duration of the defined benefit obligation at the end of the period is 17 years.

Shown below is the maturity analysis of the undiscounted benefit payments as at March 31:

	<b>2018</b>	2017
Less than one year	<b>₱17,739,973</b>	₱30,720,654
More than one year to five years	<b>48,222,730</b>	36,932,665
More than five years to 10 years	<b>107,806,368</b>	95,666,572
More than 10 years to 15 years	<b>151,564,329</b>	131,735,098
More than 15 years to 20 years	<b>238,151,764</b>	237,385,379
More than 20 years	<b>380,560,387</b>	386,406,168

The expected contribution of the Group in 2019 is ₱8.7 million.

On November 7, 2013, RCBC Trust filed an application for the BIR approval of the retirement plan of STI WNU. BIR approval was issued on March 28, 2016.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation (DBO) as at the end of the reporting period, assuming all other assumptions are held constant:

	<b>Effect on Present Value of Define Benefit Obligation</b>		
	<b>2018</b>	2017	2016
Discount rates			
Increase by 1%	<b>(₱14,545,266)</b>	(₱15,363,055)	(₱15,323,198)
Decrease by 1%	<b>17,031,781</b>	18,444,900	18,459,764
Future salary increases			
Increase by 1%	<b>17,256,324</b>	18,223,671	18,222,965
Decrease by 1%	<b>(15,136,916)</b>	(15,632,710)	(15,562,118)
Employee turnover			
Increase by 10%	<b>1,796,509</b>	2,150,583	2,682,082
Decrease by 10%	<b>(1,796,509)</b>	(2,150,583)	(2,682,082)

#### Defined Contribution Plans

De Los Santos-STI College and STI QA have funded, noncontributory defined contribution plan ("De Los Santos Plan") covering all regular and permanent employees and is a participating employer in CEAP Retirement Plan. The De Los Santos Plan has a defined contribution format wherein the obligation is limited to specified contributions to the De Los Santos Plan and the employee's contribution is optional.

De Los Santos-STI College and STI QA's contributions consist of future service cost and past service cost. Future service cost is equal to 4.00% of employee's monthly salary from the date an employee becomes a member in CEAP. Past service cost is equal to 5.00% of the employees' average monthly salary for a 12 month period, immediately preceding the date of De Los Santos-STI College and STI QA's participation in CEAP, multiplied by the number of years of past service amortized over 10 years. Future service refers to the periods of covered employment on or after the date of De Los Santos-STI College and STI QA's participation in CEAP. Past service refers to the continuous service of an employee from the date the employee met the requirements for membership in the retirement plan to the date of acceptance of De Los Santos-STI College and STI QA as a Participating Employer in CEAP Retirement Plan. In addition, De Los Santos-STI College and STI QA give the employee an option to make a personal contribution to the fund at an amount not to exceed 4.00% of his monthly salary. De Los Santos-STI College and STI QA then provide an additional contribution of 1.00% of the employee's contribution based on the latter's years of tenure. Although the De Los Santos Plan has a defined contribution format, the Group regularly monitors compliance with RA No. 7641. As at March 31, 2016 and 2015, the Group is in compliance with the requirements of RA No. 7641.

As at March 31, 2018 and 2017, De Los Santos-STI College and STI QA have excess contributions to CEAP amounting to ₱3.5 million and ₱3.6 million, respectively. These excess contributions are classified as prepaid expense and will be offset against De Los Santos-STI College and STI QA's future required contributions to CEAP (see Note 9).

Philippine Interpretations Committee Q&A No. 2013-03 requires De Los Santos-STI College's defined contribution plan to be accounted for as defined benefit plan due to the minimum retirement benefits mandated under RA No. 7641. Actuarial valuation of De Los Santos-STI College's pension is performed every year-end. Based on the latest actuarial valuation, the minimum retirement benefit provided under RA No. 7641 exceeded the accumulated contribution and earnings under the Plan, however, the amount is not significant.

Pension expense recognized by De Los Santos-STI College and STI QA in 2018, 2017 and 2016 amounted to ₱0.3 million, ₱0.2 million and ₱0.1 million, respectively.

Total pension expense recognized in profit or loss follows:

	<b>2018</b>	2017
Defined benefit plans	<b>₱17,092,503</b>	₱17,405,691
Defined contribution plans	<b>296,444</b>	237,980
	<b>₱17,388,947</b>	₱17,643,671

#### Pension Cost – iACADEMY

Under the existing regulatory framework, RA No. 7641 (Retirement Pay Law) requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.



As at March 31 2018, iACADEMY has not established a retirement plan for its employees. The pension expense for the period ending March 31, 2018 and the liability recognized by iACADEMY were computed using assumptions and methods that are consistent with Philippine Accounting Standards No. 19 (PAS 19). The cost of providing benefits is valued every year by a professional qualified independent actuary. Benefits are dependent on the years of service and the respective employees' compensation and are determined using the projected unit credit method.

Below are the components of pension expense recognized in the consolidated statements of comprehensive income. These amounts are consolidated and presented in the previous disclosures.

	2018	2017
Current service cost	<b>₱1,452,949</b>	₱1,529,023
Interest cost	<b>303,978</b>	267,982
	<b>₱1,756,927</b>	₱1,797,005

Below are the amounts included in the consolidated statements of financial position arising from iACADEMY's pension liability in respect of its defined benefit and movements in the present value of defined benefit obligation.

	2018	2017
Balance at beginning of year	<b>₱5,342,318</b>	₱5,173,402
Current service cost	<b>1,452,949</b>	1,529,023
Interest cost	<b>303,978</b>	267,982
Remeasurements in OCI - actuarial gain	<b>(756,364)</b>	(1,628,089)
Balance at end of year	<b>₱6,342,881</b>	₱5,342,318

The principal assumptions used for the purposes of the actuarial valuations are as follows:

	2018	2017
Discount rate	<b>7.06%</b>	5.69%
Salary increase rate	<b>5.00%</b>	5.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at March 31, 2018 and 2017, assuming all other assumptions were held constant.

	Increase (Decrease)	Effect on Present Value of Defined Benefit Obligation	
		2018	2017
Discount rate	1%	<b>(₱946,080)</b>	(₱867,550)
	(1%)	<b>1,160,515</b>	1,077,327
Salary rate	1%	<b>1,173,969</b>	1,073,920
	(1%)	<b>(973,924)</b>	(880,480)

The weighted average duration of the defined benefit obligation is 19 years.

The expected future benefit payments are as follows:

Year	Amount
2019–2023	₱1,069,383
2024–2028	5,219,720
2029–2033	4,109,444
2034–2038	22,499,100

## 28. Leases

### a. Finance Lease

The Group acquired various transportation equipment under various finance lease arrangements. These are included as part of transportation equipment under the “Property and equipment” account in the consolidated statements of financial position.

Future annual minimum lease payments under the lease agreements, together with the present value of the minimum lease payments follow:

	March 31	
	2018	2017
Within one year	<b>₱8,469,651</b>	₱6,327,215
After one year but not more than five years	<b>15,441,938</b>	7,698,781
Total minimum lease payments	<b>23,911,589</b>	14,025,996
Less amount representing interest	<b>2,149,316</b>	1,186,614
Present value of lease payments	<b>21,762,273</b>	12,839,382
Less current portion of obligations under finance lease	<b>7,134,449</b>	5,667,168
Noncurrent portion of obligations under finance lease	<b>₱14,627,824</b>	₱7,172,214

Interest expense from finance lease amounted to ₱1.3 million, ₱2.7 million and ₱1.2 million in 2018, 2017 and 2016, respectively (see Note 22).

### b. Operating Lease

#### As Lessor

The Group entered into several lease agreements, as lessors, on their buildings and condominium units under operating lease agreements with varying terms and periods. All leases are subject to annual repricing based on a pre-agreed rate.

On September 17, 2014, iACADEMY entered into a sublease agreement, as lessor, on their leased building with PhilLife, for a period of five years subject to renewal upon mutual agreement by the parties.

On March 1, 2016, iACADEMY entered into sublease agreements with Smart Communications, Inc. and Digitel Mobile Philippines, Inc. for a period of two (2) years subject to renewal upon mutual agreement.

The Group also earns rental income from concessionaires and for the occasional use of some of the Group's properties primarily used for school operations such as gymnasiums.

iACADEMY received advance rental payments and refundable deposits as security for its observance and faithful compliance with the terms and conditions of the lease agreements (see Note 20).

Total rental income amounted to ₱114.6 million, ₱111.5 million and ₱63.2 million in 2018, 2017 and 2016, respectively (see Notes 12 and 30).

Future minimum rental receivable for the remaining lease terms follow:

	<b>March 31</b>	
	<b>2018</b>	2017
Within one year	<b>₱96,694,557</b>	₱106,430,750
After one year but not more than five years	<b>158,761,490</b>	290,761,699
More than five years	-	-
<b>Total</b>	<b>₱255,456,047</b>	₱397,192,449

#### As Lessee

The Group leases land and building spaces, where the corporate office and schools are located, under operating lease agreements with varying terms and periods. The lease rates are subject to annual repricing based on a pre-agreed rate.

On May 13, 2016, STI ESG and BDO Unibank, Inc. ("BDO Unibank") entered into an agreement for the lease of a property in Calamba, Laguna.

The term of the lease is 25 years starting July 2016 with a monthly rental of ₱0.4 million. The annual rental is subject to a 3% escalation every three years starting on the fourth year of the lease term. Under the terms of the lease agreement, STI ESG is required to make an upfront payment of ₱7.4 million as well as one (1) year advance rent.

On May 2, 2014, iACADEMY entered into a lease agreement with Metrobank Trust and Banking Group for the building where its office and school are located, for a period of 15 years and three months subject to renewal upon mutual agreement.

Total rental expense charged to operations amounted to ₱166.7 million, ₱156.8 million and ₱143.4 million in March 31, 2018, 2017 and 2016, respectively (see Notes 23 and 25).

Certain subsidiaries also paid the lessors refundable deposits equivalent to several months of rental payments as security for its observance and faithful compliance with the terms and conditions of the agreement (see Notes 9 and 16).

Future minimum rental payables under the lease agreements as at financial reporting date follow:

	<b>March 31</b>	
	<b>2018</b>	2017
Within one year	<b>₱132,775,192</b>	₱131,272,542
After one year but not more than five years	<b>350,342,173</b>	257,869,656
More than five years	<b>429,653,744</b>	390,378,870
<b>Total</b>	<b>₱912,771,109</b>	<b>₱779,521,068</b>

## 29. Income Tax

All domestic subsidiaries qualifying as private educational institutions are subject to tax under RA No. 8424, "An Act Amending the National Internal Revenue Code, as amended, and For Other Purposes" which was passed into law effective January 1, 1998. Title II Chapter IV - Tax on Corporation - Sec 27(B) of the said Act defines and provides that: a "Proprietary Educational Institution" is any private school maintained and administered by private individuals or groups with an issued permit to operate from DepEd, CHED, or TESDA, as the case may be, in accordance with the existing laws and regulations and shall pay a tax of ten percent (10.00%) on its taxable income.

The components of recognized net deferred tax assets and deferred tax liabilities are as follows:

	<b>2018</b>	2017
Deferred tax assets:		
Allowance for doubtful accounts	<b>₱12,766,164</b>	₱12,289,373
Pension liabilities	<b>4,237,147</b>	4,809,222
Excess of:		
Rental under operating lease computed on a straight-line basis	<b>3,036,526</b>	2,219,955
Cost over net realizable value of inventories	<b>1,089,096</b>	1,065,590
Unearned tuition and other school fees	<b>13,147,249</b>	7,876,132
Advance rent	<b>3,608,596</b>	3,911,958
NOLCO	<b>2,685,540</b>	2,685,540
	<b>40,570,318</b>	34,857,770
Deferred tax liabilities:		
Unamortized debt issue costs	<b>(2,115,706)</b>	(1,496,545)
Pension assets	<b>(5,347,488)</b>	(276,340)
Excess of fair value over carrying value of net assets acquired in business combination	<b>(209,144)</b>	(209,144)
	<b>(7,672,338)</b>	(1,982,029)
<b>Net deferred tax assets</b>	<b>₱32,897,980</b>	<b>₱32,875,741</b>
Deferred tax liabilities:		
Excess of fair values over carrying values of net assets acquired in business combination (see Note 3)	<b>₱124,869,083</b>	₱125,643,672
Excess of fair value over dacion price (see Note 32)	<b>110,861,700</b>	110,861,700
	<b>₱235,730,783</b>	<b>₱236,505,372</b>

Certain deferred tax assets of the Group were not recognized as at March 31, 2018 and 2017 as it is not probable that future taxable profits will be sufficient against which these can be utilized.

The following are the deductible temporary differences and unused NOLCO and MCIT for which no deferred tax assets were recognized:

	2018	2017
NOLCO	<b>₱42,111,456</b>	₱77,815,448
Allowance for:		
Advances to associates	<b>37,868,986</b>	37,277,147
Allowance for doubtful accounts	<b>858,771</b>	858,771
MCIT	<b>378,255</b>	378,559
Pension liability	<b>83,985</b>	100,000
Acquisition-related expenses	<b>4,773,584</b>	4,773,584
	<b>₱86,075,037</b>	₱121,203,509

As at March 31, 2018 and 2017, the Group also did not recognize any deferred tax assets on the provision for impairment losses on investment in and advances to an associate and goodwill because management does not expect to generate enough capital gains against which these capital losses can be offset.

The details of the Group's NOLCO, which can be claimed as deduction from future taxable income, are as follows:

Year Incurred	Expiry Dates	Amount
December 31, 2014	December 31, 2017	₱2,462,170
March 31, 2015	March 31, 2018	39,486,643
December 31, 2015	December 31, 2018	787,590
March 31, 2016	March 31, 2019	28,158,325
December 31, 2016	December 31, 2019	5,702,039
March 31, 2017	March 31, 2020	17,604,830
December 31, 2017	December 31, 2020	810,672
March 31, 2018	March 31, 2021	16,052,249
		111,064,518
Less:		
Expired in 2018		41,948,813
Applied in 2018		18,052,449
		<b>₱51,063,256</b>

The reconciliation of the provision for income tax on income before income tax computed at the effect of the applicable statutory income tax rate to the provision for income tax as shown in the consolidated statements of comprehensive income is summarized as follows:

	2018	2017	2016
Provision for income tax at statutory income tax rate	<b>₱174,188,009</b>	₱197,308,162	₱332,911,657
Income tax effects of:			
Equity in net losses of associates and joint ventures	<b>66,610,924</b>	73,229,375	46,390,507
Effect of derecognition of a subsidiary	-	18,248,837	-
Interest income already subjected to final tax	<b>(8,316,761)</b>	(1,011,414)	(1,139,014)
Nondeductible expenses	<b>123,849</b>	257,482	245,960
Others	<b>67,715</b>	8,893,757	(9,825,405)
Difference in 10% and 30% tax rate	<b>(154,865,059)</b>	(197,654,840)	(141,931,194)
	<b>₱77,808,677</b>	₱99,271,359	₱226,652,511

Others pertain to the income tax effects of change in unrecognized deferred tax assets, expired NOLCO and MCIT and other items.

Republic Act (“RA”) No.10963 or the Tax Reform for Acceleration and Inclusion Act (“TRAIN”) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

### 30. Related Party Transactions

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) enterprises or individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Parent Company; (b) associates; and (c) enterprises or individuals owning, directly or indirectly, an interest in the voting power of the company that gives them significant influence over the company, key management personnel, including directors and officers of the Group and close members of the family of any such enterprise or individual.

The following are the Group’s transactions with its related parties:

Related Party	Amount of Transactions during the Year			Outstanding Receivable (Payable)		Terms	Conditions
	2018	2017	2016	2018	2017		
<b>Associates</b>							
<b>STI Accent</b>							
Advances for various expenses and other charges	<b>₱591,839</b>	₱1,643,844	₱519,414	<b>₱37,868,986</b>	₱37,277,147	30 days upon receipt of billings; noninterest-bearing	Unsecured; with impairment
<b>Maestro Holdings</b>							
Subscription	-	-	69,983,200	-	-	Due and demandable; noninterest-bearing	Unsecured
<b>GROW</b>							
Rental income and other charges	-	-	-	<b>6,931,016</b>	7,139,094	30 days upon receipt of billings	Unsecured; no impairment
Advances for various expenses	<b>29,025</b>	27,418	54,539	<b>143,571</b>	143,571	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment

Related Party	Amount of Transactions during the Year			Outstanding Receivable (Payable)		Terms	Conditions
	2018	2017	2016	2018	2017		
<b>STI Alabang</b>							
Educational services and sale of educational materials and supplies	<b>₱19,762,175</b>	₱17,015,977	₱14,272,901	<b>₱435,759</b>	₱1,124,509	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
<b>STI Marikina</b>							
Educational services and sale of educational materials and supplies	<b>20,889,990</b>	15,003,907	11,140,869	<b>84,956</b>	31,789	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
<b>Joint Venture</b>							
<b>PHEI</b>							
Advances for various expenses	-	-	575,000	-	-	30 days upon receipt of billings; noninterest-bearing	Unsecured
<b>Affiliates*</b>							
<b>PhilCare</b>							
Rental income and other charges	<b>17,122,248</b>	18,259,373	17,284,807	<b>4,054,001</b>	3,572,074	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
HMO coverage	<b>4,695,098</b>	3,379,102	3,514,745	<b>(28,449)</b>	-	30 days upon receipt of billings; noninterest-bearing	-
<b>Phil First Insurance Co., Inc.</b>							
Utilities and other charges	<b>216,552</b>	214,505	221,243	<b>27,732</b>	-	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Rental and other charges	<b>3,961,159</b>	3,904,865	3,676,080	<b>(303,673)</b>	(288,214)	Within 1 year; Noninterest-bearing	Unsecured
Insurance	<b>5,071,370</b>	4,552,984	3,594,606	<b>(19,829)</b>	-	30 days upon receipt of billings; noninterest-bearing	Unsecured
<b>Philippines First Condominium Corporation</b>							
Association dues and other charges	<b>11,586,012</b>	12,296,975	11,317,782	<b>(1,331,539)</b>	-	30 days upon receipt of billings; noninterest-bearing	Unsecured
<b>PhilLife</b>							
Rental income and other charges	<b>12,998,288</b>	13,948,768	14,367,302	<b>486,550</b>	1,822,962	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
<b>Officers and employees</b>							
Advances for various expenses	<b>30,512,898</b>	18,845,003	17,393,879	<b>24,505,141</b>	22,689,623	Liquidated within one month; noninterest-bearing	Unsecured; no impairment
<b>Others</b>							
Rental income and other charges	<b>5,656,366</b>	3,089,246	641,286	<b>2,043,402</b>	3,183,974	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	-	-	535,625	-	-	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
				<b>₱74,897,624</b>	₱76,696,529		

\*Affiliates are entities under common control of a majority Shareholder

Related party receivables and payables are generally settled in cash.

Outstanding receivables from related parties, before any allowance for impairment, and payables arising from these transactions are summarized below:

	2018	2017
Educational services (see Note 7)	<b>₱520,715</b>	₱1,156,298
Advances to officers and employees (see Note 7)	<b>24,505,141</b>	22,689,623
Rent, utilities and other related receivables (see Note 7)	<b>13,542,701</b>	14,506,845
Current portion of advances to associates, joint ventures and other related parties (see Note 7)	<b>143,571</b>	143,571
Advances to associates and joint ventures (see Note 13)	<b>37,868,986</b>	37,277,147
Accounts payable (see Note 17)	<b>(1,683,490)</b>	(288,214)
	<b>₱74,897,624</b>	₱75,485,270

Outstanding balances of transactions with subsidiaries from the Parent Company's point of view which were eliminated at the consolidated financial statements are as follow:

Category	Amount of Transactions for the Year			Outstanding Receivable (Payable)			Terms	Conditions
	2018	2017	2016	2018	2017	2016		
<i>Subsidiaries</i>								
<b>STIESG</b>								
Advisory fee	<b>₱14,400,000</b>	₱14,400,000	₱14,400,000	₱-	₱-	₱-	30 days upon receipt of billings; Noninterest-bearing	Unsecured
Reimbursements	<b>3,945</b>	324,615	1,230,838	-	-	-	Within 1 year; Noninterest-bearing	Unsecured
<b>STI WNU</b>								
Advisory fee	<b>3,600,000</b>	3,600,000	3,600,000	-	-	-	30 days upon receipt of billings; Noninterest-bearing	Unsecured
Subscription payable (see Note 11)	<b>(5,000,000)</b>	(5,000,000)	(10,000,000)	<b>(25,227,650)</b>	(30,227,650)	(35,227,650)	Noninterest-bearing	Unsecured
<b>AHC</b>								
Advances	-	-	(1,403,186)	-	-	-	Within 1 year; Noninterest- bearing	Unsecured; no impairment
Payable to AHC (see Note 11)	-	-	73,778,000	<b>(63,778,000)</b>	(63,778,000)	(63,778,000)	Payable upon demand; noninterest-bearing	Unsecured
Subscription payable	-	-	-	<b>(64,000,000)</b>	(64,000,000)	(64,000,000)	Noninterest-bearing	Unsecured
<b>iACADEMY</b>								
Advances (see Note 5)	-	(285,112,827)	41,166	-	-	41,166	Within 1 year; Noninterest- bearing	Unsecured

### Compensation and Benefits of Key Management Personnel

Compensation and benefits of key management personnel of the Group are as follows:

	2018	2017	2016
Short-term employee benefits	<b>₱50,049,111</b>	₱52,647,911	₱42,987,063
Post-employment benefits	<b>2,266,417</b>	2,053,780	1,724,890
	<b>₱52,315,528</b>	₱54,701,691	₱44,711,953



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**31. Basic and Diluted Earnings Per Share on Net Income Attributable to Equity Holders of STI Holdings**

The table below shows the summary of net income and weighted average number of common shares outstanding used in the calculation of earnings per share for the years ended March 31, 2018, 2017 and 2016:

	2018	2017	2016
Net income attributable to equity holders of STI Holdings (see Note 13)	<b>₱496,017,439</b>	₱550,204,057	₱874,228,253
Common shares outstanding at beginning and end of year (see Note 21)	<b>9,904,806,924</b>	9,904,806,924	9,904,806,924
Basic and diluted earnings per share on net income attributable to equity holders of STI Holdings (see Note 13)	<b>₱0.050</b>	₱0.055	₱0.088

The basic and diluted earnings per share are the same for the years ended March 31, 2018, 2017 and 2016 as there are no dilutive potential common shares.

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**32. STI Gift of Knowledge Certificates (“GOKs”)**

On December 9, 2002, the BOD of STI ESG approved the offer for sale and issue of up to ₱2.0 billion worth of GOKs.

The STI GOKs are noninterest-bearing certificates that entitle the holders or any designated scholars to redeem academic units in any member of the STI Group or equivalent academic units in any STI school on certain designated redemption dates or, to require STI to pay in cash the par value of the outstanding STI GOKs on designated graduation dates. The redemption dates range from the school year 2004–2005 to six years from date of issue of the STI GOKs. The graduation dates range from between four to ten years from issue date. A total offer size of 2,409,600 academic units for the entire STI College Group or its equivalent units in any STI school will be offered at serial redemption dates at their corresponding par values.

In 2003, the SEC issued an Order of Registration and a Certificate of Permit to Sell Securities for the said STI GOKs.

STI ESG is planning to amend the terms of the GOKs to conform with future business strategies.

As at July 12, 2018, there has been no sale nor issuance of GOKs. Hence, pursuant to Section 17.2 (a) of the Securities Regulation Code (“SRC”), STI ESG is not required to file the reports required under Section 17 of the SRC.

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### 33. Contingencies and Commitments

#### Contingencies

- a. *Agreements with PWU and Unlad.* In various dates in 2011, 2012 and 2013, the Parent Company and AHC extended loans and advances to PWU and Unlad by virtue of several agreements (collectively, “Loan Documents”), which were secured by mortgages over PWU and Unlad properties, entered into among the Parent Company, AHC, PWU and Unlad in the total principal amount of ₱513.0 million. Upon the non-adherence to the terms and conditions stated in the agreements, the Parent Company and AHC served notices of default to PWU and Unlad in December 2014, and demanded the payment of the total combined amount of approximately ₱926.0 million, inclusive of interests, penalties, fees and taxes.

Upon failure to pay the aforesaid loan, the Parent Company and AHC enforced its rights under the aforesaid agreements and mortgages and filed several Petitions for Extra-Judicial Foreclosure of Real Estate Mortgage on (a) PWU Indiana and Taft Properties with the Office of the Clerk of Court and Ex-Officio Sheriff of the Regional Trial Court (“RTC”) of Manila, (b) Unlad’s properties in Quezon City and (c) Davao Property with the Office of the Clerk of Court and Ex-Officio Sheriff of the RTC of Quezon City and Davao, respectively, in February 2015.

On March 13, 2015, Dr. Helena Z. Benitez (“HZB”) filed a Creditor-Initiated Petition for Rehabilitation of PWU in RTC Manila (“PWU Rehabilitation Case”). The PWU Rehabilitation Case was raffled to Branch 46 of the RTC Manila (“Rehabilitation Court”).

On March 26, 2015, the Parent Company filed a Notice of Claim with the Rehabilitation Court.

On August 29, 2015, the Rehabilitation Court rendered a decision dismissing the PWU Rehabilitation Case.

After filing of the Motion for Reconsideration and responsive pleadings thereto, on January 21, 2016, the Rehabilitation Court denied the respective Motions for Reconsideration filed by HZB and PWU.

Extra-judicial foreclosure sales were conducted in various dates in 2015 and 2016 for the above mentioned properties and the Parent Company was declared as the winning bidder for all extra-judicial foreclosure sales held.

On March 1, 2016, the Parent Company and AHC executed a Deed of Assignment wherein AHC assigned its loan to Unlad, including capitalized foreclosure expenses, amounting to ₱66.7 million for a cash consideration of ₱73.8 million.

On March 22, 2016, the Parent Company, PWU, Unlad, and HZB entered into a MOA for the extinguishment and settlement of the outstanding obligations of PWU and Unlad to the Parent Company. The MOA includes, among others, the execution of the following on March 31, 2016:

- Deed of Dacion en pago of Quezon City Properties and Davao Property (collectively referred to as the “Deeds”) in favor of the Parent Company
- Release and cancellation of mortgages over the Manila Properties to be executed by the Parent Company

The MOA also provides that the Parent Company will be committed to fund and advance all taxes, expenses and fees to the extent of ₱150.0 million in order to obtain the CAR and the issuance of new TCT and TD in favor of the Parent Company. In the event that such expenses are less than ₱150.0 million, the excess shall be given to Unlad. However, if the ₱150.0 million will be insufficient to cover the expenses, the Parent Company will provide the deficiency without any right of reimbursement from Unlad.

Prior to the settlement, the breakdown of the receivables from PWU and Unlad follows:

	PWU	Unlad	Total
Principal amount	₱250,000,000	₱263,000,000	₱513,000,000
Interest*	12,651,546	3,327,389	15,978,935
Auction expenses**	23,195,709	951,876	24,147,585
Foreclosure and legal expenses**	18,021,970	5,941,989	23,963,959
	₱303,869,225	₱273,221,254	₱577,090,479

\*Interest up to December 31, 2012 only

\*\*₱15.2 million and ₱32.9 million of auction, foreclosure and legal expenses, were recognized as part of the noncurrent receivables in 2016 and 2015, respectively

Pursuant to the MOA, on March 31, 2016, the Parent Company and Unlad entered into the Deeds wherein Unlad transfers four parcels of land in Quezon City and a parcel of land in Davao to the Parent Company for a total dacion price of ₱611.0 million and ₱300.0 million, respectively, for the settlement of the outstanding loans of PWU and Unlad. This resulted in a gain amounting to ₱553.4 million (including the difference between the fair value and the dacion price of ₱369.5 million) and is presented as “Excess of consideration received from collection of receivables” in the consolidated statement of comprehensive income for the year ended March 31, 2016.

Consequently, the Parent Company recognized the Quezon City and Davao properties as “Investment properties” (see Note 12).

Relative to the above, the following cases have been filed:

- (i). *Complaint filed by the Heirs of the Family of Villa-Abrille relative to Unlad’s Davao Property.* On October 21, 2015, the Parent Company and AHC each received copies of the Complaint filed by the Heirs of Carlos Villa-Abrille, Heirs of Luisa Villa-Abrille, Heirs of Candelaria V.A. Tan, Heirs of Adolfo V.A. Lim, Heirs of Saya V.A. Lim Chiu, Heirs of Guinga V.A. Lim Lu, Heirs of Rosalia V.A. Lim Lua, Heirs of Lorenzo V.A. Lim, and Heirs of Fermin Abella against the Philippine Women’s Educational Association (“PWEA”), Unlad, the Parent Company, and AHC for cancellation of certificate of title, reconveyance of real property, declaration of nullity of real estate mortgage, damages, and attorney’s fees. The subject matter of the case is Unlad’s property located in Davao City.

The Plaintiffs claim that ownership of Unlad’s property in Davao City should revert back to them because PWEA and Unlad violated the restrictions contained in the Deed of Sale covering the property. The restrictions referred to by the Plaintiffs provide that PWEA shall use the land for educational purposes only and shall not subdivide the land for purposes of resale or lease to other persons. The Plaintiffs also claim that the real estate mortgage constituted over Unlad’s property in Davao City in favor of the Parent Company and AHC should be declared null and void because PWEA and Unlad have no capacity to mortgage the property based on the restrictions contained in the Deed of Sale.

On November 20, 2015, the Parent Company and AHC filed the Motion to Dismiss (“First Motion to Dismiss”). In the First Motion to Dismiss, the Parent Company and AHC asserted that the Plaintiffs’ cause of action against PWEA and Unlad has prescribed considering that the alleged violation of the restrictions in the Deed of Sale occurred in 1987 or more than ten (10) years from the filing of the case. In addition, Plaintiffs cannot seek the cancellation of the real estate mortgage in favor of the Parent Company and AHC because (a) Plaintiffs are not privy/real parties in interest to the said mortgage, and (b) the restrictions in the title and Deed of Sale do not prohibit the mortgage of the subject property. The First Motion to Dismiss was scheduled by the Trial Court on December 4, 2015.

On December 4, 2015, the Plaintiffs failed to attend the hearing of the Motion to Dismiss. The Trial Court instead ordered the Plaintiffs to file their comment to the Motion to Dismiss within ten (10) days from receipt of its order while the Parent Company and AHC are given the same period to file their reply thereto.

The Trial Court also noticed that the records failed to show that PWEA and Unlad received the Summons. The Trial Court then ordered the branch sheriff to cause the service of the Summons to PWEA and Unlad.

Despite the extensions given to the Plaintiffs, Plaintiffs belatedly filed its Comment/Opposition to the First Motion to Dismiss. Subsequently, the Company and STI Holdings filed an (1) Omnibus Motion, which seeks to expunge Plaintiffs’ Comment/Opposition to the First Motion to Dismiss for belatedly filing the same, and (2) a Second Motion to Dismiss dated March 22, 2016 (“Second Motion to Dismiss”).

In the Second Motion to Dismiss, the Parent Company and AHC informed the Trial Court that they were able to discover that the plaintiffs filed a similar case against PWEA and Unlad with another Trial Court of Davao City, which was dismissed without qualifications for their failure to comply with the said Trial Court’s order. Said dismissal was eventually affirmed with finality by the Supreme Court. Because of this information, the Parent Company and AHC moved to dismiss the case for res judicata and willful and deliberate forum shopping for filing the same case to the Trial Court.

After receipt of all the motions filed by the Parent Company and AHC, the Trial Court ordered the parties to file their responsive pleadings to said pending motions, after which the same shall be submitted for resolution.

The parties filed their responsive pleading wherein the last responsive pleading was filed on May 30, 2016. With the filing of the said last responsive pleading, the Motions to Dismiss were submitted for resolution.

On October 20, 2016, the Trial Court issued the Order, which granted the Motions to Dismiss, and dismissed the instant case on the basis of (a) prescription, and (b) res judicata. The Trial Court likewise affirmed that there were no violations of the provisions and/or restrictions in the Deed of Sale annotated on the title of the subject property because (a) the mortgage of the subject property between the Parent Company and AHC and Unlad is not a prohibited act; and (b) there is no allegation that the subject property shall not be used by the Parent Company and AHC for educational purpose.

On November 24, 2016, the Plaintiffs filed a Notice of Appeal of the Order dated October 20, 2016, and sought the reversal of the same with the Court of Appeals-Cagayan de Oro (“Court of Appeals”).

On February 22, 2017, the Parent Company and AHC received the Notice from the Court of Appeals that the Plaintiffs' appeal is docketed as CA-G.R. CV No. 04538. The Court of Appeals required the Plaintiffs to file their Appellants' Brief within forty five (45) days from their receipt of the said Notice. Upon receipt of their Appellants' Brief, the Parent Company and AHC have the same period to file its Appellees' Brief.

After filing a Motion for Extension of time to file the Appellants' Brief, the Plaintiffs filed their Appellants' Brief. In the Appellants-Brief, they reiterated that (a) their cause of action in Civil Case No. 36,430-2015 has not prescribed, (b) they have a cause of action against the Corporation to nullify the mortgage contracts over the subject property and (c) there is no res judicata.

While co-Respondents PWEA and Unlad filed their joint Appellees' Brief, the Parent Company and AHC filed an Omnibus Motion on June 21, 2017. In the Omnibus Motion, the Parent Company and AHC moved to dismiss the Plaintiffs' appeal because the Appellants' Brief did not comply with the mandatory requirements on the content thereof and period to file the same as provided in Sections 7 and 13 of Rule 44 in relation to Section 1 of Rule 50 of the Rules of the Court. The Parent Company and AHC likewise move to suspend the filing of the Appellees' Brief pending the resolution of the said motion to dismiss appeal.

On August 1, 2017, the Parent Company and AHC received the Resolution of the Court of Appeals. In the Resolution, the Court of Appeals, among others, (a) noted the filing of the Omnibus Motion, and (b) required Plaintiffs' to file their Comment thereto within ten (10) days from their receipt of the Resolution.

The Plaintiffs filed their Comment with Motion to declare the Parent Company and AHC to have deemed waived their right to file their Appellees' Brief. In the said Comment with Motion, Plaintiffs invoked the liberal application of the *Rules of Court* to excuse the defects in their Appellants' Brief. Moreover, Plaintiffs moved that the Parent Company and AHC be declared to have waived their right to file their Appellants' Brief because the period to file the same has lapsed.

On September 15, 2017, the Parent Company and AHC filed a Motion to Admit Reply with Comment/Opposition. In the said Reply with Comment/Opposition, they asserted that the defects in the Plaintiffs' Appellants' Brief are inexcusable. Moreover, the filing of the Omnibus Motion to seek the dismissal of the Appeal suspends the period to file an Appellees' Brief until its resolution.

On October 19, 2017, the Parent Company and AHC received the Court of Appeals' Resolution, which dismissed the Plaintiffs' appeal based on defects in their Appellants' Brief.

On November 21, 2017, the Parent Company and AHC received Plaintiffs' Omnibus Motion (1) for reconsideration to the dismissal of the appeal and (2) admit the amended Appellants' Brief. In the Omnibus Motion, Plaintiffs asserted that the appeal should be reinstated because they have cured all the defects in their Appellants' Brief.

After the parties have filed their respective responsive pleadings to the Plaintiffs-Appellants' Omnibus Motion, the Court of Appeals issued the Resolution dated March 1, 2018, which out of liberality, reinstated the Plaintiffs'-Appellants appeal. Meanwhile, the Court of Appeals required the Parent Company and AHC to file their Appellees' Brief within forty five days from receipt thereof, or until April 30, 2018.

On April 30, 2018, the Parent Company and AHC filed their Appellees' Brief. In the Appellees Brief the Parent Company and AHC asserted that the Subject Orders are valid and with legal basis to dismiss the Plaintiffs' case due to (1) prescription, (2) res judicata and (3) failure to state a cause of action.

As of July 12, 2018, the Parent Company and AHC have not received the said Reply-Brief, and/or any other pleading or motion from the Plaintiffs-Appellants.

Unless otherwise provided by the Court of Appeals, the Plaintiffs-Appellants' appeal of the Subject Order is deemed submitted for resolution.

- (ii). *PWU Rehabilitation Case.* On March 13, 2015, HZB filed the PWU Rehabilitation Case to the Rehabilitation Court.

On March 20, 2015, the Rehabilitation Court issued a Commencement Order declaring PWU to be under rehabilitation. The Commencement Order contains a Stay Order, which among others, effectively suspends all actions or proceedings enforcing all claims against PWU in court or otherwise.

On March 26, 2015, the Parent Company filed a Notice of Claim with the Rehabilitation Court. Under the Notice of Claim, PWU has outstanding obligations amounting to ₱763.6 million as at March 25, 2015.

On April 8, 2015, the Parent Company filed its Opposition to the PWU Rehabilitation Case.

On May 26, 2015, the Rehabilitation Court referred the PWU Rehabilitation Case to the Rehabilitation Receiver for evaluation. The Rehabilitation Receiver was given forty days from May 26, 2015 to consider whether the rehabilitation of PWU is feasible or not.

On August 29, 2015, the Rehabilitation Court rendered the decision to dismiss the PWU Rehabilitation Case, for being, among others, a sham filing and ordered the lifting of the Stay Order.

After filing of the Motion for Reconsideration and responsive pleadings thereto, on January 21, 2016, the Rehabilitation Court denied the respective Motion for Reconsideration filed by HZB and PWU.

PWU filed a Petition for Certiorari with Application for Temporary Mandatory/Restraining Order and/or Writ of Preliminary Injunction dated February 26, 2016 to the CA. Subsequently, HZB filed her Petition for Certiorari (with Urgent Application for Temporary Restraining Order And/or Writ of Preliminary Injunction) dated February 29, 2016 to the CA.

Eventually, both PWU and HZB filed their Motion for Withdrawal of their Petition for Certiorari dated April 11, 2016 to the CA.

On May 13, 2016, the Motion to Withdraw the Petition for Certiorari of PWU was granted by the CA.

On June 23, 2016, the Court of Appeals required HZB, through her counsel, to re-file the Motion to Withdraw the Petition for Certiorari of HZB on the ground that it has not received the same.

After the filing of the said Motion, the Court of Appeals issued the Resolution dated August 11, 2016 granting the said Motion, and considered the Petition filed by HZB withdrawn.

Considering the withdrawal of the aforesaid Petitions and settlement of the parties, the dismissal of the Petition for Rehabilitation of PWU has become final and executory.

(iii). *Arbitration Case and Derivative Suit filed by Mr. Conrado Benitez II.*

- (a) Mr. Conrado L. Benitez II (the "Claimant") filed on June 28, 2016 a Request for Arbitration, with the Philippine Dispute Resolution Center, Inc. ("PDRCI"), for and on behalf of PWU and Unlad, wherein he requested that the directors/trustees and stockholders/members of Unlad and PWU, Mr. Eusebio H. Tanco ("EHT"), the Parent Company, Mr. Alfredo Abelardo B. Benitez ("ABB") and AHC (collectively, the "Respondents") submit the alleged dispute over the settlement of the loan obligations of PWU and Unlad as provided in the arbitration clause of the Joint Venture Agreement and Omnibus Agreement (the "Loan Documents").

In the said Arbitration Case, the Claimant asserted that PWU and Unlad are not in default in their obligations under the Loan Documents. The obligations provided therein, specifically obtaining a tax free ruling for Property for Share Swap Transaction from the Bureau of Internal Revenue, is an impossible condition. Consequently, the foreclosures on the securities of the Loan Documents, real properties of PWU and Unlad, were null and void because (a) failure to submit the case for arbitration and (b) PWU and Unlad are not in default. Based on such circumstances, the Claimant sought, among others, the (a) renegotiation, or (b) rescission of the Loan Documents. Should the Loan Documents be rescinded, the Claimant also sought that PWU and Unlad shall be allowed twelve months to sell the Davao and Quezon City Properties to return the alleged investments made by the Parent Company, EHT, ABB and AHC. Lastly, the Claimant sought the payment of attorney's fees not less than ₱5.0 million, ₱0.5 million for expenses and reimbursement of cost of suit, expenses, and other fees.

On July 12, 2016, the Parent Company, AHC and EHT received the Notice of Arbitration from the PDRCI, and required said parties to file their Response to the Request for Arbitration filed by the Claimant within thirty (30) days from receipt thereof, or until August 11, 2016.

Upon verification with the PDRCI, the Claimant has yet to pay the full amount of fees required by the PDRCI.

Based on the rules of the PDRCI, the Respondents in the arbitration case need not file their Response until full payment of the Claimant.

Based on said circumstances, the Parent Company, AHC, and EHT filed an Entry of Appearance with Manifestation ("Manifestation"). In the Manifestation, they informed the PDRCI that the filing of their Response shall be deferred until full payment of the provisional advance of cost by the Claimant as required under the PDRCI Rules. Likewise, they manifested that the Claimant should be compelled to pay said fees in order for the PDRCI and/or the arbitral tribunal to be constituted to rule on the defenses and/or claim to be raised by the Parent Company, AHC and EHT.

On September 7, 2016, the PDRCI issued a *Notice* dated August 26, 2016, which informed the parties to the instant case that the proceedings are suspended until the Claimant settles the outstanding provisional advance on cost for filing the instant case.

In view of the foregoing, the case is deemed suspended pending the settlement by the Claimant of the provisional advance on cost.

As of July 12, 2018, the case remains suspended based on the aforesaid reason.

- (b) After filing the Request for Arbitration, Mr. Conrado L. Benitez II (the “Petitioner”) then filed on June 29, 2016 a derivative suit for himself and on behalf of Unlad and PWU against directors/trustees and stockholders/members of Unlad and PWU, EHT, the Parent Company, ABB and AHC (collectively, the “Defendants”) docketed as Civil Case No. 16-136130 in the RTC of Manila (the “Derivative Suit”). The Derivative Suit was raffled to Branch 24 of the RTC of Manila presided over by Judge Ma. Victoria A. Soriano-Villadolid.

In the Derivative Suit, the Petitioner primarily asserts that the Parent Company, EHT, ABB and AHC should submit themselves to the arbitration proceedings filed with the PDRCI because the Loan Documents required any alleged dispute over the same to be resolved through arbitration. Consequently, the Petitioner alleges that the foreclosure proceedings and settlement of the obligations of PWU and Unlad as evidenced by the MOA dated March 22, 2016 executed by PWU and Unlad with the Parent Company and AHC are null and void for not complying with the aforesaid arbitration clause. Likewise, the Petitioner sought the payment of attorney’s fees not less than ₱1.0 million, ₱0.1 million for expenses and cost of suit.

On July 26, 2016, the Parent Company and AHC filed their Joint Answer with Compulsory Counterclaim (“Joint Answer”). In the Joint Answer, the Parent Company and AHC asserted that the instant case is a mere harassment and nuisance suit, and a deliberate form of forum shopping when the Petitioner filed the Arbitration Case for the same purpose. Likewise, the Petitioner cannot compel the corporations to submit themselves to arbitration because (a) the parties to the Loan Documents have already settled any disputes, and (b) the said corporations are not stockholders and members of PWU and Unlad. Lastly, the relevant laws allow the Parent Company and AHC to institute foreclosure proceedings even if there is an arbitration clause.

Simultaneously, EHT filed his Answer wherein he asserted that the Petitioner cannot compel him to submit himself to arbitration when he is not a party to the Loan Documents. Under the relevant laws and arbitration clause of the Loan Documents, only parties to said contracts may be required to submit themselves to arbitration. EHT has ceased to be a party to the Joint Venture Agreement when he assigned all his rights and interests thereto to the Parent Company, while he is not a party to the Omnibus Agreement. EHT further asserted that the Petitioner’s only motive of including him in said case is to destroy his good name with the latter’s blatant lies and baseless allegations.

The Petitioner then filed his Consolidated Reply to the Joint Answer and Answer of EHT.



Meanwhile, Defendants ABB, Dr. Francisco Benitez (as president of PWU), and Mr. Marco Alfredo Benitez (as president of Unlad) filed their respective Motion(s) to set preliminary hearing on the special and affirmative defenses raised by said Defendants in their respective Answers.

On October 19, 2016, the Petitioner filed his Ex Parte Motion to Set Pre-Trial of the instant case.

The Trial Court ordered the parties to file their respective comments to the aforesaid Motions.

Based on the records of the case, Dr. Francisco Benitez (as president of PWU), and Mr. Marco Alfredo Benitez (as president of Unlad) have filed their opposition to the Ex Parte Motion to Set Pre-Trial insofar as the same is premature due to the pending Motion(s) to set preliminary hearing on the special and affirmative defenses.

On November 11, 2016, the Parent Company, AHC and EHT filed their respective Motion(s) to Set Hearing on Affirmative Defenses. In EHT's Motions, EHT moved to dismiss the case because EHT is no longer a party to the loan documents subject of the instant case. While, the Parent Company and AHC asserted that the dismissal of the case is warranted when (a) the Plaintiff is guilty of forum shopping for filing the arbitration case with the PDRCI and (b) the same is a mere harassment and/or nuisance suit. The said Motions were set for hearing on December 8, 2016.

After the hearing on the aforesaid Motions filed by the Defendants in the instant case and filing of all the parties their respective responsive pleadings to the said Motions, the Trial Court issued its Order dated February 22, 2017, which denied the co-defendants respective Motion(s) to Set Preliminary Hearing on the Special and Affirmative Defenses.

On March 13, 2017, the Parent Company, AHC and EHT received two (2) Order(s) both dated March 3, 2017 from the Trial Court. The first Order provides that their Motion(s) to Set Preliminary Hearing on the Special and Affirmative Defenses were denied by the Trial Court while the second Order set the case for pre-trial conference on April 18, 2017 with pre-marking of documentary evidence on April 7, 2017 ("Notice of Pre-Trial"). The Notice of Pre-Trial further requires the parties to file their respective (a) pre-trial briefs, (b) documentary evidence, (c) affidavits of witnesses, and (d) special power of attorney of counsels, in case any of the party-litigants cannot attend the pre-trial conference.

After participating in the pre-marking of evidence and filing of their respective Pre-Trial Briefs and Judicial Affidavits of witnesses, the parties' respective counsels attended the pre-trial for the above-captioned case on April 18, 2017.

During the pre-trial conference, the Trial Court referred the case for Court-Annexed Mediation with the Philippine Mediation Center ("PMC") as allowed during pre-trial. The Trial Court further informed the parties that should the parties fail to amicably settle, the Trial Court may require the parties to (a) file their respective Memorandum, (b) present their evidence or witness on factual issues need to be clarified and/or resolved, and/or (c) submit the case for judgment based on the pleadings and evidence submitted by the parties.

Immediately after the hearing, the parties went to the PMC, wherein the parties agreed to schedule the mediation hearing on May 3, 2017. While setting the schedule of the mediation hearing, counsel for the Petitioner made a proposal for the amicable settlement of the instant case.

On May 2, 2017, the Parent Company and AHC received the Urgent Motion (For Issuance of Temporary Restraining Order and Writ of Preliminary Injunction) (“Motion for TRO/Injunction”) filed by the Petitioner. In the Motion for TRO/Injunction, the Petitioner sought to enjoin the construction work being initiated by the Parent Company on the Davao Property on the ground that (a) the said property is subject of the instant case, and (b) Unlad and/or Philippine Women’s College of Davao will be dispossessed of the said property. The Motion for TRO/Injunction was scheduled by the Trial Court on May 11, 2017.

On May 3, 2017, the parties were all present for the mediation hearing. During said hearing, the Parent Company, through counsel, manifested that it rejects the Petitioner’s proposal, and moved to terminate the mediation hearing. Upon said motion, the Court-Annexed Mediation was terminated.

On May 11, 2017, the parties’ respective counsels attended the hearing on the Motion for TRO/Injunction. During the hearing, the Trial Court denied the Petitioner’s request for a status quo pending the resolution of the said Motion. Instead, the Trial Court required the parties to file their respective Position Paper on the issuance of the TRO on May 18, 2017. The Trial Court also set the hearing on the issuance of a Preliminary Injunction wherein the parties will present their respective witnesses and evidence for the same.

While the aforesaid Motion for TRO/Injunction was pending, on May 17, 2017, the Parent Company and AHC received an Ex Parte Reiterative Motion of the Plaintiff. In the said Ex Parte Motion, the Petitioner reiterated his request for a status quo order considering that the Parent Company was able to obtain a permit to construct a fence on the Davao Property. The said Motion was set for hearing on May 18, 2017.

On May 18, 2017, all of the parties filed their respective Position Papers in relation to Petitioner’s Motion for TRO/Injunction.

On May 25, 2017, the Petitioner filed a Manifestation and Motion to Withdraw its Motion for TRO/Injunction. The Petitioner alleged that instead of conducting hearings on the issuance of an Injunction, the Trial Court should proceed to resolve the case based on the pleadings and affidavits already filed by the parties in accordance with Interim Rules Governing Intra-Corporate Controversies.

Upon receipt of the aforesaid Manifestation and Motion to Withdraw of the Petitioner, the Trial Court granted the same and cancelled the scheduled injunction hearings.

On July 5, 2017, the Parent Company, AHC and EHT received the Trial Court’s Order dated June 23, 2017. In the Order, the parties were required to file their respective Memoranda within twenty (20) days from receipt thereof in order for the Trial Court to proceed to render judgment, full or otherwise, based on all of the pleadings and evidence submitted by the parties in relation and pursuant to Rule 4, Section 4 of the Interim Rules of Procedure Governing Intra-Corporate Controversies under Republic Act No. 8799 (“Interim Rules”).

On July 25, 2017, all of the parties filed their respective Memoranda.

While the case is submitted for resolution, the Petitioner has been filing Manifestations wherein he manifested to the Trial Court that the Parent Company has initiated the construction of a school on the alleged subject Davao Property.

On February 9, 2018, the Parent Company received the Decision dated January 19, 2018, which dismissed the case. In the Decision, the Trial Court deemed that Petitioner failed to establish fraud or bad faith on the part of the Defendants. Consequently, the Trial Court cannot contravene in the agreement among the Parent Company, Unlad, PWU and AHC to amicably settle the outstanding obligations of PWU and Unlad to the Parent Company.

On February 28, 2018, the Parent Company, AHC and EHT received the Plaintiffs' Petition for Review of the aforesaid Decision filed with the Court of Appeals – Manila and docketed as C.A. G.R. No. 154654.

As of July 12, 2018, the Court of Appeals has yet to issue the appropriate Resolution requiring the parties to file their respective Comments to the Plaintiffs' Petition for Review.

- b. *Specific Performance Case filed by the Agustin Family.* The Agustin family filed a Specific Performance case against the Parent Company for the payment by the latter of the remaining balance of the purchase price for the sale of the Agustin Family's shares in STI WNU.

The Agustin family alleges in their Complaint that based on the Share Purchase Agreement and Deed of Absolute Sale they executed with the Parent Company, the price of their shares in STI WNU has been pegged at ₱400.0 million. Despite these two agreements, the Parent Company refuses to pay the full purchase price for the STI WNU shares they acquired from the Agustin family.

In its Answer, the Parent Company stated that the Agustin family is not entitled to the full purchase price of their STI WNU shares because they have not complied with all the requirements for its release. In particular, the Agustin family has not been able to deliver the Commission on Higher Education permits for the operation of STI WNU's Maritime Program as provided in the MOA, and the Share Purchase Agreement. In addition, there are other trade receivables in favor of STI WNU wherein full satisfaction of the same entitles the Agustins a portion of the balance of the purchase price.

On June 2, 2016, the Parent Company received the Agustins' Reply to the Answer. In the Reply, the Agustin family are asserting that (a) the Memorandum of Agreement, Share Purchase Agreement and Deed of Absolute Sale (the "STI WNU Contracts") provide that the Parent Company can withhold the payment of the remaining balance of ₱50.0 million, which alleged to be pursuant to the license to operate the Maritime Programs of STI WNU, and (b) the Parent Company should be deemed to have agreed on the ₱400.0 million purchase price. Likewise, the allegations in the Answer are also against the Parol Evidence Rule which provides that the parties to a written agreement cannot change the stipulations provided therein.

The Agustin family also filed and served a Request for Admission to the Parent Company's counsel wherein they sought the Parent Company to submit (a) the existences and authenticity of the STI WNU Contracts, (b) issues of the instant case are (i) determination of the final purchase price based on the STI WNU Contracts and (ii) final purchase price should be either the

₱400.0 million or the adjusted price of ₱350.0 million, and (c) the STI WNU Contracts constitute the entire written agreement of the parties.

On June 17, 2016, the Parent Company filed its Comment/Opposition to the Agustin family's Request for Admission. In the Comment/Opposition, the Parent Company filed their objections thereto and sought the same to be denied or deemed ineffectual on the following grounds; (a) defective service because it should have been served directly to the Parent Company and not to its counsel as required under the Rules of Court, (b) redundant because the matters raised therein have already been addressed in the Answer, and (c) improper and irrelevant because it sought admission of issues which are proper during pre-trial and not in a Request for Admission.

Besides the Trial Court's resolutions on the aforesaid objections to the Request for Admission, the case may be referred to pre-trial and/or court-annexed mediation unless the Agustin family filed any other motions or pleading.

Pending the resolution on the aforesaid objections, the Agustin family filed an Omnibus Motion, which seeks, among others, a judgment on the pleadings to be issued against the Parent Company by the Trial Court. The Agustin family asserted that the Parent Company is prohibited from presenting parol evidence.

Pursuant to the order of the Trial Court, the parties filed their respective responsive pleadings in relation to the Agustin family's Omnibus Motion.

On March 27, 2017, the Trial Court issued the Omnibus Order, which denied the Agustin family's Omnibus Motion. In the Omnibus Order, the Trial Court affirmed that the matter raised in the Request for Admission has already been admitted by the Parent Company. The Trial Court also adopted the Parent Company's position that the affirmative defenses raised in the Answer may only be resolved in a full blown trial, and consequently, the Agustin family's Judgment on the Pleading should be denied for lack of merit.

On May 2, 2017, the Parent Company received the Agustin family's Motion for Reconsideration. In the Motion for Reconsideration, the Agustin family reiterated its position that the Parent Company could not question or insist the reduction of the purchase price of WNU Shares due to their failure to submit the CHed Permits when the Share Purchase Agreement and Deed of Absolute Sale of the WNU Shares stipulated that the purchase price is for the amount of ₱400.0 million). The Motion for Reconsideration was set for hearing on May 5, 2017.

During the May 5, 2017 hearing, the Trial Court allowed the parties to file their respective responsive pleadings to the Agustin family's Motion for Reconsideration, wherein the Parent Company had to file its Comment/Opposition thereto on May 22, 2017. After the filing of all of the said responsive pleadings of the parties, the Motion for Reconsideration was submitted for resolution. The Trial Court likewise set the pre-trial of the instant case on August 15, 2017.

On October 19, 2017, the Parent Company received the Trial Court's Order dated October 3, 2017. In the Order, the Trial Court granted the Agustin's Motion for Reconsideration insofar as the proceedings in the instant case should no longer be through a full blown trial. The Trial Court considered that an expeditious disposition of the case is warranted considering the age and medical condition of the Agustins. Consequently, the Trial Court required the parties to file their respective Memoranda with supporting affidavits and deposition, if any, within twenty days from receipt of the Order, or until November 8, 2017.

While the Parent Company sought for the reconsideration of the aforesaid order and suspension of the filing of the Memorandum, the Agustins filed their Memorandum in Support of the Summary Judgment dated October 23, 2017 (“Agustins’ Memorandum”). In the Agustins’ Memorandum, the Agustins asserted that they are entitled to the (a) full purchase price of ₱400.0 million and not ₱350.0 million as asserted by the Parent Company; (b) moral, nominal, temporal, exemplary damages; and (c) attorney’s fees.

The Parent Company filed an Urgent Omnibus Motion to suspend the filing of the Memorandum due to its pending Motion for Reconsideration.

During the hearing on the aforesaid motions of the Parent Company, both parties were given the opportunity to present their respective arguments on the (a) reconsideration for a summary judgment and (b) issue on the non-filing of the Memorandum of the Corporation.

Meanwhile, the presiding judge proposed that the Parent Company should file its Memorandum, and waive the Omnibus Motion in order for the Trial Court to resolve the case through summary judgment.

While the Corporation insisted that the Trial Court should resolved the Omnibus Motion before proceeding to summary judgment, the Parent Company filed and served its Memorandum without prejudice to the Omnibus Motion.

On January 29, 2018, the Parent Company received its Order dated January 10, 2018, which denied the Parent Company’s Motion for Reconsideration but, in the interest of justice, admitted the Memorandum of the Corporation. With the admission of the said Memorandum, the case was deemed submitted for resolution.

While the Parent Company sought to annul the aforesaid Order by filing a Petition for Certiorari with application for Temporary Restraining Order and Writ of Preliminary Injunction with the Court of Appeals of Cebu City, the Trial Court rendered its Decision dated April 4, 2018. In the Decision, the Trial Court ordered the Parent Company to pay the Agustins the amount of ₱50.0 million with legal interest from the filing of the case until full payment only.

On May 11, 2018, the Parent Company filed the Motion for Reconsideration Ex Abudanti Ad Cautelam. In the said Motion, the Parent Company asserted that the findings of the Trial Court are contrary to law and facts of the case. Moreover, the Parent Company manifested that the filing of the said Motion is without prejudice to the Petition filed to the Court of Appeals of Cebu City, which questions the propriety of the summary judgment procedure followed by the Trial Court in the case.

The Agustins filed their Opposition to the said Motion. Besides reiterating the validity of findings of the Trial Court, the Agustins raised the issue of forum shopping due to the pending Petition in the Court of Appeals of Cebu City.

With the filing of the said Opposition, the Parent Company’s Motion for Reconsideration Ex Abudanti Ad Cautelam is submitted for resolution.

- c. *Tax Assessment Case.* STI ESG filed a petition for review with the Court of Tax Appeals (CTA) on October 12, 2009. This is to contest the Final Decision on Disputed Assessment issued by the BIR assessing STI ESG for deficiencies on income tax, and expanded withholding tax for the year ended March 31, 2003 amounting to ₱124.3 million. On February 20, 2012, STI ESG rested its case and its evidence has been admitted into the records.

On June 27, 2012, the BIR rested its case and has formally offered its evidence. On April 17, 2013, the CTA issued a Decision which granted STI ESG's petition for review and ordered the cancellation of the BIR's assessment since its right to issue an assessment for the alleged deficiency taxes had already prescribed. On May 16, 2013, STI ESG received a copy of the Commissioner of Internal Revenue's ("CIR") Motion for Reconsideration dated

May 8, 2013. STI ESG filed its Comment to CIR's Motion for Reconsideration on June 13, 2013. The CTA issued a resolution dated July 17, 2013 denying the CIR's Motion for Reconsideration. On August 22, 2013, the CIR filed its Petition for Review dated August 16, 2013, with the CTA En Banc. On October 29, 2013, STI ESG filed its Comment to the CIR's Petition for Review. The CTA En Banc deemed the case submitted for decision on May 19, 2014, considering the CIR's failure to file its memorandum. On March 24, 2015, the CTA En Banc affirmed the decision dated April 17, 2013 and the resolution dated July 17, 2013 and granted STI ESG's Petition for Review and ordered the cancellation of the BIR assessment for the fiscal year ending March 31, 2003. On April 21, 2015, the CIR filed a Motion for Reconsideration with the CTA En Banc. On July 3, 2015, STI ESG filed its Comment on the Motion for Reconsideration. On September 2, 2015, the CTA En Banc denied the CIR's Motion for Reconsideration. On October 30, 2015, the CIR filed a Petition for Review with the Supreme Court. On January 26, 2016, STI ESG received a notice from the Supreme Court requiring it to file its Comment on the Petition for Review filed by the CIR. On February 5, 2016, STI ESG filed a Motion for Extension of Time to File Comment on the Petition for Review requesting an additional period of twenty (20) days from February 5, 2016, or until February 25, 2016, within which to file the Comment. On February 25, 2016, STI ESG filed another Motion for Extension of Time to File Comment on the Petition for Review requesting an additional period of fifteen (15) days from February 25, 2016, or until March 11, 2016, within which to file the Comment. On March 11, 2016, STI ESG, through its counsel, filed its Comment on the Petition. On October 27, 2016, STI ESG received a notice from the Supreme Court in which the Court, *inter alia*, required the CIR to reply to STI ESG's Comment (to the Petition for Review) within 10 days from receipt of notice. On November 25, 2016, the CIR filed his reply to STI ESG's Comment.

On October 4, 2017, the STI ESG received the decision from the Supreme Court dated July 26, 2017. In its decision, the Supreme Court denied the petition for review filed by the CIR and affirmed the Decision dated March 24, 2015 and Resolution dated September 2, 2015 of the Court of Tax Appeals En Banc in CTA EB No. 1050. The Supreme Court ruled that the Waivers of Statute of Limitations, being defective and invalid, did not extend the CIR's period to issue the subject assessments. Thus, the right of the government to assess or collect the alleged deficiency taxes is already barred by prescription. On October 25, 2017, the CIR has filed a Motion for Reconsideration of the Supreme Court's decision dated July 26, 2017.

On April 5, 2018, the STI ESG received the decision from the Supreme Court dated December 14, 2017. In its decision, the Supreme Court denied the Motion for Reconsideration filed by the CIR and affirmed the Decision dated July 26, 2017. The Supreme Court ruled that there is no substantial argument to warrant a modification of the Supreme Court's decision.

Thus, the Supreme Court denied the Motion for Reconsideration with finality. The Supreme Court also resolved that no further pleadings or motions shall be entertained in the case. Thus, the Supreme Court ordered the immediate issuance of the Entry of Judgment.

On July 2, 2018, STI ESG received the Entry of Judgment issued by the Supreme Court which certified that its decision dated December 14, 2017 became final and executory and was recorded in the Book of Entries of Judgments on said date.

d. *Labor Cases.*

- i. A former employee filed a Petition with the Supreme Court after the Court of Appeals denied the former employee's claims and rendered prior decisions in favor of STI ESG. On August 13, 2014, STI ESG received the Supreme Court's decision dated July 9, 2014 annulling the decision of the Court of Appeals and ordered that STI ESG reinstate the former employee to her former position and pay the exact salary, benefits, privileges and emoluments which the current holder of the position is receiving and should be paid backwages from the date of the former employee's dismissal until fully paid, with legal interest. On August 28, 2014, STI ESG filed its Motion for Reconsideration and on November 17, 2014, the Supreme Court issued a resolution which denied with finality STI ESG's Motion for Reconsideration. On January 5, 2015, STI ESG filed an Omnibus Motion and requested to move the case for review by the Supreme Court En Banc. On May 22, 2015, STI ESG received a notice from the Supreme Court which denied the STI ESG's Omnibus Motion. As a result of the decision, STI ESG recognized provision amounting to ₱3.0 million representing the estimated compensation to be made to the former employee. On October 20, 2015, a Bank Order to release was issued to one of STI ESG's depository banks for the release of the garnished amount of ₱2.2 million. The bank released the garnished amount to the National Labor Relations Commission ("NLRC").

The garnished amount was put on hold for fifteen (15) days because of the filing of STI ESG's Petition questioning, among others, the Writ of Execution issued by the labor arbiter, which was docketed as LER-CN-10291-15.

While the Petition was pending for resolution by the NLRC and without any injunction order being issued by the said Commission, the garnished amount of ₱2.2 million was released to the former employee.

On March 1, 2016, the former employee filed an Entry of Appearance with Manifestation/Motion for Computation dated February 24, 2016. In the said motion, the former employee sought for computation of her backwages, inclusive of monetary equivalent of leaves and 13<sup>th</sup> month pay from July 22, 2004 until the same is actually paid. In addition, the former employee waived the reinstatement aspect of the March 31, 2016 decision of labor arbiter, and sought the payment of separation pay.

As mentioned in an earlier paragraph, on October 19, 2015, STI ESG filed a Petition with the NLRC, docketed as LER-CN-10291-15, to (1) annul the Writ of Execution issued by labor arbiter for the amount of ₱2.2 million, and (2) order the payment of separation pay in favor of the former employee instead of reinstatement as Chief Operating Officer of STI-Makati.

In the said Petition, STI ESG asserted that the Writ of Execution was issued with undue haste when there were pending issues to be resolved by labor arbiter with respect to the computation of the judgment award of the former employee. In addition, labor arbiter cannot order the former employee to be reinstated as Chief Operating Officer of STI-Makati because said position no longer exists. STI ESG averred that an order of separation pay in lieu of reinstatement should be issued in favor of the former employee.

On October 28, 2015, STI ESG filed another Petition with the NLRC, which sought to inhibit the labor arbiter from continuing the execution proceedings for the former employee's judgment award. In the said Petition, STI ESG alleged that the actions of the labor arbiter showed partiality and bias in favor of the former employee.

On October 29, 2015, STI ESG filed a Motion to Consolidate with the NLRC. In the said Motion, STI ESG moved that the aforesaid Petitions would be consolidated and resolved by the same Division of the NLRC.

The former employee, thru her new counsel, filed two (2) Entry of Appearance with Motion for Leave (To Admit Attached Answer with Comment/Opposition) for the two (2) Petitions of STI ESG. In the said Comment/Opposition, the former employee averred that (a) the Writ of Execution was issued pursuant to the Supreme Court's Decision dated July 9, 2014 and (b) the acts of labor arbiter were above-board.

Before the NLRC resolved the pending Petitions filed by STI ESG, the garnished amount was released to the former employee as partial payment for the judgment award. Based on the record of the NLRC, the amount of ₱2.2 million was released for the partial execution of the judgment award of the former employee.

On February 29, 2016, the Sixth Division of the NLRC issued a Decision wherein it, among others, nullified the Writ of Execution, and ordered the inhibition of labor arbiter. In the same Decision, the Sixth Division of the NLRC also set a guide for the enforcement of the judgment award in favor of the former employee, which provides, among others, that the computation of the backwages of the former employee shall be from May 18, 2004 until October 30, 2006.

On March 29, 2016, STI ESG received the former employee's Motion for Reconsideration. In the Motion for Reconsideration, the former employee questioned the guide issued by the NLRC and the inhibition of the labor arbiter.

On April 19, 2016, STI ESG filed a Motion for Leave (To Admit Comment and/or Opposition with Manifestation). In the Comment and/or Opposition, STI ESG defended the guide issued by the Sixth Division of the NLRC and the inhibition on the labor arbiter by, among others, asserting that the former employee's grounds for reconsideration of the Decision are based on misleading allegations, and misquoted orders and pleadings of the Corporation. STI ESG also manifested to that (1) it would no longer seek the cancellation of the Writ of Execution provided that any legal effect thereof on the judgment award shall be recognized and applied therein, and (2) the appropriate labor arbiter commence with the computation of the separation pay in lieu of reinstatement.

On July 1, 2016, STI ESG received the Resolution of the NLRC, which denied the former employee's Motion for Reconsideration.

On September 6, 2016, STI ESG received the Petition for Certiorari filed by the former employee to the Court of Appeals wherein she questioned the Decision dated February 29, 2016 and Resolution dated June 28, 2016 issued by the NLRC. In the Petition, the former employee reiterated all her grounds in the Motion for Reconsideration filed to the NLRC.



On September 26, 2016, STI ESG filed its Comment/Opposition Ad Cautelam. In the said Comment/Opposition, STI ESG reiterated its arguments raised against the former employee's Motion for Reconsideration. In addition, STI ESG raised that (a) the issue on annulment of the Writ of Execution should be deemed moot because STI ESG has already manifested that it would no longer enforce said decision, and (b) the former employee should show proof that the Motion for Reconsideration was actually filed to the NLRC within the period allowed by law or otherwise, the Petition should be denied due to non-exhaustion of administrative remedies.

Upon filing of extension to file Reply to the Comment/Opposition Ad Cautelam of STI ESG, the former employee filed her Reply thereto on October 19, 2016.

On October 24, 2016, the Court of Appeals referred the case for mediation with the Philippine Mediation Center-Court of Appeals. Based on the relevant rules, the mediator assigned in the instant case has an extendible thirty (30) days to complete the mediation proceeding. Should the parties fail to settle the instant case, the case shall be referred to the Court of Appeals for resolution.

Both parties attended the mediation hearing wherein both parties provided their respective settlement amount wherein the former employee rejected the last proposal made by STI ESG. Considering that both parties failed to amicably settle, the mediation proceedings was terminated.

On April 11, 2017, STI ESG received the Court of Appeals' Resolution which required both parties to file their respective Memoranda within a non-extendible period of fifteen (15) days from receipt thereof or until April 26, 2017.

In compliance with the aforesaid Resolution, STI ESG filed its Memorandum on April 26, 2017.

On June 6, 2017, STI ESG received the Court of Appeal's Decision on the former employee's Petition for Certiorari. In the Decision, the Court of Appeals determined that there is no need to resolve the issue on the nullification of the Partial Writ of Execution because both parties agreed that the funds garnished by virtue of said Writ to the former employee shall be considered as partial satisfaction of her judgment award.

The Court of Appeals likewise clarified that the issue on the former employee's waiver of reinstatement pending appeal should have been resolved by the new labor arbiter, and not the NLRC. Contrary to the former employee's assertion that the former labor arbiter resolved the said issue, the Court of Appeals took into consideration that the NLRC validly ordered the re-raffle of the case to a new labor arbiter who should resolve all pending incidents and issues.

Without making any findings and/or rulings contrary to STI ESG's claim that the former employee waived her reinstatement pending appeal on October 2006 and consequently invalidated her assertion that her backwages should be computed from May 2004 until present day, the Court of Appeals affirmed the re-raffle of the execution proceedings of the former employee's judgment award to a new labor arbiter to make an independent determination of all pending incidents and issues.

Considering the aforesaid Decision did not prejudice STI ESG's position, STI ESG decided to refer all pending issues on the execution of the judgment award of the former employee, including the waiver of backwages pending appeal, to the new labor arbiter.

On September 19, 2017, STI ESG received the former employee's Manifestation with Omnibus Motion filed with the new labor arbiter. In the said Manifestation with Omnibus Motion, the former employee sought for (a) computation of the updated judgment award, (b) resolution of the issue on waiver of reinstatement by the former employee raised by STI ESG and (c) issuance of Writ of Execution based on the updated judgment award.

The new labor arbiter set the pre-execution hearing on January 31, 2018. During the said hearing, STI ESG filed its Comment with Manifestation. In the Comment with Manifestation, STI ESG asserted that the only issues to be resolved are the computations of the (a) backwages, (b) legal interest and (c) separation pay. STI ESG further reiterated that the former employee is entitled to receive backwages from May 2004 until October 2006 and separation pay from November 1999 until February 2016. Based on said premises, STI ESG paid the former employee ₱2.0 million in January 2018.

Based on the record, STI ESG has paid the total amount of ₱4.2 million, exclusive of withholding taxes, to the former employee. STI ESG then moved to the new labor arbiter that STI ESG be deemed to have fully paid the judgment award of the former employee. While the former employee accepted the aforesaid amount, she manifested that the same is only partial payment of the judgment award, and moved that she would be given ten (10) days to file her reply to the Comment with Manifestation.

In the hearing on February 13, 2018, the former employee filed her Reply dated February 12, 2018. In the Reply, it was argued that the alleged waiver of reinstatement pending appeal on October 2006 did not interrupt the running of backwages until present day. She insisted that the return to work order of the Corporation was (a) vague, (b) served only through her former counsel and (c) belatedly served or after four (4) months from the Corporation's receipt of the former labor arbiter's order to reinstate her. Based on the foregoing the former employee presented her computation of her judgment award to date, which amounted to ₱11.0 million, less payments already made by STI ESG.

On February 28, 2018, STI ESG filed and served the Rejoinder. In the Rejoinder, STI ESG reiterated that the notice to return to work was (a) clear and (b) duly received by her through her former counsel. It was asserted that the former employee was fully aware of said return to work order because she refused the same by filing a counter-manifestation with the former labor arbiter. Moreover, the belated service of said return to work order does not prevent STI ESG to choose actual reinstatement pending appeal as provided in the Labor Code.

On March 15, 2018, the former employee filed her Sur Rejoinder. Considering the Sur Rejoinder reiterated her argument regarding the return to work order, the new labor arbiter granted STI ESG's motion to submit the pending issues on the computation of the former employee's judgment award for resolution.

- ii. A former IT Instructor who eventually became the IT Program Head of STI College Cagayan de Oro, a school owned by STI ESG, filed an illegal dismissal case against STI College Cagayan de Oro on the ground that she was constructively dismissed when upon returning from preventive suspension, she allegedly no longer had any work to go back to

because the STI ESG-owned company purportedly removed her workplace from the school premises. For its part, STI ESG countered the complainant's claim that she was dismissed by presenting the complainant's one-liner resignation letter.

The Labor Arbiter decided that there was neither an illegal dismissal nor resignation to speak of in this case, hence, the parties were ordered to return to status quo which meant reinstatement of complainant to her former position but without backwages, separation pay, or similar benefits. Nevertheless, STI ESG was ordered to pay complainant the amount of ₱7.4 thousand representing her unpaid salary for the period March 10-30, 2014. However, the NLRC overturned the LA's decision upon a dubious motion for partial reconsideration declaring complainant to have been illegally dismissed and ordering STI ESG not only to reinstate her but also to pay her full backwages computed from the time compensation was withheld up to the date of actual reinstatement. STI ESG moved to reconsider the NLRC's decision but to no avail. At present, a Petition for Certiorari questioning the decision of the NLRC is pending before the Court of Appeals.

On May 12, 2017, STI ESG received a copy of a Motion for Execution with Prayer for Payment of Separation Pay in Lieu of Reinstatement filed by Complainant-Appellant seeking the issuance of a writ of execution for the implementation of the Resolution dated June 30, 2016 issued by the Honorable Eight Division, National Labor Relations Commission, Cagayan de Oro City. On May 22, 2017, STI ESG filed its Opposition to the Motion for Execution with Prayer for Payment of Separation Pay in Lieu of Reinstatement.

Subsequently, a hearing on the motion for execution was set on June 5, 2017. In the said hearing, STI ESG reiterated that it is amenable to reinstating complainant but as a Part-time Full Load faculty member. Complainant countered that she is not interested in reinstatement but would rather be paid her backwages and separation pay. When asked for how much she is willing to settle the matter amicably, she insisted that she be paid the total amount of her backwages and separation pay. When asked if STI ESG has any counter-offer on the payment of backwages and separation pay, STI ESG manifested that it already filed its opposition thereto and that there is still a need for the official computation of the same. At that point, the hearing officer showed STI ESG a computation of the backwages which amounted to ₱0.5 million. STI ESG then manifested that it will bring the matter to management. On the part of complainant, she manifested that she will file her reply to STI ESG's opposition. The hearing officer then said that upon submission of said reply, the motion for execution is deemed submitted for resolution.

Also, in the motion for execution, it was also alleged that the Court of Appeals already denied the Petition for Certiorari of STI ESG. However, STI ESG did not receive any copy of said resolution by the Court of Appeals. Upon inquiry with the Court of Appeals, it appeared that the copy of the resolution dismissing the petition for certiorari was returned to sender due to "RTS-UNKNOWN ADDRESS". Apparently, the indicated address of counsel of record simply states Ortigas Ave., Extension, Cainta, Rizal. STI ESG then filed a manifestation with the Court of Appeals manifesting that it has yet to receive a copy of their minute resolution and clarifying that the complete address where a copy of the said resolution may be sent is "3<sup>rd</sup> Flr. STI Academic Center, Ortigas Avenue Extension, Cainta, Rizal 1900".

On June 2, 2017, STI ESG received a copy of the Minute Resolution dated January 12, 2017 dismissing its Petition for Certiorari based on the following grounds: a) failure to attach a copy of the Resolution dated June 30, 2017 of the NLRC; b) failure to attach the Secretary Certificate authorizing Mario Malferrari, Jr. as representative for STI ESG to file the petition for certiorari; c) failure to verify the petition; and d) failure to attach affidavit of service.

On June 21, 2017, STI ESG filed its Motion for Reconsideration.

Meanwhile, on July 12, 2017, STI ESG received an Order from the Office of the Labor Arbiter granting the Motion for Execution filed by Complainant. On July 21, 2017, STI ESG received a copy of the Writ of Execution issued by Office of the Labor Arbiter directing the payment of ₱0.5 million to Complainant and her immediate reinstatement. In compliance with the Writ of Execution, Complainant was paid the amount of ₱0.5 million and was reinstated to her former position.

On November 7, 2017, STI ESG received a copy of the Resolution of the Court of Appeals dated September 25, 2017 on its motion for reconsideration. The Court of Appeals resolved to grant the motion for reconsideration and reinstated STI ESG's petition for certiorari. Complainant was then directed to file her comment to the petition within ten (10) days from receipt of the said resolution and STI ESG was given five (5) days to file its reply to Complainant's comment.

On January 31, 2018, STI ESG received a copy of a Minute Resolution dated January 15, 2018 issued by the Court of Appeals which resolved that Complainant is deemed to have waived her filing of a comment to the petition for certiorari and directed the parties to file their respective memorandum within fifteen (15) days from receipt of said minute resolution. Thereafter, the petition for certiorari is deemed submitted for decision.

On February 15, 2018, STI ESG filed through registered mail its Memorandum with the 22<sup>nd</sup> Division, Court of Appeals, CDO. On April 25, 2018, STI ESG received a copy of Complainant's Memorandum. In a resolution of the Court of Appeals dated April 19, 2018, with the filing of the parties' respective memorandum, the Court declared the petition submitted for decision.

- iii. Former part-time faculty members of STI College Legazpi who were erroneously issued employment contracts for regular employees filed an illegal dismissal case against STI College Legazpi, a school owned by STI ESG, following their stubborn refusal to sign their respective job offers as required by CHED. The LA rendered a Decision finding the complainants as regular employees of STI ESG; declaring STI ESG as guilty of illegal dismissal; and ordering STI ESG to pay them separation pay of ₱0.22 million, ₱0.18 million, ₱0.15 million, respectively, plus backwages, moral and exemplary damages of ₱0.2 million each, plus 10% attorney's fees.

Upon appeal to the NLRC, the case filed by one of the faculty members was dropped, while the rest of the Decision was affirmed. Accordingly, a Motion for Reconsideration of the NLRC Decision was filed wherein it prayed for the dismissal of the complaints of Brazil and Garcera as well, invoking well-settled cases as jurisprudential authorities to persuade the NLRC to dismiss the cases against STI ESG.

As it developed, STI ESG prevailed at the NLRC, and the complaint was dismissed. The former faculty members assailed said Decision of the NLRC at the Court of Appeals which denied the Petition.

Both parties here may have been mistaken in believing that the former faculty members have become regular faculty members by their length of service and seemingly satisfactory performance. Because of such incorrect grant of regular employment status, STI ESG, for years, have paid to complainants the salaries and benefits ought to be received by regular faculty members, which they did not deserve considering their failure to meet the qualifications set out in the MORPS and MORPHE. To punish STI ESG for such act of giving Petitioners more than what they deserve would run contrary to the basic tenets of equity and justice. In fact, STI ESG sought to remedy its mistake by formulating its two-year compliance consideration program, wherein affected teachers such as complainants shall continue to receive the same benefits they are currently enjoying, subject to the completion of their master's degree within a period of two (2) years. Even complainants admitted that their job offers stipulated a higher monthly salary. In spite of all these, complainants chose not to sign the said job offers.

The former faculty members filed a motion for reconsideration of the said decision of the Court of Appeals. STI ESG filed its Comment on the motion for reconsideration emphasizing the following points: (1) that the instant motion for reconsideration is pro-forma and should be denied outright; and (2) that the petitioners failed to raise any substantial argument to warrant a modification of the Court's decision considering that (a) the Court of Appeals did not err in finding that the NLRC did not commit grave abuse of discretion in dismissing petitioner's complaint for illegal constructive dismissal; and (b) the Court of Appeals did not err in upholding the NLRC's finding that petitioners were mere part-time teaching personnel of STI ESG. In a Resolution dated June 30, 2017, the Court of Appeals denied the Motion for Reconsideration filed by the former faculty members.

On September 6, 2017, STI ESG received a copy of the Petition for Review on Certiorari of the Decision of the Court of Appeals dismissing the complaint for illegal dismissal of the former faculty members with the Supreme Court. STI ESG filed its Comment to the petition on November 10, 2017.

As at July 12, 2018, parties are awaiting action by the Supreme Court.

- iv. This is a case for illegal dismissal (constructive), underpayment of salary/wages, non-payment of salary/wages, separation pay, moral and exemplary damages and attorney's fees filed by a former school nurse of STI College Fairview Branch.

Complainant was cited in several instances for her excessive tardiness, negligence, and other violations of the school's Code of Conduct. On January 15, 2016, she submitted her resignation letter effective immediately and processed her clearance. On the same day, she proceeded to the NLRC and filed a request for assistance.

Complainant claimed that she was forced to resign when her benefits were reduced, she was deliberately given difficult work assignments, she was cited for several violations of the company's code of conduct to build-up a case against her and was given poor working conditions.

The labor arbiter dismissed her complaint for lack of merit saying that resignation due to the enforcement of disciplinary measures for violations does not constitute unbearable working condition, hence, her resignation does not constitute constructive dismissal.

She appealed the decision of the labor arbiter to the NLRC.

On April 21, 2017, STI College Fairview received the Decision dated March 31, 2017 of the 4<sup>th</sup> Division, NLRC, denying her appeal and affirming the labor arbiter's decision but with modification by awarding ₱75.0 thousand as financial assistance based on the higher interest of equity, social and compassionate justice.

On May 2, 2017, STI ESG filed its Motion for Partial Reconsideration of the decision of the NLRC, particularly, on the award of financial assistance in the amount of ₱75.0 thousand on the basis that she is not entitled to any financial assistance since there was no dismissal to speak of. Moreover, her failure to comply with the 30-day notice requirement in case of resignation makes her even liable for damages instead of financial assistance.

However, on June 1, 2017, STI ESG received a copy of the resolution dated May 30, 2017 of the 4<sup>th</sup> Division, NLRC denying the motion for reconsideration.

On July 28, 2017, STI ESG filed its Petition for Certiorari with prayer for the issuance of a restraining order and a writ of preliminary injunction with the Court of Appeals. On August 19, 2017, STI ESG received a copy of the resolution of the Court of Appeals dated August 9, 2017 directing complainant to comment on STI ESG's petition while holding in abeyance the action on the prayer for injunctive relief. Pending resolution of the STI ESG's prayer for the issuance of a restraining order and a writ of preliminary injunction with the Court of Appeals, on August 31, 2017, STI ESG received a copy of the Motion for Execution filed by complainant. On September 4, 2017, a notice of pre-execution conference was received by STI ESG setting the same on September 14, 2017 before the labor arbiter. On September 11, 2017, STI ESG filed an Opposition to the Motion for Execution. STI ESG, likewise, filed an Omnibus Motion for Immediate Resolution of Application for Issuance of a Restraining Order and Writ of Preliminary Injunction. In the pre-execution conference, STI ESG reiterated its opposition to the motion for execution of complainant and manifested that it has a pending application for the issuance of a restraining order and a writ of preliminary injunction with the Court of Appeals. In a Notice of Order of Execution dated October 11, 2017, the labor arbiter issued a Writ of Execution against STI ESG since no temporary restraining order was issued by the Court of Appeals for the amount of ₱76.2 thousand. On November 2, 2017, a check in the said amount was then deposited to the account of the National Labor Relations Commission for the satisfaction of the writ of execution. As per Order dated November 17, 2017 of the labor arbiter, the said amount was released to Complainant as full satisfaction of the judgment award.

On February 28, 2018, STI ESG received a Resolution dated January 5, 2018 of the Court of Appeals noting STI ESG's Omnibus Motion for Immediate Resolution of Application for Issuance of a Restraining Order and Writ of Preliminary Injunction and informing STI ESG that its Resolution dated August 9, 2017 addressed to complainant returned to the court with the annotation "RTS-No One to Receive" and directed STI ESG to inform the court of complainant's correct and current complete address. In a manifestation of compliance dated April 12, 2018, STI ESG informed the Court of Appeals that the only record of complainant's address in its possession is that which is

stated in its petition which is the same as what is found in the pleadings filed relative to the case. In a Resolution dated June 21, 2018 received by STI ESG on July 5, 2018, the Court of Appeals dismissed the petition of STI ESG on the ground that it failed to include in its petition the current address of complainant.

A motion for reconsideration of the subject resolution of the Court of Appeals will be filed by STI ESG within 15-days from receipt of the same.

As of July 12, 2018, STI ESG is waiting for an action from the Court of Appeals.

- e. *Specific Performance Case.* STI College Cebu, Inc. (“STI Cebu”) was named defendant in a case filed by certain individuals for specific performance and damages. In their Complaint, the plaintiffs sought the execution of Deed of Absolute Sale over a parcel of land situated in Cebu City on the basis of an alleged perfected contract to sell. On March 15, 2016, STI ESG, as the surviving corporation in the merger between STI ESG and STI Cebu filed a Motion to Dismiss. On March 31, 2016, STI ESG received the plaintiffs’ Comment/Opposition to Motion to Dismiss with Motion to Declare Defendant in Default (“Motion”). On April 8, 2016, the Court required STI ESG and the plaintiffs to file their respective Position Papers to the Motion to Dismiss and the plaintiffs’ Motion until April 13, 2016. On April 12, 2016, STI ESG received the plaintiff’s Position Paper.

On April 14, 2016, STI ESG filed a Manifestation with an attached Position Paper.

On August 2, 2016, STI ESG received the Plaintiffs’ Motion to Resolve, which seeks for the resolution of all pending incidents.

On August 11, 2016, STI ESG filed a Comment dated August 10, 2016 to the Plaintiffs’ Motion to Resolve. In the Comment, STI ESG also moved for the resolution of all pending incidents including the Motion to Dismiss filed by STI ESG, and reiterated the propriety of the dismissal of the instant case.

On August 12, 2016, the hearing on the Motion to Resolve proceeded wherein STI ESG reiterated its Motion(s) to Dismiss, and moved for the resolution of all pending incidents in the instant case. The Trial Court then ordered that all of the pending incidents shall be resolved.

On February 28, 2017, the Defendants received the Resolution of the Trial Court wherein it denied the Defendants’ Motion to Dismiss.

On March 6, 2017 the Defendants filed their Joint Motion for Reconsideration Ad Cautelam in relation to the Resolution.

On March 14, 2017, the Defendants received the Plaintiffs’ Comment/Opposition to Joint Motion Reconsideration Ad Cautelam and/or Motion to Declare Defendants in Default dated 11 March 2017 (“Comment with Motion”). In the Comment with Motion, Plaintiffs alleged that the Defendants should have filed their Answer instead of the Joint Motion for Reconsideration Ad Cautelam after the denial of their Motions to Dismiss. Considering that the Defendants did not file their Answer, Plaintiffs moved to declare the Defendants in default.

On March 17, 2017, the Defendants filed and served in open court their Reply and/or Comment/Opposition Ad Cautelam (“Reply”) to the Plaintiffs’ Comment with Motion. In the Reply, the Defendants asserted that under the relevant provisions of the Rules of Court and jurisprudence, a motion for reconsideration is allowed to be filed after the denial of a motion to dismiss. Consequently, the filing of the Answer is deemed suspended while the Joint Motion for Reconsideration Ad Cautelam is pending for resolution.

Upon receipt of the Plaintiffs’ Reply on April 3, 2017, the Defendants filed the Joint Rejoinder wherein they asserted that the Reply is a reiteration of the Plaintiffs’ baseless argument that a motion for reconsideration is prohibited.

On August 16, 2017, the Trial Court issued the Resolution wherein it denied (a) the Joint Motion and (b) Motion to Declare in Default.

On August 24, 2017, Plaintiffs filed a Motion for Reconsideration on the denial of their Motion to Declare in Default. In the said Motion, Plaintiffs reiterated the same arguments raised in the Motion to Declare in Default

Meanwhile, after filing an ex parte Motion for Extension of Time to File an Answer, Defendants filed the Consolidated Answer to the Amended Complaint on August 30, 2017. In the Consolidated Answer, Defendants asserted that there is no perfected contract to sell or of sale between the Parent Company and the Plaintiffs considering that (a) there is no Board approval on the sale of the Subject Property; (b) lack of definite terms and conditions thereof; and (c) Mr. Amiel Sangalang has no authority to bind STI ESG on the alleged contract to sell or sale of the Subject Property.

On August 30, 2017, Defendants received the Plaintiffs’ Opposition to the Motion for Extension of Time to file an Answer. In the said Opposition, Plaintiffs argued the said Motion for Extension should have been set for hearing.

During the hearing on the Plaintiffs’ Motion for Reconsideration, the issues raised in the Motion for Reconsideration and the Opposition to the Motion for Extension of Time were discussed. After said discussion, the Trial Court required both parties to file their respective comments/opposition to the issues raised in the aforesaid Motion and Opposition. On September 29, 2017, Defendants received the Plaintiffs’ Reply to the former’s Comment and Opposition. With the filing of the aforesaid pleadings, the issues raised in the Motion for Reconsideration and Opposition to the Motion for Extension of Time are deemed submitted for resolution.

On October 23, 2017, the Trial Court issued its Order denying the Plaintiffs’ Motion for Reconsideration and set the case for pre-trial.

During the pre-trial on January 16, 2018, the Trial Court had to reset the hearing due to the unavailability of the Special Power of Attorney in favor of the Defendants’ counsel. On February 9, 2018, the parties attended the pre-trial. The Trial Court then referred the case for court-annexed mediation as required under the relevant rules.

The parties immediately attended the mediation proceeding. After presenting their respective position, the mediation was terminated because the parties failed to amicably settle.

On May 29, 2018, both parties attended the judicial dispute resolution. The same was also terminated due to failure of the parties to reach an amicable settlement.



As mandated by the relevant rules, the case would be raffled to a new presiding judge. Pending receipt of any notice that the case has been assigned to a new presiding judge, there are no schedule for pre-trial and trial proper.

- f. *Complaint for Damages filed by GATE (formerly STI-College Santiago, Inc.).* Global Academy of Technology and Entrepreneurship, Inc. (“GATE”) filed a complaint for Damages against STI ESG for its non-renewal of the Licensing Agreement despite the former’s alleged compliance of the latter’s audit recommendations. On the basis of such alleged invalid non-renewal of the Licensing Agreement, GATE seeks for (a) moral damages in the amount of ₱0.5 million, (b) exemplary damages in the amount of ₱0.5 million and (c) attorney’s fees in the amount of 15% of the amount to be awarded and ₱3.0 thousand per court appearance.

On January 23, 2017, STI ESG filed its Motion to Dismiss Ad Cautelam. In the said Motion, STI ESG asserted that the dismissal of the case was warranted on the following grounds; (a) lack of jurisdiction over STI ESG due to improper service of Summons to a Human Relations Officer (“HR Officer”), and (b) failure to state a cause of action because GATE has no right for the renewal of the Licensing Agreement when (i) the same already expired and (ii) it clearly provides that it may be renewed by mutual agreement of the parties. The Motion to Dismiss Ad Cautelam was set for hearing on February 3, 2017.

On February 3, 2017, STI ESG received GATE’s Comment /Opposition. In the said Comment/Opposition, GATE alleged that (a) the HR Officer was allegedly authorized by its in house counsel to receive the Summons, and (b) the decision of STI ESG not to renew the Licensing Agreement was not based on its mutual agreement provision but the violations of GATE. Consequently, such decision of STI ESG to cancel the Licensing Agreement was allegedly in bad faith.

Upon the filing of all the pleadings in relation to the Motion to Dismiss Ad Cautelam of STI ESG, the Trial Court issued its Resolution dated May 16, 2017, which denied the said Motion. The Trial Court also required STI ESG to file its Answer to the Complaint within the non-extendible fifteen (15) days from receipt of said Resolution on May 25, 2017 or until June 9, 2017.

On June 9, 2017, STI ESG filed its Answer to the Complaint. In the Answer, STI ESG reiterated its position that GATE has no cause of action against it because its decision not to renew the Licensing Agreement is in accordance with contractual stipulations therein that its renewal is upon mutual agreement of both parties. Considering the effectivity period of the Licensing Agreement expired on March 31, 2016 without being renewed by both parties, GATE cannot claim any damages for STI ESG’s lawful exercise of its rights under the Licensing Agreement.

Both parties have been required to attend and participate in the court-annexed mediation, and subsequently, the judicial dispute resolution with the Trial Court. After the aforesaid proceedings, the parties failed to reach an amicable settlement, and terminated the judicial dispute resolution on October 27, 2017. As mandated by the relevant rules, the case was raffled to a new presiding judge.

The new presiding judge issued an Order setting the case for pre-trial hearing on May 11, 2018. The pre-trial proper was re-scheduled by the Trial Court in order for the parties to pre-mark their documentary evidence before the branch clerk of court on May 23, 2018.

On May 23, 2018, both parties attended and caused the pre-marking of their respective documentary exhibits.

Meanwhile, the pre-trial was set by the Trial Court and upon agreement of the parties on August 31, 2018.

- g. *Criminal Case.* A complaint for qualified theft was filed by STI ESG against its former school accounting supervisor and acting school accountant (“former supervisor/accountant”). In the complaint, STI ESG alleged that said former supervisor/accountant manipulated the payroll registers of STI College Global City by including the name of a former faculty member of STI College Global City in the payroll registers and placing a corresponding salary and 13<sup>th</sup> month pay beside said faculty member’s name. The salary of said former faculty member was deposited in a bank account belonging to the former supervisor/accountant. The total amount deposited to the bank account of the former supervisor/accountant through this scheme amounted to ₱0.2 million.

The complaint for qualified theft was filed with Office of the City Prosecutor of Taguig City. Summons to the former supervisor/accountant was returned undelivered despite STI ESG providing additional addresses of the former supervisor/accountant where the summons could be served.

After the former supervisor/accountant failed to appear on two preliminary investigations, the complaint was submitted for resolution.

On September 8, 2016, STI ESG filed an Ex-Parte Motion for Early Resolution to resolve the case pointing out that more than sixteen (16) months has elapsed since the matter was submitted for resolution.

As of July 12, 2018, the Office of the City Prosecutor of Taguig City has yet to issue a resolution in the instant case.

- h. *Breach of contract.* STI ESG engaged the services of Mobeelity Innovations, Inc. (“MOBEELITY”) to deploy its digital classroom pilot, also known as e-Learning Management System (“eLMS”) and MOBEELITY committed to provide the necessary applications suite of the intended learning management system of STI ESG.

MOBEELITY undertook to provide STI ESG with access to the EDU 2.0 LMS (now known as NEO) and iMEET virtual classroom. MOBEELITY committed to provide STI ESG with online and on-site technical support for the implementation of the EDU 2.0 LMS and iMEET virtual classroom. Furthermore, MOBEELITY committed to provide STI ESG with all updates and modifications to EDU 2.0 LMS and iMEET virtual classroom free of charge. Out of these two (2) platforms, STI ESG was only able to avail of and utilize the EDU 2.0 LMS under the agreement.

MOBEELITY provided STI ESG access to the EDU 2.0 LMS. EDU 2.0 LMS is a product of Cypher Learning, and MOBEELITY was an authorized reseller of this product. In accordance with the terms of the Agreement, STI ESG paid MOBEELITY the sum of ₱3.3 million as downpayment for services to be rendered by MOBEELITY for the First Semester of SY2016-2017 or from June to November 2016.

On June 12, 2016, it came to the attention of STI ESG that Cypher Learning had terminated its relationship with MOBEELITY due to the fraudulent acts committed by MOBEELITY against Cypher Learning.

Pursuant to the arbitration clause of the Memorandum dated September 8, 2014 ("Memorandum") executed by STI ESG and MOBEELITY, STI ESG initiated the instant ad hoc arbitration to settle a dispute involving the reimbursement of Three Million Three Hundred Thousand Pesos (₱3.3 million) by MOBEELITY due to a breach of its obligations under the Memorandum.

To date, the ad hoc arbitration is ongoing. Details of the proceedings cannot be disclosed due to the confidential nature of the said proceedings as required by law.

- i. *CHED Case.* On April 21, 2014, STI WNU filed a Petition for Certiorari with an application for the issuance of temporary restraining order and preliminary injunction against the Commission on Higher Education ("CHED") with the Regional Trial Court of Quezon City.

The Petition was filed in response to the Order dated January 6, 2014 issued by Atty. Julito Vitriolo, CHED's Executive Director, which affirmed/executed the Closure Order(s) dated July 19, 2011 and April 26, 2013 of STI WNU's Bachelor of Science in Marine Transportation ("BS MT") and Bachelor of Science in Maritime Engineering ("BS MarE") degrees.

In the said Order, CHED resolved: (1) to allow STI WNU's existing students enrolled prior to the issuance of the denial of its Motion for Reconsideration for Academic Year ("AY") 2012-2013, to complete and graduate their Bachelor of Science in Marine Transportation ("BSMT") and Bachelor of Science in Maritime Engineering ("BS MarE") degrees in STI WNU; (2) STI WNU shall be directed to submit a complete list of the students enrolled as of AY 2012-2013; and (3) effective AY 2013-2014, STI WNU offering of maritime programs shall be considered to have shifted to a rating school and shall be recognized as a pilot maritime technical school in Western Visayas with 2-3 year "non-officer maritime program" and that students admitted in STI WNU's maritime programs effective AY 2013-2014 shall not be considered to have enrolled in degree program but only in a "non-officer maritime program" of STI WNU.

The issues presented in the Petition filed by STI WNU are as follows: (a) the April 26, 2013 Order denying STI WNU's Motion for Reconsideration of the July 11, 2011 Closure Order was issued despite full compliance by STI WNU on the required areas for evaluation of STI WNU's Maritime Programs; (b) the January 6, 2014 Order did not resolve nor mention the status of the Verified Appeal filed on June 7, 2013; (c) the January 6, 2014 Order downgrading STI WNU's BS MT and BS MarE did not provide guidelines for its implementation; (d) the shifting of the enrollees/students for AY 2013-2014 from a rating/degree program to a pilot non-officer program/certification will cause grave and irreparable damage on the part of the affected students; (e) under the Manual of Regulations for Private Higher Education, the January 6, 2014 Order should be effected at the end of the academic year.

On May 23, 2014, the Trial Court issued an Order dismissing the case on the ground that (a) the period to file the petition for certiorari lapsed on July 28, 2013 or after the sixty (60) day period from receipt of the April 26, 2013 Order of CHED and (b) the Court of Appeals has jurisdiction over petition for certiorari against quasi-judicial agencies such as CHED.

On June 11, 2014, STI WNU filed a Motion for Reconsideration of the May 23, 2014 Order of the Trial Court. In the said Motion for Reconsideration, STI WNU asserted that (a) the sixty (60) day period to file the petition for certiorari should be counted from the time of the receipt of the assailed order, January 6, 2014 Order of CHED and (b) the Regional Trial Court of Quezon City has jurisdiction over the said case.

On September 2, 2014, the Trial Court denied STI WNU's Motion for Reconsideration seeking to reverse the Resolution dismissing the above-captioned case on the ground that (a) the period to file the petition for certiorari lapsed on July 28, 2013 or after the sixty (60) day period from receipt of the April 26, 2014 Order of CHED and (b) the Court of Appeals has jurisdiction over petition for certiorari against quasi-judicial agencies such as CHED.

On September 16, 2014, STI WNU filed its Notice of Appeal to elevate the records of the case to the Court of Appeals as provided under Rule 41 of the Rules of Court. On October 7, 2014, STI WNU received the Trial Court's Order dated September 22, 2014 which gave due course to STI WNU's Notice of Appeal and ordering the Clerk of Court to transmit the entire records to the Court of Appeals.

On January 12, 2015, a Notice dated November 12, 2014 from the Trial Court was received, stating that the entire records of the case was transmitted to the Clerk of Division of the Court of Appeals.

On February 27, 2015, a notice from the Court of Appeals was received that required STI WNU to file its Appellant's brief. On March 30, 2015, STI WNU submitted the Appellant's brief.

On March 30, 2015, STI WNU and CHED filed their respective Memorandum. Upon filing of their respective Memorandum, the appeal was submitted for resolution.

On August 17, 2015, STI WNU, through counsel, received the Decision dated July 29, 2015 of the Court of Appeals. In the Decision, the Court of Appeals affirmed the Trial Court's Orders, and reiterated that STI WNU's failure to timely file the Petition with the Court of Appeals from its receipt on April 26, 2013 Closure Order caused the said Closure Orders to become final and executory.

On September 1, 2015, STI WNU filed its Motion for Reconsideration on the Court of Appeal's Decision dated July 29, 2015.

After CHED filed its opposition thereto, a Resolution dated February 24, 2016 was issued by the Court of Appeals. In the Resolution, the Court of Appeals denied the Motion for Reconsideration because there were no new matters of substance raised by STI WNU to justify the reversal of the Court of Appeals' Decision dated July 29, 2015.

After filing a motion for extension to file a Petition for Review, STI WNU filed a Petition for Review on April 18, 2016 to the Supreme Court. In the Petition for Review, STI WNU reiterated that (a) the period to file a Petition for Certiorari has not expired, and (b) the Trial Court has jurisdiction over the Closure Orders of CHED. STI WNU also asked the Supreme Court that, if it deems proper, allow STI WNU to continue to offer the Maritime Programs considering that it has fully complied with the requirements of the CHED to offer the same.

On July 26, 2016, STI WNU received the Supreme Court's Resolution dated June 15, 2016, which denied the Petition for Review.

On August 10, 2016, STI WNU filed its Motion for Reconsideration on the Resolution dated June 15, 2016.

On September 21, 2016, the Supreme Court issued a Resolution, which denies the Motion for Reconsideration, and affirmed the dismissal of the case with finality.

- j. Due to the nature of their business, STI ESG and STI WNU are involved in various legal proceedings, both as plaintiff and defendant, from time to time. The majority of outstanding litigation involves illegal dismissal cases under which faculty members have brought claims against STI ESG and STI WNU by reason of their faculty contract. Except as discussed in (d), (e), (f), (g), (h) and (i), STI ESG and STI WNU are not engaged in any legal or arbitration proceedings (either as plaintiff or defendant), including those which are pending or known to be contemplated and its BODs have no knowledge of any proceedings pending or threatened against STI ESG and STI WNU or any facts likely to give rise to any litigation, claims or proceedings which might materially affect its financial position or business. Management and its legal counsels believe that STI ESG and STI WNU have substantial legal and factual bases for its position and are of the opinion that losses arising from these legal actions and proceedings, if any, will not have a material adverse impact on the Group's consolidated financial position as well as in the results of its operations.
- k. STI WNU is likewise contingently liable for lawsuits or claims filed by third parties, including labor-related cases, which are pending decision by the courts, the outcome of which are not presently determinable.
- l. Other subsidiaries also stand as defendant of various lawsuits and claims filed by their former employees. The complainants are seeking payment of damages such as backwages and attorney's fees. As at July 12, 2018, the cases are pending before the Labor Arbiter.

Management and their legal counsels believe that the outcome of these cases will not have a significant impact on the consolidated financial statements.

#### Commitments

##### a. Financial Commitments

STI ESG has a ₱165.0 million domestic bills purchase lines from various local banks specifically for the purchase of local and regional clearing checks. Interest on drawdown from such facility is waived except when drawn against returned checks, to which the interest shall be the prevailing lending rate of such local bank. This facility is on a clean basis.

In December 2014, the Parent Company issued a Surety Agreement in favor of China Bank to secure STI WNU's ₱300.0 million long-term loan and ₱5.0 million credit line. As at March 31, 2018 and 2017, STI WNU's long-term loan amounted to ₱182.0 million and ₱209.0 million, respectively.

- b. STI Holdings signed as co-maker on the ₱200.0 million bridge financing loan of iACADEMY which was fully paid on September 29, 2017.

##### c. Capital Commitments

As at March 31, 2018, STI ESG has contractual commitments and obligations for the construction of school buildings which will be the site of STI Lipa, STI Sta. Mesa, STI Pasay-EDSA and STI San Jose del Monte with an aggregate amount of ₱1,956.6 million of which ₱793.0 million has been paid as at March 31, 2018.

As at March 31, 2017, STI ESG has contractual commitments and obligations for the construction of classrooms and faculty rooms in STI Batangas and for the renovation works in STI Novaliches aggregating ₱38.8 million. Unpaid balances as at March 31, 2018 and 2017 amounted to ₱3.5 million and ₱12.0 million, respectively.

As at March 31, 2016, STI ESG has contractual commitments and obligations for the construction of the STI Las Piñas campus aggregating ₱290.0 million. Unpaid balances as at March 31, 2018 and 2017 amounted to ₱14.5 million and ₱16.7 million, respectively.

STI WNU likewise has contractual commitments and obligations for the construction of school buildings and upgrade of its facilities aggregating to ₱24.4 million and ₱25.8 million as at March 31, 2018 and 2017. Of these, ₱21.7 million and ₱24.6 million have already been paid as at March 31, 2018 and 2017, respectively.

iACADEMY has contractual commitments and obligations for the construction of its Yakal Campus totaling ₱955.6 million and ₱858.5 million as at March 31, 2018 and 2017. Of these, ₱569.6 million and ₱251.2 million have been paid as at March 31, 2018 and 2017, respectively.

d. Others

- i. August 1, 2017, STI ESG entered into a Memorandum of Understanding with Royal Caribbean Cruises Ltd. (“RCL”) for the creation of the RCL-STI Cruise Talent Development Centre that will follow RCL standards in providing training for hospitality jobs on cruise ships. This facility will produce more Filipino seafaring talents ready to take on thousands of new hotel roles on cruise ships. Discussions for the execution of a Definitive Agreement are ongoing.
- ii. On April 21, 2017, STI ESG, Mr. Tony Tan Caktiong (“TTC”), STI Tanauan, and Injap Investments, Inc. (“Injap”), referred collectively as the Joint Venture Parties, entered into an agreement to transform STI Tanauan into a Joint Venture Company which shall operate a farm-to-table school that offers courses ranging from farm production to food services.

The Joint Venture Parties also agreed to increase STI Tanauan’s authorized capital stock to an amount that will be agreed by the Joint Venture Parties in a separate agreement. As agreed by the Joint Venture Parties, the increase in the authorized capital stock will be made through STI Tanauan’s declaration of stock dividends to STI ESG based on STI Tanauan’s unrestricted retained earnings as of March 31, 2017 and cash payments by the Joint Venture Parties.

The equity sharing in the Joint Venture Company will be 60%, 25% and 15% for STI ESG, TTC and Injap, respectively.

On June 21, 2017, in separate meetings, the stockholders and the BOD of STI Tanauan approved the increase in the authorized capital stock of the corporation from ₱1.0 million divided into 10,000 shares with a par value of ₱100 to ₱75.0 million divided into 750,000 shares with a par value of ₱100. The increase will be funded through the declaration of stock dividends and cash subscriptions by the shareholders. In the same meeting, the stockholders and the BOD approved the declaration of 150,000 shares as stock dividends with an aggregate par value of ₱15.0 million to be distributed to stockholders of record as of March 31, 2017 based on the unrestricted retained earnings of STI Tanauan as shown in its audited financial statements as of March 31, 2017.

On January 24, 2018 STI ESG subscribed to and fully paid for 35,000 shares at a subscription price of ₱495 per share for a total of ₱17.3 million.

On February 26, 2018, STI Tanauan applied with the SEC to increase its authorized capital stock from ₱1.0 million to ₱75.0 million.

On March 2, 2018, the SEC approved the increase and issued the Certificate of Approval on Increase of Capital Stock.

On March 3, 2018, STI Tanauan issued to STI ESG stock dividends of 150,000 shares and 35,000 shares as subscribed by the latter.

- iii. In January 2018, STI ESG entered into a contract to sell with Heva Management and Development Corporation for the acquisition of a lot in Iloilo City with a total area of 2,615 sqm for a price of ₱183.0 million plus value added tax less applicable taxes. STI ESG made a down payment amounting to ₱67.5 million in January 2018, net of the ₱200.0 thousand reservation fee paid on November 29, 2017 (see Note 14). The remaining balance in the amount of ₱128.1 million shall be paid in eighteen (18) equal monthly installments without interest, of ₱7.1 million starting January 2018 up to June 2019. The lot will be the future site of STI Iloilo.

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#### 34. Financial Risk Management Objectives and Policies

The principal financial instruments of the Group comprise cash and cash equivalents and interest-bearing loans and borrowings. The main purpose of these financial instruments is to raise working capital and major capital investment financing for the Group's school operations. The Group has various other financial assets and liabilities such as receivables, accounts payable and other current liabilities which arise directly from its operations.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk and interest rate risk. The Group's BOD and management reviews and agrees on the policies for managing each of these risks as summarized below.

##### Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet its currently maturing commitments. The Group's liquidity profile is managed to be able to finance its operations and capital expenditures and other financial obligations. To cover its financing requirements, the Group uses internally-generated funds and interest-bearing loans and borrowings. As part of its liquidity risk management program, the Group regularly evaluates the projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives.

Any excess funds are primarily invested in short-dated and principal-protected bank products that provide flexibility of withdrawing the funds anytime. The Group regularly evaluates available financial products and monitors market conditions for opportunities to enhance yields at acceptable risk levels.

The Group's current liabilities are mostly made up of trade liabilities with 30 to 60-day payment terms, current portion of interest-bearing loans and borrowings that are expected to mature within one year after reporting date. On the other hand, the biggest components of the Group's current assets are cash and cash equivalents, receivables from students and franchisees and advances to associates and joint ventures with credit terms of 30 days.

As at March 31, 2018 and 2017, the Group's current assets amounted to ₱3,367.4 million and ₱3,914.4 million, respectively, while current liabilities amounted to ₱1,190.7 million and ₱1,465.5 million, respectively.

As part of the Group's liquidity risk management program, management regularly evaluates the projected and actual cash flow information.

In relation to the Group's long-term loan, the debt service cover ratio, based on the consolidated financial statements of the Group is also monitored on a regular basis. The debt service cover ratio is equivalent to the consolidated EBITDA divided by total principal and interests due for the next twelve months. The Group monitors its debt service cover ratio to keep it at a level acceptable to the Group and the lender bank. The Group's policy is to keep the debt service cover ratio not lower than 1.1:1

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and other financial liabilities as at financial reporting date based on undiscounted contractual payments.

	March 31, 2018					Total
	Due and Demandable	Less than 2 Months	2 to 3 Months	3 to 12 Months	More than 1 Year	
<b>Financial Assets</b>						
Loans and receivables:						
Cash and cash equivalents	₱1,857,507,750	₱-	₱-	₱-	₱-	₱1,857,507,750
Receivables*	402,343,192	17,491,395	101,865	73,539,889	-	493,476,341
Deposits (included as part of "Prepaid expenses and other current assets" and "Goodwill, intangible and other noncurrent assets" accounts)	-	-	-	589,366	51,520,552	52,109,918
AFS financial assets	-	-	-	-	68,093,740	68,093,740
	<b>₱2,259,850,942</b>	<b>₱17,491,395</b>	<b>₱101,865</b>	<b>₱74,129,255</b>	<b>₱119,614,292</b>	<b>₱2,471,187,749</b>
<b>Financial Liabilities</b>						
Other financial liabilities-						
Accounts payable and other current liabilities**	₱511,667,323	₱14,960,609	₱34,661,041	₱197,942,174	₱-	₱759,231,147
Nontrade payable	67,000,000	-	-	-	-	67,000,000
Bonds payable:						
Principal	-	-	-	-	3,000,000,000	3,000,000,000
Interest	-	-	-	178,905,220	1,051,365,860	1,230,271,080
Interest-bearing loans and borrowings:						
Principal	-	-	-	497,400,000	749,000,000	1,246,400,000
Interest	-	-	-	128,889,622	44,251,508	173,141,130
Obligations under finance lease	98,100	178,502	134,460	7,791,370	15,709,157	23,911,589
Other noncurrent liabilities	-	-	-	3,171,113	16,081,797	19,252,910
	<b>₱578,765,423</b>	<b>₱15,139,111</b>	<b>₱34,795,501</b>	<b>₱1,014,099,499</b>	<b>₱4,876,408,322</b>	<b>₱6,519,207,856</b>



March 31, 2017						
	Due and Demandable	Less than 2 Months	2 to 3 Months	3 to 12 Months	More than 1 Year	Total
<b>Financial Assets</b>						
<b>Loans and receivables:</b>						
Cash and cash equivalents	₱3,198,723,556			₱-	₱-	₱3,198,723,556
Receivables*	342,162,348	19,075,055	114,159	59,018,661		420,370,223
Deposits (included as part of "Prepaid expenses and other current assets" and "Goodwill, intangible and other noncurrent assets" accounts)		-	-	131,299	45,641,804	45,773,103
AFS financial assets		-	-		51,602,130	51,602,130
	<b>₱3,540,885,904</b>	<b>₱19,075,055</b>	<b>₱114,159</b>	<b>₱59,149,960</b>	<b>₱97,243,934</b>	<b>₱3,716,469,012</b>
<b>Financial Liabilities</b>						
<b>Other financial liabilities-</b>						
Accounts payable and other current liabilities**	₱223,808,473	₱51,083,983	₱4,168,977	₱165,940,716	₱-	₱445,002,149
Nontrade payable	67,000,000	-	-	-	-	67,000,000
Bonds payable:						
Principal	-	-	-	-	3,000,000,000	3,000,000,000
Interest	-	-	-	178,905,220	1,230,271,080	1,409,176,300
Interest-bearing loans and borrowings:						
Principal	200,000,000	-	-	612,800,000	916,400,000	1,729,200,000
Interest	562,500	-	-	47,151,884	92,843,849	140,558,233
Obligations under finance lease	-	176,621	59,657	6,068,049	7,721,669	14,025,996
Other noncurrent liabilities	-	-	-	-	62,236,297	62,236,297
	<b>₱491,370,973</b>	<b>₱51,260,604</b>	<b>₱4,228,634</b>	<b>₱1,010,865,869</b>	<b>₱5,309,472,895</b>	<b>₱6,867,198,975</b>

\*\* Excluding advances to officers and employees amounting to ₱24.5 million and ₱22.7 million as at March 31, 2018 and 2017.

\*\* Excluding taxes payable, SSS, Philhealth and Pag-ibig benefits payable amounting to ₱24.7 million and ₱14.7 million as at March 31, 2018 and 2017, respectively.

As at March 31, 2018 and 2017, the Group's current ratios are as follows:

	2018	2017
Current assets	<b>₱3,367,435,661</b>	₱3,914,385,487
Current liabilities	<b>1,190,736,240</b>	1,465,466,905
Current ratios	<b>2.83:1.00</b>	2.67:1.00

### Credit Risk

Credit risk is the risk that the Group will incur a loss arising from students, franchisees or other counterparties that fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk that the Group is willing to accept for individual counterparties and by monitoring expenses in relation to such limits.

It is the Group's policy to require the students to pay all their tuition and other school fees before they can get their report cards and other credentials. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and AFS financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. As at March 31, 2018 and 2017, there is no significant concentration of credit risk.

*Credit Risk Exposures.* The table below shows the maximum exposure to credit risk for the components of the consolidated statements of financial position:

	2018		2017	
	Gross Maximum Exposure <sup>(1)</sup>	Net Maximum Exposure <sup>(2)</sup>	Gross Maximum Exposure <sup>(1)</sup>	Net Maximum Exposure <sup>(2)</sup>
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents (excluding cash on hand)	<b>₱1,856,488,343</b>	<b>₱1,833,488,343</b>	₱3,197,516,832	₱3,119,238,839
Receivables*	<b>493,476,341</b>	<b>493,476,341</b>	420,370,223	420,370,223
Rental deposits (included as part of the “Goodwill, intangible and other noncurrent assets” account)	<b>52,109,918</b>	<b>52,109,918</b>	43,937,913	43,937,913
AFS financial assets	<b>68,093,740</b>	<b>68,093,740</b>	51,602,130	51,602,130
	<b>₱2,470,168,342</b>	<b>₱2,447,168,342</b>	₱3,713,427,098	₱3,635,149,105

\* Excluding advances to officers and employees amounting to ₱24.5 million and ₱22.7 million as at March 31, 2018 and 2017.

\*\*Included as part of “Prepaid expenses and other current assets” and “Goodwill, intangible and other noncurrent assets” account

(1) Gross financial assets before taking into account any collateral held or other credit enhancements or offsetting arrangements.

(2) Gross financial assets after taking into account any collateral held or other credit enhancements or offsetting arrangements or insurance in case of bank deposits.

The credit quality of neither past due nor impaired financial assets were determined as follows:

- Cash and cash equivalents.* These financial assets are classified based on the nature of the counterparty. Cash and cash equivalents are held by banks that have good reputation and low probability of insolvency.
- Receivables.* These are current receivables with no default in payment.
- Rental deposits.* These financial assets are classified as high grade since the counterparties are not expected to default in settling their obligations.

The table below shows the aging analysis of financial assets that are past due but not impaired:

	Neither Past Due Nor Impaired	2018			Impaired	Total
		Past Due but not Impaired				
		31 to 60 Days	61 to 90 Days	Over 90 days		
<b>Financial Assets</b>						
Loans and receivables:						
Cash and cash equivalents (excluding cash on hand)	<b>₱1,856,488,343</b>	₱-	₱-	₱-	₱-	1,856,488,343
Receivables*	<b>245,925,923</b>	56,171,941	155,336,739	36,041,738	128,520,414	621,996,755
Rental deposits (included as part of the “Goodwill, intangible and other noncurrent assets” account)	<b>52,109,918</b>	-	-	-	-	52,109,918
AFS financial assets	<b>68,093,740</b>	-	-	-	-	68,093,740
	<b>₱2,222,617,924</b>	<b>₱56,171,941</b>	<b>₱155,336,739</b>	<b>₱36,041,738</b>	<b>₱128,520,414</b>	<b>₱2,598,688,756</b>

	2017					
	Neither Past Due Nor Impaired	Past Due but not Impaired			Impaired	Total
		31 to 60 Days	61 to 90 Days	Over 90 days		
Financial Assets						
Loans and receivables:						
Cash and cash equivalents (excluding cash on hand)	₱3,197,516,832	₱-	₱-	₱-	₱-	₱3,197,516,832
Receivables (current and noncurrent)*	154,844,083	70,106,639	157,025,972	38,393,506	123,752,494	544,122,694
Rental deposits (included as part of the "Goodwill, intangible and other noncurrent assets" account)	43,937,913	-	-	-	-	43,937,913
AFS financial assets	51,602,130	-	-	-	-	51,602,130
	₱3,447,900,958	₱70,106,639	₱157,025,972	₱38,393,506	₱123,752,494	₱3,837,179,569

\* Excluding advances to officers and employees amounting to ₱24.5 million and ₱22.7 million as at March 31, 2018 and 2017, respectively.

**Interest Rate Risk.** Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. The Group's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's long-term loans and bonds. While the Group's long term debt has a floating interest rate, the Group elected to have the interest rate repriced every year, thus minimizing the exposure to market changes in interest rates. The interest rates on the STI ESG bonds are, however, fixed for the 7-year and the 10-year bonds.

The Group's exposure to interest rate risk also includes its cash and cash equivalents balance. Interest rates for the Group's cash deposits are at prevailing interest rates. Due to the magnitude of the deposits, significant change in interest rate may also affect the consolidated statements of comprehensive income.

The following table demonstrates the sensitivity, to a reasonably possible change in interest rates, with all other variables held constant, of the consolidated statements of comprehensive income and statements of changes in equity for the years ended March 31:

Increase/decrease in Basis Points (bps)	Effect on Income Before Income Tax		
	2018	2017	2016
+100 bps	(₱42,321,954)	(₱39,842,000)	(₱11,510,000)
-100 bps	42,321,954	39,842,000	11,510,000

#### Capital Risk Management Policy

The Group aims to achieve an optimal capital structure to reduce its cost of capital in pursuit of its business objectives, which include maintaining healthy capital ratios and strong credit ratings, maximizing shareholder value and providing benefits to other stakeholders. The Group likewise aims to ensure that cash is available to support its operations and all other projects undertaken by the Group and to maintain funds on a long-term basis.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group is not subject to externally imposed capital requirements.

The Group monitors capital using the debt-to-equity ratio which is computed as the total of current and noncurrent liabilities, net of unearned tuition and other school fees, divided by total equity. The Group monitors its debt-to-equity ratio to keep it at a level acceptable to the Group and the lender bank. The Group's policy is to keep the debt-to-equity ratio at a level not exceeding 2:1.

The Group considers its equity contributed by stockholders, net of cost of shares held by a subsidiary, as capital.

	<b>March 31</b>	
	<b>2018</b>	2017
Capital stock	<b>₱4,952,403,462</b>	₱4,952,403,462
Additional paid-in capital	<b>1,119,127,301</b>	1,119,127,301
Cost of shares held by a subsidiary	<b>(498,142,921)</b>	(498,142,921)
Retained earnings	<b>4,611,356,907</b>	4,303,426,945
	<b>₱10,184,744,749</b>	₱9,876,814,787

The Group's debt-to-equity ratios are as follows:

	<b>March 31</b>	
	<b>2018</b>	2017
Total liabilities*	<b>₱5,464,012,145</b>	₱5,639,698,011
Total equity	<b>8,802,448,453</b>	8,312,297,582
Debt-to-equity ratio	<b>0.62:1.00</b>	0.68:1.00

\*Excluding unearned tuition and other school fees of ₱149.4 million and ₱100.3 million as at March 31, 2018 and 2017, respectively.

The Group's asset-to-equity ratios are as follows:

	<b>March 31</b>	
	<b>2018</b>	2017
Total assets	<b>₱14,415,829,004</b>	₱14,052,316,541
Total equity	<b>8,802,448,453</b>	8,312,297,582
Asset-to-equity ratio	<b>1.64:1.00</b>	1.69:1.00

No changes were made in the objectives, policies or processes in 2018 and 2017.

### 35. Fair Value Information of Financial Instruments

The Group's financial instruments consist of cash and cash equivalents, receivables, advances to associates and joint ventures, deposits, interest-bearing loans and borrowings, accounts payable and other current liabilities, obligations under finance lease and nontrade payable. The primary purpose of these financial instruments, except for nontrade payable, is to finance the Group's operations.

There are no material unrecognized financial assets and liabilities as at March 31, 2018 and 2017.

Due to the short-term nature of cash and cash equivalents, receivables, accounts payable and other current liabilities, and nontrade payable, their carrying values reasonably approximate their fair values at year end.

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.

*Rental Deposits.* The fair values of these instruments are computed by discounting the face amount using PDST-R2 rate of 3.29%-7.16% and 2.68%-5.01% as at March 31, 2018 and 2017, respectively.

The fair value of rental deposits, classified under Level 3, amounted to ₱43.2 million and ₱41.3 million as at March 31, 2018 and 2017, respectively.

*AFS Financial Assets.* The fair values of publicly-traded AFS financial assets, classified under Level 1, are determined by reference to market bid quotes as of financial reporting date. Investments in unquoted equity securities for which no reliable basis for fair value measurement is available are carried at cost, net of impairment.

*Interest-bearing Loans and Borrowings.* The carrying value approximates fair value because of recent and regular repricing based on market conditions.

*Obligation under Finance lease.* The fair values of obligations under finance lease, classified under Level 3, amounting to ₱21.5 million and ₱8.7 million as at March 31, 2018 and 2017, respectively, are computed based on discounted present value of lease payments with discount rates ranging from 3.29 to 5.24% and 2.42%-4.26% as at March 31, 2018 and 2017, respectively.

*Refundable Deposits.* The fair values of obligations under finance are computed based on discounted present value of lease payments using 3.09%-5.31% and 2.82%-4.25% as at March 31, 2018 and 2017, respectively.

The fair value of refundable deposits, classified under Level 3, amounted to ₱21.2 million and ₱17.4 million as at March 31, 2018 and 2017, respectively.

In 2018 and 2017, there were no transfers between Level 1 and 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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### 36. Note to Consolidated Statements of Cash Flows

The Group's material non-cash investing and financing activities follow:

- a. Acquisitions of property and equipment under finance lease recorded under the "Property and equipment" account amounting to ₱15.7 million, ₱4.6 million and ₱5.0 million in 2018, 2017 and 2016, respectively (see Note 11).
- b. Unpaid progress billing for construction in-progress and acquisition of property and equipment amounting to ₱254.6 million, ₱15.5 million and ₱20.2 million as at March 31, 2018, 2017 and 2016, respectively (see Note 11).
- c. Unpaid liability related to the derecognition of STI Diamond as a subsidiary amounting to ₱60.8 million as at March 31, 2017 (see Note 20).
- d. Reversal in 2017 of subscription payable associated with the subscription by STI ESG over Maestro Holdings shares in 2016 amounting to ₱17.5 million.
- e. Acquisition of investment properties through dacion amounting to ₱1,280.5 million, which involves the recognition of payable to BIR amounting to ₱85.6 million and payable to Unlad amounting to ₱64.4 million as at March 31, 2016 to fund and advance all taxes, expenses and fees to the extent of ₱150.0 million to obtain the BIR CAR and the issuance of new TCTs and TDs of the dacion properties in favor of the Parent Company, pursuant to the MOA (see Notes 12 and 33).

- f. Unpaid additions to investment properties for the construction of school buildings amounting to ₱0.5 million as at March 31, 2016 (see Note 12).
- g. Uncollected dividends from De Los Santos Medical Center amounting to ₱1.4 million as at March 31, 2016 (see Note 15).

**37. Changes in Liabilities Arising from Financing Activities**


	April 1, 2017	Cash flows	Reversal of finance lease obligation (Note 28)	Reclassified as current (Note 18 and 28)	New leases (Note 28)	Interest Expense (Note 22)	Dividends declared	March 31, 2018
	₱812,800,000	(₱1,012,000,000)	₱-	₱366,600,000	₱-	₱-	₱-	₱167,400,000
Current interest-bearing loans and borrowings	₱812,800,000	(₱1,012,000,000)	₱-	₱366,600,000	₱-	₱-	₱-	₱167,400,000
Current obligations under finance leases	5,667,168	(6,917,665)	-	8,384,946	-	-	-	7,134,449
Bonds payable	2,947,028,638	(845,757)	-	-	5,696,253	-	-	2,951,879,134
Non-current interest-bearing loans and borrowings	916,400,000	521,408,112	-	(366,600,000)	-	-	-	1,071,208,112
Non-current obligations under finance leases	7,172,214	-	(330,000)	(8,384,946)	-	16,170,556	-	14,627,824
Dividends payable	25,278,074	(196,558,444)	-	-	-	-	198,096,137	26,815,767
Interest Payable	12,387,255	(238,385,492)	-	-	236,582,455	-	-	10,584,218
<b>Total liabilities from financing activities</b>	<b>₱4,726,733,349</b>	<b>(₱933,299,246)</b>	<b>(₱330,000)</b>	<b>₱-</b>	<b>₱242,278,708</b>	<b>₱16,170,556</b>	<b>₱198,096,137</b>	<b>₱4,249,649,504</b>

## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
STI Education Systems Holdings, Inc.  
7th Floor, STI Holdings Center  
6764 Ayala Avenue  
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of STI Education Systems Holdings, Inc. and its subsidiaries as at March 31, 2018 and 2017 and for each of the three years in the period ended March 31, 2018, included in this Form 17-A, and have issued our report thereon dated July 12, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Benjamin N. Villacorte

Partner

CPA Certificate No. 111562

SEC Accreditation No. 1539-A (Group A),

March 3, 2016, valid until March 3, 2019

Tax Identification No. 242-917-987

BIR Accreditation No. 08-001998-120-2016,

February 15, 2016, valid until February 14, 2019

PTR No. 6621344, January 9, 2018, Makati City

July 12, 2018

**\*SGVFS031556\***



## **STI EDUCATION SYSTEMS HOLDINGS, INC. AND SUBSIDIARIES**

### **INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2018**

<b>Schedule</b>	<b>Content</b>
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
C	Amounts Receivable from/Payable to Related Parties which are Eliminated During the Consolidation of the Financial Statements
D	Intangible Assets – Other Assets
E	Long-Term Debt
F	Indebtedness to Related Parties (Long-Term Loans from Related Companies)
G	Guarantees of Securities of Other Issuers
H	Capital Stock
I	Retained Earnings Available for Dividend Declaration
J	Map of Relationships Between and Among the Company and Its Ultimate Parent Company, Middle Parent, Subsidiaries or Co-Subsidiaries and Associates
K	Schedule of All the Effective Standards and Interpretations
L	Financial Soundness Indicators

SCHEDULE A – FINANCIAL ASSETS

March 31, 2018  
(Amount in Pesos)

**STI EDUCATION SYSTEMS HOLDINGS, INC.**

7/F STI Holdings Center  
6764 Ayala Avenue  
Makati City

Name of issuing Entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Value Based on market quotation at end of reporting period	Income received and accrued
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The Group has no financial assets at Fair Value through Profit or Loss as at March 31, 2018

**SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (Other than Related Parties)**

March 31, 2018  
(Amount in Pesos)

**STI EDUCATION SYSTEMS HOLDINGS, INC.**

7/F STI Holdings Center  
6764 Ayala Avenue  
Makati City

Name and Designation of debtor		Balance at beginning of period	Additions	Amounts collected	Amounts Written-off	Current	Not Current	Balance at end of period
Agudo, Redjer Raneses	Senior School Administrator	224,939	14,681	(132,545)		107,075		107,075
Ancheta, Caroline Grace	Senior School Administrator	534,038	26,723	(162,693)		398,068		398,068
Bautista, Teodoro Lloydon Calma	VP-Academics	57,222	443,851	(217,014)		284,059		284,059
Bundoc, Restituto Odulio	VP-School Operations	393,542	473,868	(298,036)		569,374		569,374
Carbonel, Ana	HROD Head	228,548	21,324	(133,519)		116,353		116,353
De Guzman , Engelbert	VP-Communications		558,277	(246,516)		311,761		311,761
Dimain, Stanley Barrientos	School Operations Manager	139,825	10,343	(63,298)	-	86,870		86,870
Dy, Joel Lagamayo	School Operations Manager	306,858	17,632	(66,151)		258,339		258,339
Garrido, Arnel Angelo	Event Manager	190,784	15,779	(63,064)		143,499		143,499
Hipolito , Ma. Isabel	AVP-Academic Research		504,857	(200,028)		304,829		304,829
Ibarra, Marife	School Administrator	116,076	12,826	(58,403)	-	70,499		70,499
Jimenez, Ariel	Senior School Administrator	587,144	36,266	(166,799)		456,611		456,611
Joson, Harry Alfonso	AVP- Learning Management		485,337	(156,162)		329,175		329,175
Luza, Juven Deriquito	Senior School Administrator	312,757	12,507	(61,897)		263,367		263,367
Magano, Shiela Abad	AVP-School Management	39,495	489,586	(198,251)		330,830		330,830
Manarang, Jennifer	Senior School Administrator	524,012	28,174	(93,209)		458,977		458,977
Matira , Reina	Academic Head		278,803	(56,401)		222,402		222,402
Racadio, Wilfred	VP-Legal	116,260	1,262,352	(1,023,827)		354,785		354,785
Sangalang, Amiel	VP-Finance	290,715	48,950	(102,780)		236,885		236,885
Santos, Merliza	AVP-Finance	121,806	483,709	(217,643)		387,872		387,872
Sibbaluca, Brandon	Research Head-IT and Engineering	179,260	5,203	(60,046)		124,417		124,417
Tubongbanua, Juan Luis Fausto Bustamante	VP-CIS	135,278	428,684	(196,383)		367,579		367,579
Angelo Bernardo Tapia	Manager, OSAS	-	498,014	(356,163)		141,852		141,852
Joanna Marie Caneo	Registrar Officer	-	192,060	(32,500)		159,560		159,560
Tan, Benjamin	Asst. Mngr, Bldg Admin	-	339,970	(178,338)		161,633		161,633
Cunanan, Cyril	VP for Finance	24,942	924,111	(791,180)		157,873		157,873
Malo-oy, Ritzy	Career Adviser	97,752	216,650	(177,676)		136,726		136,726
Nietes, Nore	Registrar	53,957	193,495	(125,958)		121,494		121,494
<b>Total</b>		<b>4,675,210</b>	<b>8,024,032</b>	<b>(5,636,479)</b>	-	<b>7,062,764</b>	-	<b>7,062,764</b>

The above schedule of advances to officers and employees of the Group with balances above P100,000 as of March 31, 2018 substantially pertain to car plan agreements. Such advances are non-interest bearing and are liquidated on a semi-monthly basis. There were no amounts written off during the year.

SCHEDULE C – AMOUNTS RECEIVABLE FROM/PAYABLE TO RELATED PARTIES WHICH ARE  
ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

March 31, 2018  
(Amount in Pesos)

**STI EDUCATION SYSTEMS HOLDINGS, INC.**

7/F STI Holdings Center  
6764 Ayala Avenue  
Makati City

<b>Name of debtor and description</b>	<b>Balance at beginning of period</b>	<b>Additions</b>	<b>Amounts collected</b>	<b>Amounts Written-off</b>	<b>Current</b>	<b>Not Current</b>	<b>Balance at end of period</b>	<b>Description</b>
Receivable of AHC from STI Holdings	63,778,000	-	-	-	63,778,000	-	63,778,000	Assignment of receivable from Unlad Resources Development Corporation
Receivable of AHC from STI Holdings	64,000,000	-	-	-	-	64,000,000	64,000,000	Subscription
Receivable of STI WNU from STI Holdings	30,227,650	-	5,000,000	-	25,227,650	-	25,227,650	Subscription
Receivable of iACADEMY from Neschester	1,105,332	527,724	-	-	1,633,056	-	1,633,056	Advances
Receivable of iACADEMY from STI ESG	-	5,683,501	5,683,501	-	-	-	-	Advances
Receivable of STI ESG from iACADEMY	-	3,770,575	3,770,575	-	-	-	-	Advances
Receivable of STI ESG from STI WNU	-	3,051,198	3,051,198	-	-	-	-	Advances
Receivable of STI ESG from STI WNU	-	8,895,083	8,895,083	-	-	-	-	Educational services, school materials sold, other charges
Receivable of STI Holdings from STI ESG	-	14,400,000	14,400,000	-	-	-	-	Advisory fees
Receivable of STI Holdings from STI WNU	-	3,600,000	3,600,000	-	-	-	-	Advisory fees

SCHEDULE D – INTANGIBLE ASSETS – OTHER ASSETS

March 31, 2018  
(Amount in Pesos)

**STI EDUCATION SYSTEMS HOLDINGS, INC.**

7/F STI Holdings Center  
6764 Ayala Avenue  
Makati City

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)*	Ending balance
Goodwill	239,458,878	1,776,696	-	-	-	241,235,574
Deposits for asset acquisitions	72,764,000	76,270,833	-	(72,764,000)	-	76,270,833
Rental and utility deposits	45,641,805	7,371,712	186,555	-	(1,306,410)	51,520,552
Intangible assets	27,400,516	1,592,484	11,685,281	-	-	17,307,719
Advances to suppliers	29,663,654	532,246,581	-	(392,632,675)	-	169,277,560
Deferred input VAT	9,767,344	-	-	(5,860,406)	-	3,906,938
Other noncurrent assets	2,489,774	-	-	-	(514,590)	1,975,184
	<b>427,185,971</b>	<b>619,258,306</b>	<b>11,871,836</b>	<b>(471,257,081)</b>	<b>(1,821,000)</b>	<b>561,494,360</b>

*\*Other changes refer to reclassification of accounts in 2018 Statements of Financial Position*

**SCHEDULE E – LONG TERM DEBT**

March 31, 2018

(Amount in Pesos)

**STI EDUCATION SYSTEMS HOLDINGS, INC.**

7/F STI Holdings Center

6764 Ayala Avenue

Makati City

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet
China Banking Corporation - Bank Loans Maturity Date / Interest Rate July 31, 2021 / 4.75%	3,000,000,000	134,400,000	600,000,000
Fixed rate bonds series 7-year bond due 2024 and series 10-year bond due 2027/Interest rates are 5.8085% and 6.3756%, respectively*	5,000,000,000	-	2,951,879,134
China Banking Corporation - Bank Loans Maturity Date / Interest Rate September 29, 2027 / 4.41%*	800,000,000	-	322,208,112
China Banking Corporation - Bank Loans Maturity Date / Interest Rate JULY 31, 2021 / 4.36%	300,000,000	33,000,000	149,000,000

*\*presented net of bond issue costs / transactions costs in the Statements of Financial Position*

SCHEDULE F – INDEBTEDNESS TO RELATED PARTIES  
(LONG-TERM LOANS FROM RELATED COMPANIES)

March 31, 2018  
(Amount in Pesos)

**STI EDUCATION SYSTEMS HOLDINGS, INC.**

7/F STI Holdings Center  
6764 Ayala Avenue  
Makati City

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Name of Related Party	Balance at beginning of period	Balance at end of period
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The Group has no long-term loans from related parties as at March 31, 2018

SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS

March 31, 2018  
(Amount in Pesos)

**STI EDUCATION SYSTEMS HOLDINGS, INC.**

7/F STI Holdings Center  
6764 Ayala Avenue  
Makati City

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
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The Group does not have guarantees of securities of other issuing entities as at March 31, 2018



SCHEDULE H – CAPITAL STOCK

March 31, 2018

(Amount in Pesos)

**STI EDUCATION SYSTEMS HOLDINGS, INC.**

7/F STI Holdings Center

6764 Ayala Avenue

Makati City

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Number of shares held by Directors, officers and employees	Number of shares held by Others
Common Stock	10,000,000,000	9,904,806,924	-	4,687,818,999*	1,649,182,901**	3,567,805,024
<hr/>						
*Related Parties					**Directors, Officers, and Employees:	
Prudent Resources, Inc.	1,619,599,964			Eusebio H.Tanco	1,467,017,875	
Biolim Holdings and Management Corp. (Formerly: Rescom Developers, Inc.)	795,348,934			Monico V. Jacob	33,784,057	
Eujo Philippines, Inc.	780,033,130			Maria Vanessa Rose L. Tanco	1,058,001	
Tantivy Holdings, Inc. (Formerly, Insurance Builders, Inc.	629,776,992			Joseph Augustin L. Tanco	2,000,001	
STI Education Services Group	500,432,895			Martin K. Tanco	53,119,000	
Eximious Holdings, Inc. (Formerly, Capital Managers and Advisors, Inc.)	306,890,332			Paolo Martin O. Bautista	3,250,000	
Philippines First Insurance Co., Inc.	3,722,000			Rainerio M. Borja	1,000,000	
First Optima Realty Corporation	29,014,752			Teodoro L. Locsin, Jr.	1,000	
Prime Power Holdings Corp.	23,000,000					
<b>TOTAL</b>	<b>4,687,818,999</b>			Jesli A. Lapus	6,500,000	
				Robert G. Vergara	1,000	
				Johnip G. Cua	1,000	
				Yolanda M. Bautista	5,000,001	
				Arsenio C. Cabrera, Jr.	6,500,000	
				Franchini Vina Z. Cordova	65,000	
				STI Employees Retirement Plan	69,885,966	
				<b>TOTAL</b>	<b>1,649,182,901</b>	

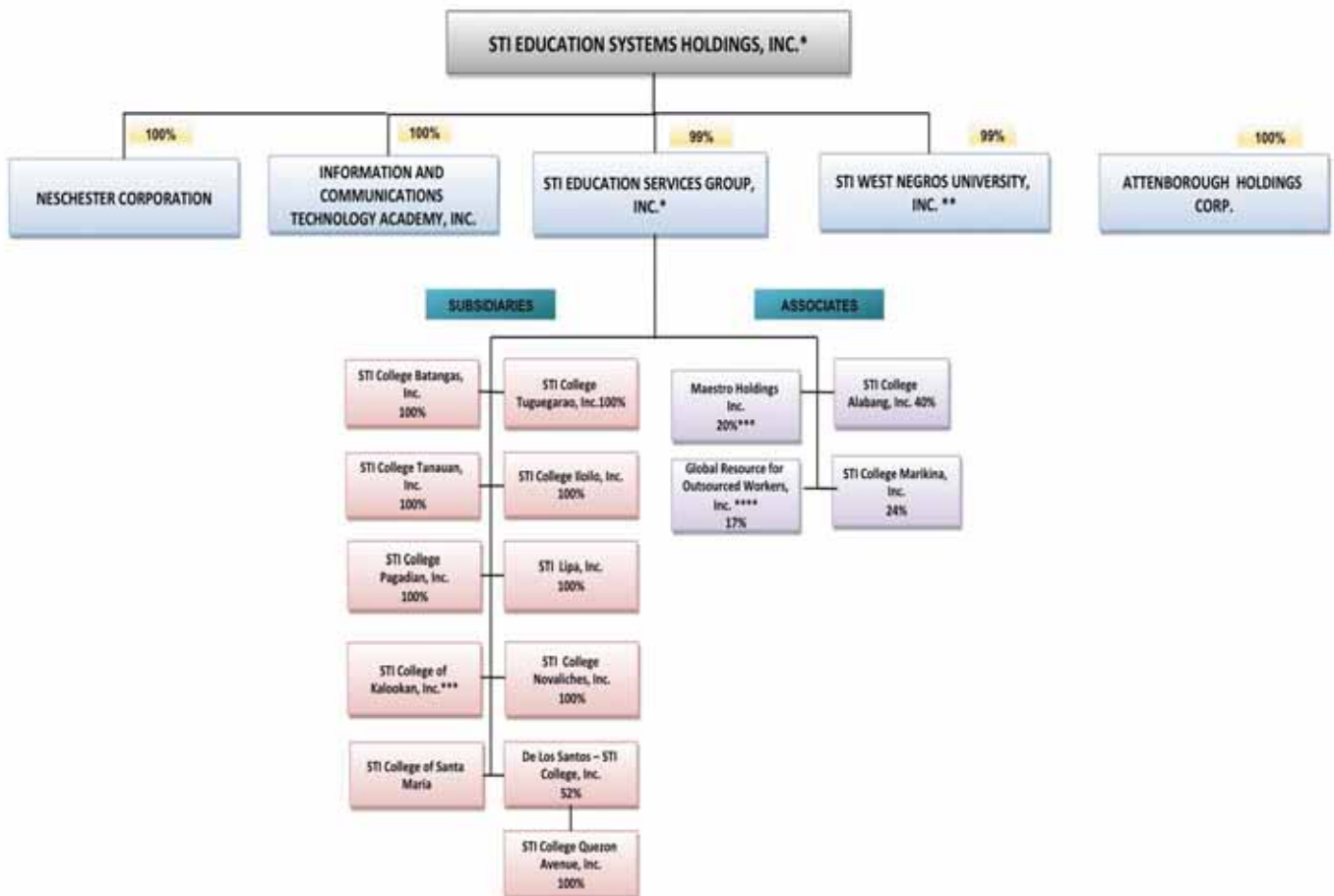
SCHEDULE I - RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION  
 March 31, 2018  
 (Amount in Pesos)

**STI EDUCATION SYSTEMS HOLDINGS, INC.**  
 7/F STI Holdings Center  
 6764 Ayala Avenue  
 Makati City

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		<b>1,430,833,605</b>
Net income during the period closed to Retained Earnings	229,615,720	
Less: Non-actual/unrealized income net of tax	0	
Equity in net income of associate/joint venture	0	
Unrealized foreign exchange gain – net (except those attributable to Cash and Cash equivalents)	0	
Unrealized actuarial gain	0	
Fair Value adjustment (M2M gains)	0	
Fair Value adjustment of Investment Property resulting to gain	0	
Adjustment due to deviation from PFRS/GAAP-gain	0	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	0	
Sub-total	0	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	0	
Adjustment due to deviation from PFRS/GAAP-loss	0	
Loss on fair value adjustment of Investment property (after tax)	0	
<b>Net income actually earned during the period</b>	<b>229,615,720</b>	
Add (Less):		
Dividend declarations during the period	(198,096,138)	
Appropriation of Retained Earnings during the period	0	
Reversals of appropriations	0	
Effects of prior period adjustments	0	
Treasury shares	0	(198,096,138)
<b>TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND</b>	<b>1,462,353,187</b>	

SCHEDULE J – MAP OF RELATIONSHIP BETWEEN AND AMONG THE COMPANY  
AND ITS ULTIMATE PARENT COMPANY, MIDDLE PARENT, SUBSIDIARIES OR  
CO-SUBSIDIARIES, AND ASSOCIATES  
March 31, 2018

**STI EDUCATION SYSTEMS HOLDINGS, INC.**  
7/F STI Holdings Center  
6764 Ayala Avenue  
Makati City



\* STI Education Services Group, Inc. owns 5% equity interest in STI Holdings as at March 31, 2018.  
 \*\* Formerly West Negros University Corp.  
 \*\*\* A subsidiary through a management contract.  
 \*\*\*\* Maestro Holdings, Inc. owns 20% equity interest in Global Resource for Outsourced Workers, Inc. as at March 31, 2018

SCHEDULE K – SCHEDULE OF ALL EFFECTIVE STANDARDS AND  
INTERPRETATIONS

March 31, 2018

**STI EDUCATION SYSTEMS HOLDINGS, INC.**

7/F STI Holdings Center

6764 Ayala Avenue

Makati City

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
<b>Framework for the Preparation and Presentation of Financial Statements</b>					
Conceptual Framework Phase A: Objectives and qualitative characteristics		✓			
<b>PFRSs Practice Statement Management Commentary</b>		✓			
<b>Philippine Financial Reporting Standards</b>					
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓			
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓			
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓	
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓	
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓	
	Amendments to PFRS 1: Government Loans			✓	
	Amendments to PFRS 1: Borrowing Costs			✓	
	Amendments to PFRS 1: Meaning of effective standards			✓	
<b>PFRS 2</b>	Share-based Payment			✓	
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓	
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓	
	Amendments to PFRS 2: Definition of Vesting Condition			✓	
	Amendment to PFRS 2: Classification and Measurement Payment Transactions			✓	
<b>PFRS 3 (Revised)</b>	Business Combinations	✓			
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination	✓			
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PFRS 4	Insurance Contracts			✓	
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓	
	Amendment to PFRS 4: Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4			✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓	
	Changes in Method of Disposal			✓	
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓	
PFRS 7	Financial Instruments: Disclosures	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓			
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓			
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓			
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	Amendments to PFRS 7: Servicing Contracts			✓	
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓	
PFRS 8	Operating Segments	✓			
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓			
PFRS 9	Financial Instruments				✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	Amendments to PFRS 9, Prepayment Features with Negative Compensation*				✓
PFRS 10	Consolidated Financial Statements	✓			
	Amendments to PFRS 10: Investment Entities			✓	
	Amendments to PFRS 10: Applying the Consolidation Exception			✓	
PFRS 11	Joint Arrangements	✓			
	Amendments to PFRS 11: Investment Entities			✓	
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓	
PFRS 12	Disclosure of Interests in Other Entities	✓			
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓	
	Amendments to PFRS 12: Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014-2016 Cycle)			✓	
PFRS 13	Fair Value Measurement	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendment to PFRS 13: Short-term Receivables and Payables	✓			
	Amendment to PFRS 13: Portfolio Exception			✓	
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓	
<b>PFRS 15</b>	Revenue from Contracts with Customers				✓
<b>PFRS 16</b>	Leases				✓
<b>Philippine Accounting Standards</b>					
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓			
	Amendment to PAS 1: Capital Disclosures	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓			
	Amendments to PAS 1: Clarification of the Requirements for Comparative Presentation	✓			
	Amendments to PAS 1: Disclosure Initiative	✓			
<b>PAS 2</b>	Inventories	✓			
<b>PAS 7</b>	Statement of Cash Flows	✓			
	Amendment to PAS 7: Disclosure Initiative	✓			
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓			
<b>PAS 10</b>	Events after the Reporting Date	✓			
<b>PAS 11</b>	Construction Contracts			✓	
<b>PAS 12</b>	Income Taxes	✓			
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓			
	Amendment to PAS 12: Recognition of Deferred Tax for Unrealized Losses	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 16	Property, Plant and Equipment	✓			
	Amendment to PAS 16: Classification of Servicing Equipment			✓	
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓	
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation			✓	
	Amendment to PAS 16: Bearer Plants			✓	
PAS 17	Leases	✓			
PAS 18	Revenue	✓			
PAS 19	Employee Benefits	✓			
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓			
PAS 19 (Amended)	Employee Benefits	✓			
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓	
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate			✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓	
PAS 21	The Effects of Changes in Foreign Exchange Rates			✓	
	Amendment: Net Investment in a Foreign Operation			✓	
PAS 23 (Revised)	Borrowing Costs	✓			
PAS 24 (Revised)	Related Party Disclosures	✓			
	Amendments to PAS 24: Key Management Personnel			✓	
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓	
PAS 27 (Amended)	Separate Financial Statements	✓			
	Amendments to PAS 27: Investment Entities			✓	
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓			
PAS 28	Investments in Associates	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures	✓			
	Amendments to PFRS 10: Sale or Contribution of Assets Between Investor and its Associate of Joint Venture			✓	
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*				✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*				✓
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓	
<b>PAS 32</b>	Financial Instruments: Presentation	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendment to PAS 32: Classification of Rights Issues			✓	
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓			
<b>PAS 33</b>	Earnings per Share	✓			
<b>PAS 34</b>	Interim Financial Reporting	✓			
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓			
	Amendments to PAS 34: Disclosure of Information Elsewhere in the Interim Financial Report	✓			
<b>PAS 36</b>	Impairment of Assets	✓			
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓			
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓			
<b>PAS 38</b>	Intangible Assets	✓			
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓	
	Amendments to PAS 38: Clarification of acceptable methods of amortization			✓	



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 39	Financial Instruments: Recognition and Measurement	✓			
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓			
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓	
	Amendments to PAS 39: The Fair Value Option			✓	
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓	
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓	
	Amendment to PAS 39: Eligible Hedged Items			✓	
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓	
PAS 40	Investment Property	✓			
	Amendments to PAS 40: Investment Property			✓	
	Amendments to PAS 40: Investment Property, Transfers of Investment Property*				✓
PAS 41	Agriculture			✓	
	Amendment to PAS 41: Bearer Plants			✓	
<b>Philippine Interpretations</b>					
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓	
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓	
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>			✓	
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓	
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓	
IFRIC 7	<i>Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies</i>			✓	
IFRIC 9	Reassessment of Embedded Derivatives			✓	
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓	
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>			✓	
IFRIC 11	PFRS 2 - Group and Treasury Share Transactions			✓	
IFRIC 12	Service Concession Arrangements			✓	
IFRIC 13	Customer Loyalty Programmes			✓	
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓	
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓	
IFRIC 15	Agreements for the Construction of Real Estate			✓	

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>	<b>Not Early Adopted</b>
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓	
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓	
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓	
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓	
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓	
<b>IFRIC 21</b>	Levies			✓	
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration*				✓
<b>IFRIC 23</b>	Uncertainty over Income Tax Treatments*				✓
<b>SIC-7</b>	Introduction of the Euro			✓	
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓	
<b>SIC-12</b>	Consolidation - Special Purpose Entities			✓	
	Amendment to SIC - 12: Scope of SIC 12			✓	
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓	
<b>SIC-15</b>	Operating Leases - Incentives			✓	
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓	
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓	
<b>SIC-29</b>	Service Concession Arrangements: Disclosures.			✓	
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓	
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓	

SCHEDULE L – FINANCIAL SOUNDNESS INDICATORS  
March 31, 2018

**STI EDUCATION SYSTEMS HOLDINGS, INC.**  
7/F STI Holdings Center  
6764 Ayala Avenue  
Makati City

	Year ended March 31		Increase (Decrease)	
	2018	2017	Amount	%
<b>Liquidity Ratios</b>				
Current ratio <sup>(2)</sup>	2.83	2.67	0.16	6
Quick ratio <sup>(8)</sup>	1.99	2.49	(0.50)	(20)
Cash ratio <sup>(9)</sup>	1.56	2.18	(0.62)	(28)
<b>Solvency ratios</b>				
Debt-to-equity ratio <sup>(1)</sup>	0.62	0.68	(0.06)	(9)
Asset to equity ratio <sup>(3)</sup>	1.64	1.69	(0.05)	(3)
Interest coverage ratio <sup>(10)</sup>	3.65	9.30	(5.65)	(61)
Debt service cover ratio <sup>(11)</sup>	3.25	1.33	1.92	144
<b>Profitability ratios</b>				
EBITDA margin <sup>(12)</sup>	45%	48%	(3)	(6)
Gross profit margin <sup>(13)</sup>	67%	68%	(1)	(1)
Operating profit margin <sup>(14)</sup>	28%	31%	(3)	(10)
Net profit margin <sup>(15)</sup>	16%	19%	(3)	(16)
Return on equity <sup>(16)</sup>	6%	7%	(1)	(14)
Return on assets <sup>(17)</sup>	4%	5%	(1)	(20)

<sup>(1)</sup> Debt-to-equity ratio is measured as total liabilities excluding unearned tuition and other school fees divided by total equity

<sup>(2)</sup> Current ratio is measured as current assets divided by current liabilities.

<sup>(3)</sup> Asset to equity ratio is measured as total assets divided by total equity.

<sup>(4)</sup> Direct costs is calculated by adding the costs of educational services and educational materials and supplies sold.

<sup>(5)</sup> EBITDA is Net income excluding provision for income tax, interest expense, depreciation and amortization, equity in net earnings (losses) of associates and joint ventures, interest income, and nonrecurring gains/losses such as effect of derecognition of a subsidiary.

<sup>(6)</sup> Core income is computed as consolidated net income after income tax derived from the Group's main business – education and other recurring income.

<sup>(7)</sup> Earnings per share is measured as net income attributable to equity holders of the parent company divided by the weighted average number of outstanding common shares

<sup>(8)</sup> Quick ratio is measured as current assets less inventories, prepayments and noncurrent asset held for sale divided by current liabilities

<sup>(9)</sup> Cash ratio is measured as cash and cash equivalents divided by current liabilities

<sup>(10)</sup> Interest coverage ratio is measured as Net income excluding provision for income tax and interest expense divided by interest expense.

<sup>(11)</sup> Debt service cover ratio is measured as EBITDA divided by total principal and interest due for the next 12 months.

<sup>(12)</sup> EBITDA margin is measured as EBITDA divided by total revenues.

<sup>(13)</sup> Gross profit margin is measured as gross profit divided by total revenues.

<sup>(14)</sup> Operating profit margin is measured as operating profit divided by total revenues.

<sup>(15)</sup> Net profit margin is measured as net income after income tax divided by total revenues.

<sup>(16)</sup> Return on equity is measured as net income attributable to equity holders of the parent company divided by average equity attributable to equity holders of the parent company.

<sup>(17)</sup> Return on assets is measured as net income divided by average total assets.