COVER SHEET

SEC Registration Number

C	S	2	0	0	7	1	6	0	9	4

Company Name

CONVERGE INFORMATION AND
COMMUNICATIONS TECHNOLOGY
SOLUTIONS, INC.

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

NEW STREET BUILDING MCARTHUR
HIGHWAY BALIBAGO ANGELES CITY
PAMPANGA

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

COMPANY INFORMATION

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

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

CONTACT PERSON INFORMATION

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

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

CONTACT PERSON's ADDRESS

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

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2021**

2. SEC Identification number **CS200716094**

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

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

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

6. Industry Classification Code: (SEC Use Only)

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

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

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

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

Title of Each Class	No. of Shares of Common Stock Issued & Outstanding
Common Stock, P0.25 par value	**7,526,294,461 Shares**

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

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

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

    Yes [✓] No []

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

    Yes [✓] No []

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

The unaudited condensed consolidated financial statements for the three months ended March 31, 2021 (filed as Annex 1 of this report) have been prepared in accordance with Philippine Accounting Standard 34, Interim Financial Reporting and hence do not include all of the information required in the annual audited financial statements.

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

The following is a discussion and analysis of Converge's financial performance for the three months ended March 31, 2021. The prime objective of this MD&A is to help the readers understand the dynamics of the Company's business and the key factors underlying its financial results. This section focuses on key statistics from the unaudited consolidated financial statements and pertains to known risks and uncertainties relating to the telecommunications industry in the Philippines where we operate up to the stated reporting period. However, Converge's MD&A should not be considered all inclusive, as it excludes unknown risks, uncertainties and changes that may occur in the general economic, political and environmental condition after the stated reporting period. Converge has adopted an expanded corporate governance approach in managing its business risks. An Enterprise Risk Management Policy was developed to systematically view the risks and to manage these risks in the context of the normal business processes such as strategic planning, business planning, operational and support processes.

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

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

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I. OVERVIEW OF OUR BUSINESS

Converge Information and Communications Technology Solutions, Inc. ("Converge") is the fastest-growing highspeed fixed broadband operator in the Philippines, with our residential subscriber base almost doubling since March 31, 2020, increasing from more than 615,000 residential subscribers to almost 1,182,000 by the end of the first quarter of 2021.

Furthermore, we are the only pure-play high-speed fixed broadband provider, with an exclusive focus on serving the Philippines with industry leading optical fiber-based connectivity services. This singular focus on industry leading highspeed fixed broadband services is deeply ingrained in our organization, which we believe permeates all aspects of our operations, including our network rollout, product and service offerings, sales and customer service.

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

We own and operate the fastest-growing, end-to-end fiber network in the Philippines, which is also one of the newest in the country. With almost 65,000 kilometers of fiber as of March 31, 2021, our network is among the most extensive in the country. Our network is comprised of a fiber backbone that stretches from the northernmost tip of Luzon Island to its southernmost end, as well as a fiber distribution and last-mile network that covers over 350 cities and municipalities across the country (including Metro Manila), as of March 31, 2021. Our network reached more than 7.1 million homes as of March 31, 2021 covering almost 50% of households in Luzon and 28% of households nationwide. In April 2021, we have completed connecting our backbone network to the islands of Visayas and Mindanao. After soft launching our services in Cebu in November 2020, we have also soft launched on a small scale in Mindanao's main city of Davao in April 2021, allowing us to test the markets ahead of our full commercial launch.

II. KEY PERFORMANCE INDICATORS

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

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

AVERAGE REVENUE PER UNIT ("ARPU")

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

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

AVERAGE MONTHLY CHURN RATE

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

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

PORT UTILIZATION

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

EBITDA

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

NET INCOME

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

EBITDA AND NET INCOME MARGIN

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

RETURN ON INVESTED CAPITAL ("ROIC")

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

III. FINANCIAL AND OPERATIONAL RESULTS

A. FINANCIAL AND OPERATING SUMMARY

SUMMARY OF STATEMENTS OF COMPREHENSIVE INCOME

	For the three months ended March 31			
	2021	**2020**	**YoY change**	**YoY change %**
	(in ₱ millions)			
Revenues	5,547	3,021	2,526	84%
Residential	*4,797*	*2,287*	*2,510*	*110%*
Enterprise	*750*	*734*	*16*	*2%*
Cost of services	(2,330)	(1,440)	(890)	62%
Gross profit	3,217	1,580	1,636	104%
General and administrative expenses	(935)	(522)	(414)	79%
Provision for impairment of trade and other receivables	(251)	(152)	(99)	65%
Other income (loss), net	66	58	8	13%
Profit from operations	2,096	965	1,131	117%
Finance costs	(133)	(145)	12	-8%
Profit before income tax	1,963	820	1,143	139%
Income tax expense	(414)	(246)	(167)	68%
Profit after income tax for the year/ period	**1,549**	**574**	**976**	**170%**
Other comprehensive income	-	(13)	13	100%
Total comprehensive income	1,549	560	989	177%
Profit after income tax	1,549	574		
Finance costs	133	145		
Income taxes	414	246		
Depreciation and amortization – cost of services	779	444		
Depreciation and amortization – general and administrative expenses	49	40		
Amortization of subscriber acquisition costs	128	65		
EBITDA	**3,052**	**1,514**		
EBITDA Margin	**55.0%**	**50.1%**		

CONVERGE
ICT SOLUTIONS INC.

SUMMARY OF SELECTED OPERATING INFORMATION

	2020				2021	YoY Change %
	1Q	**2Q**	**3Q**	**4Q**	**1Q**	**1Q2020 vs 1Q2021**
Residential						
Revenues	**2,287**	**2,691**	**3,435**	**4,215**	**4,797**	**110%**
FTTH	1,614	1,992	2,679	3,509	4,086	153%
HFC	673	698	756	707	711	6%
Customers	**615,466**	**731,563**	**900,531**	**1,038,321**	**1,181,723**	**92%**
FTTH	405,784	512,597	673,005	822,791	964,644	138%
HFC	209,682	218,966	227,526	215,530	217,079	4%
Homes Passed	**3,599,533**	**4,111,661**	**5,112,591**	**6,177,845**	**7,172,033**	**99%**
FTTH(1)	2,789,112	3,301,240	4,281,768	5,342,008	6,330,536	127%
HFC(2)	810,421	810,421	830,823	835,837	841,497	4%
Ports	**2,204,977**	**2,461,041**	**2,971,707**	**3,506,841**	**4,006,765**	**82%**
FTTH(3)	1,394,556	1,650,620	2,140,884	2,671,004	3,165,268	127%
HFC(4)	810,421	810,421	830,823	835,837	841,497	4%
Household Coverage(5) (%)	**14.5%**	**16.6%**	**20.6%**	**24.5%**	**28.3%**	**95%**
ARPU(6)	**1,284**	**1,287**	**1,352**	**1,408**	**1,390**	**8%**
FTTH	1,417	1,405	1,467	1,516	1,481	5%
HFC	1,046	1,033	1,046	1,044	1,014	-3%
Customer Churn(7) (%)	**0.39**	**1.08**	**1.63**	**1.35**	**1.16**	**197%**
FTTH	0.34	0.78	1.28	0.61	1.14	235%
HFC	0.49	1.74	2.55	3.84	1.27	159%
Port Utilization(8) (%)	**27.9**	**29.7**	**30.3**	**29.6**	**29.5**	**6%**
FTTH	29.1	31.1	31.4	30.8	30.5	5%
HFC	25.9	27.0	27.4	25.8	25.8	0%
Enterprise						
Revenues	**734**	**778**	**752**	**760**	**750**	**2%**
Customers	**10,378**	**10,498**	**10,953**	**11,090**	**12,400**	**19%**
ARPU(9)	**23,910**	**26,596**	**21,675**	**23,002**	**21,269**	**-11%**
Customer Churn(10) (%)	**0.30**	**0.33**	**0.49**	**1.61**	**0.72**	**140%**

Notes:
(1) FTTH homes passed is derived from the number of homes within a 300-meter radius from a network access point ("NAP") that we have installed in a coverage area. Each NAP has eight or sixteen ports, and one port serves one home.
(2) HFC homes passed refers to the number of homes and other residential units that are within a 200-meter radius from our HFC ports, and can be connected to our network.
(3) The number of FTTH ports installed represents both activated FTTH connections and ports available for immediate activation once a new subscription is approved.
(4) The number of HFC ports installed refers to a slot on a network device allowing for the transmission of data between our HFC network and the equipment at the customer premises.
(5) Household coverage is calculated as total homes passed over total number of homes in the Philippines, which is estimated at 25.3 million as of March 2021, extrapolated from MPA data.
(6) Monthly ARPU for our Residential Business is calculated by dividing (i) the revenue generated during a period by (ii) the average number of subscribers during that period, then dividing the quotient by the number of months during that period. The average number of subscribers during a period, is calculated by the sum of the subscribers at the beginning and at the end of the period, divided by two.
(7) Blended churn rate refers to the combined FTTH and HFC churn rate. Churn rate for our Residential Business is calculated by dividing (i) the sum of the number of permanent subscriber discontinuations in a month, by (ii) the average number of subscribers during the respective month and multiplying the result by 100%. The average number of subscribers during a month, is calculated by the sum of the subscribers at the beginning and at the end of the month, divided by two.
(8) Our port utilization rates for our FTTH network is our number of FTTH subscribers as a percentage of total FTTH ports and for our HFC network is our number of HFC subscribers as a percentage of HFC homes passed.
(9) ARPU for our Enterprise Business is calculated by dividing (i) the revenue generated during a period by (ii) the average number of enterprise users during that period, then dividing the quotient by the number of months during that period. The average number of enterprise users during a period, is calculated by the sum of the enterprise users at the beginning and at the end of the period, divided by two.
(10) Customer churn rate for our Enterprise Business is calculated by dividing (i) the sum of the number of permanent customer deactivations in a month, by (ii) the average number of customers during the respective month and multiplying the result by 100%. The average number of customers during a month is calculated by the sum of the circuits at the beginning and at the end of the month, divided by two.

Three months ended March 31, 2021 compared to three months ended March 31, 2020

B. OPERATING REVENUES

The Company earned ₱5,546.8 million of consolidated revenues in the first three months of 2021, representing an 84% increase (YoY). The significant growth in revenue is coming from our residential business showing a 110% increase from ₱2,286.8 million for the first three months of 2020 to ₱4,797.1 million in the first quarter of 2021. Converge's monthly residential ARPU steadily increased from ₱1,284 in the first three months of 2020 to ₱1,390 during the same period in 2021, representing an 8% growth. The steady ARPU increase was driven by the continuous demand for our fiber plans including increased take-up of add-on plans and premium packages.

For the period ended March 31, 2021, Converge's enterprise business is ₱749.7 million, which is a 2% increase from the revenues for the same segment for the first three months of 2020, amounting to ₱734 million. Similarly, the number of enterprise customers served by Converge grew from 10,378 at the end of March 2020 to 12,400 at the end of March 2021, representing a 19% YoY growth rate. The successful launch of flexiBIZ allowed us to grow our base of SME customers in 1Q2021, resulting in the increase in the enterprise customer base.

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

For the first three months of 2021, Converge's total cost of services, amounted to ₱2,330.0 million, up by 62% from ₱1,440.3 million reported in the same period last year. As the strong revenue growth of 84% over the period exceeded cost of services growth of 62%, total gross margins grew from 52% in the first three months of 2020 to 58% in the first three months of 2021.

Converge achieved an EBITDA of ₱3,051.5 million for the first three months of 2021, representing an increase of 102% (YoY), as a result of prudent management of direct costs which includes our international bandwidth and leased line costs and service fees, and driven by higher revenue leading to further operating leverage. Converge's consolidated EBITDA margins improved from 50% to 55% for the first three months of 2020 and the first three months of 2021, respectively.

Cost of Services

Cost of services increased by 62%, or ₱889.7 million, from ₱1,440.3 million for the three months ended March 31, 2021 to ₱2,330.0 million for the three months ended March 31, 2021. The increase was primarily attributable to increases in depreciation and amortization costs, network materials and supplies used, amortization of deferred contract cost, and personnel cost.

Depreciation and amortization costs increased by 75%, or ₱335.0 million, from ₱443.8 million for the three months ended March 31, 2020 to ₱778.7 million for the three months ended March 31, 2021 primarily due to the expansion of our fiber network and additional customer premises equipment issued to subscribers.

Network materials and supplies used increased by 100%, or ₱230.0 million, from ₱229.5 million for the three months ended March 31, 2020 to ₱459.5 million for the three months ended March 31, 2021 due to material issuances used in our subscriber installations.

Amortization of deferred contract cost increased by 137%, or ₱202.0 million, from ₱147.9 million for the three months ended March 31, 2020 to ₱349.9 million for the three months ended March 31, 2021 reflecting an increase in subscriber acquisition costs from our residential subscriber base expansion.

Personnel costs increased by 123%, or ₱69.9 million, from ₱56.7 million for the three months ended March 31, 2020 to ₱126.6 million for the three months ended March 31, 2021 due to increase in headcount and key hires for the period from April 2020 to March 2021, to support the Company's growing business.

Bandwidth and leased line costs decreased by 8%, or ₱25.7 million, from ₱303.0 million for the three months ended March 31, 2020 to ₱277.3 million for the three months ended March 31, 2021 due to partnerships formed with global carriers in order to secure proprietary access to bandwidth capacity on certain key international network routes.

Gross Profit

Gross profit increased by 104%, or ₱1,636.3 million, from ₱1,580.5 million for the three months ended March 31, 2020 to ₱3,216.8 million for the three months ended March 31, 2021. Gross margin, or gross profit as a percentage of revenue, increased from 52% in 2020 to 58% in 2021. The increase in gross margin was primarily due to the growth in revenue which was more than the growth in some of our significant costs, as discussed above.

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

	For the three months ended March 31			
	2021	**2020**	**YoY change**	**YoY change %**
		(in ₱ millions)		
Depreciation and amortization	779	444	335	75%
Network materials and supplies used	460	230	230	100%
Amortization of deferred contract cost	350	148	202	137%
Bandwidth and leased line costs	277	303	(26)	-8%
Service fees	167	147	21	14%
Personnel costs	127	57	70	123%
Others	171	113	58	51%
Total cost of services	**2,330**	**1,440**	**890**	**62%**
Gross profit	**3,217**	**1,580**	**1,636**	**104%**
Gross profit margin	**58.0%**	**52.3%**		

General and Administrative Expenses

General and administrative expenses increased by 79%, or ₱413.6 million, from ₱935.4 million for the three months ended March 31, 2020 to ₱521.8 million for the three months ended March 31, 2021. The increase was primarily attributable to an increase in personnel costs, outside services, provision for contingencies, and commission expense.

Personnel costs increased by 20%, or ₱48.1 million, from ₱246.7 million for the three months ended March 31, 2020 to ₱294.9 million for the three months ended March 31, 2021 due to an increase in headcount during the period.

Commission expense increased by 233%, or ₱84.3 million, from ₱36.1 million for the three months ended March 31, 2020 to ₱120.5 million for the three months ended March 31, 2021 due to good collections performance from our MSPs and collecting agents, which has upped their commissions and collecting fees.

Outside services increased by 189%, or ₱56.5 million, from ₱29.8 million for the three months ended March 31, 2020 to ₱86.3 million for the three months ended March 31, 2021 significantly from the increase in our call center service providers, to improve on our customer support while we scale up our business.

Taxes and licenses increased by 285%, or ₱52.4 million, from ₱18.4 million for the three months ended March 31, 2020 to ₱70.8 million for the three months ended March 31, 2021, as the Company paid higher business taxes in 2021 due to the growth of the business.

Professional fees increased by 55%, or ₱22.9 million, from ₱65.0 million for the three months ended March 31, 2020 to ₱42.1 million for the three months ended March 31, 2021, due to the increase in the Company's consultants and counsels after Converge became a public company.

Additional provision for contingencies amounting to ₱20.5 million, for the three months ended March 31, 2021 which represents our best estimate of the probable cost that may arise from certain ongoing operational contingencies in the ordinary course of business.

Provision for Impairment of Trade and Other Receivables

Provision for impairment of trade and other receivables increased by 65%, or ₱99.2 million, from ₱152.2 million for the three months ended March 31, 2020 to ₱251.4 million for the three months ended March 31, 2021 primarily due to a higher amount of receivables outstanding as of March 31, 2021. As a percentage of revenues, our provisions decreased from 5.0% in 2020 to 4.5% in 2021, which means we are slowly moving back to our pre-pandemic levels.

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

	For the three months ended March 31			
	2021	**2020**	**YoY change**	**YoY change %**
		(in ₱ millions)		
Personnel costs	295	247	48	20%
Commission expense	120	36	84	233%
Outside services	86	30	57	189%
Taxes and licenses	71	18	52	285%
Professional fees	65	42	23	55%
Provision for contingencies	21	0	21	100%
Other general and administrative expenses	277	149	129	87%
Total G&A expenses	**935**	**522**	**414**	**79%**
Provision for impairment of receivables	(251)	(152)	(99)	65%
Other income/(expenses)	66	58	8	13%
Operating profit	**2,096**	**965**	**1,131**	**117%**
Operating profit margin	**37.8%**	**31.9%**		

D. OTHER INCOME STATEMENT ITEMS

For the first three months of 2021, Converge achieved a net income for the period of ₱1,549.1 million, representing an increase of 210% (YoY), and a net income margin of 28% compared to the net income for the three months ended March 31, 2020 amounting to ₱499.4, with a net income margin of 17%, highlighting the acceleration of the profitability of our business.

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

	For the three months ended March 31			
	2021	2020	YoY change	YoY change %
	(in ₱ millions)			
Total Other income, net	**66**	**58**	**8**	**13%**
Operating profit	2,096	965	1,131	117%
Finance cost	(133)	(145)	12	-8%
Profit before income tax	1,963	820	1,143	139%
Income tax expense	(414)	(246)	(167)	68%
Net income	**1,549**	**574**	**976**	**170%**
Net income margin	**27.9%**	**19.0%**		

Other Income (Expenses), net

Other income, net increased by ₱7.7 million or 13% from ₱58.0 million for the three months ended March 31, 2020 to ₱65.7 million for the three months ended March 31, 2021. For the three months March 31, 2021, other income, net is primarily related to net foreign exchange gain on the strengthening of the Philippine Peso against the US Dollar, as well as interest income from our short-term placements.

Profit from Operations

Profit from operations increased by 117%, or ₱1,131.2 million, from ₱964.5 million for the three months ended March 31, 2020 to ₱2,095.7 million for the three months ended March 31, 2021 for the reasons described above, in particular the increase in gross profit, partially offset by the increases in general and administrative expenses and provision for impairment of trade and other receivables.

Finance Costs

Finance costs decreased by 8%, or ₱11.6 million, from ₱144.6 million for the three months ended March 31, 2020 to ₱133.0 million for the three months ended March 31, 2021 as we pre-terminated ₱1,500 million of our long-term loans.

Profit Before Income Tax

Profit before income tax increased by 139%, or ₱1,142.8, from ₱819.9 million for the three months ended March 31, 2020 to ₱1,962.7 million for the three months ended March 31, 2021 for the reasons described above, in particular the 117%, increase in profit from operations in 2021, coupled with lower debt servicing costs.

Income Tax Expense

Income tax expense increased by 68%, or ₱167.2 million, from ₱246.3 million for the three months ended March 31, 2020 to ₱413.6 million for the three months ended March 31, 2021 due to the increase in profit before income tax described above. Our effective tax rate, which is our income tax expenses as a percentage of profit before income tax, was 21% for the three months ended March 31, 2021 compared to 30% for the three months ended March 31, 2020, which has decreased because of the impact of the CREATE bill, approved in March 2021, which lowers the corporate income tax rate from 30% to 25%. Further decreasing the effective tax rate to 21% is the reversal of the 2020 provision for income tax rates since the 25% tax rate is effective starting July 1, 2020.

Profit for the Period

For the reasons discussed above, profit for the period increased by 170%, or ₱975.5 million, from ₱573.6 million for the three months ended March 31, 2020 to ₱1,549.1 million for the three months ended March 31, 2021.

E. CAPITAL EFFICIENCY AND LIQUIDITY

	March 31, 2021	December 31, 2020	QoQ Change (%)
Balance Sheet Data (in ₱ millions)			
Total Assets	60,846	56,712	7%
Total Debt[1]	9,733	11,314	-14%
Total Stockholders' Equity	29,380	27,775	6%
Financial Ratios			
Total Debt to EBITDA (gross)	1.0x	1.4x	
Total Debt to EBITDA (net)	0.02x	-0.2x	
Debt Service Coverage[2]	2.6x	3.0x	
Interest Coverage (gross) [3]	18.1x	14.9x	
Debt to Equity (gross) [4]	0.3x	0.4x	
Debt to Equity (net) [5]	0.01x	-0.1x	
Return on Invested Capital[6]	23.1%	20.0%	

Notes:
(1) Total Debt is the sum of current and noncurrent loans payable
(2) Debt Service Coverage is computed as last twelve month's ("LTM") EBITDA divided by the sum of current loans payable, LTM interest expense, and current lease liabilities
(3) Interest Coverage (gross) is computed as LTM EBITDA divided by LTM finance costs
(4) Debt to Equity (gross) is computed as total debt divided by total shareholders' equity
(5) Debt to Equity (net) is computed as the difference between total debt and cash and cash equivalents divided by total shareholders' equity
(6) Return on Invested Capital is tax-adjusted (25% assumed effective tax rate for 2021 and 30% for 2020) profit from operations divided by average invested capital. Invested Capital is the sum of our total equity and total debt (comprising loans payable (non-current and current portions)), less cash and cash equivalents and capital expenditures in progress

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

Converge's consolidated assets as of March 31, 2021 amounted to ₱60,846.3 million compared to ₱56,712.1 million as of December 31, 2020. Consolidated cash, cash equivalents and short-term investments was at ₱9,502.7 million as of March 31, 2021 compared to ₱12,957.4 million as of December 31, 2020.

We had outstanding loan payables of ₱9,733.0 million as of March 31, 2021 compared to ₱11,313.8 million as of December 31, 2020. Our Net Debt position, defined as loan payables less cash and cash equivalents amounted to ₱230.3 million as of March 31, 2021 compared to our Net Cash position ₱1,643.6 million as of December 31, 2020. The move from a net cash position to net debt position is due to our CAPEX expenditures as well as the Company starting to use the IPO proceeds for its intended use. Our resulting Net Debt to EBITDA ratio, based on the last twelve months EBITDA over the period from March 31, 2020 to March 2021, was 0.02 times. This conservative leverage level gives us, together with our increasing and strong cash flow generation, ample headroom to execute our capital expenditure plans, and capitalize on the massive opportunity for high-speed fixed broadband infrastructure in the Philippines.

The financial tests under Converge's loan agreements subject us to a financial covenant, which requires us to maintain a minimum debt service coverage ("DSCR") ratio of 1.2x. As of March 31, 2021, Converge's DSCR ratio was 2.6x, well above the required minimum liquidity threshold.

Converge's capital efficiency measured by our Return on Invested Capital ("ROIC") was 23.1% in the first three months of 2021 (annualized), compared to 20.0% in the first three months of 2020 (annualized). This industry-leading performance is a result of Converge adopting a disciplined approach in deploying capital to expand its fiber network, focusing on capital efficiency to ensure consistently high ROIC.

CONSOLIDATED CASH FLOWS

	For the three months ended March 31			
	2021	2020	YoY change	YoY change %
	(in ₱ millions)			
Cash flow from operating activities				
Profit before income tax	1,963	820	1,143	139%
Adjustments for operating income	1,507	877	630	72%
Adjustments for assets and liabilities	(1,243)	(442)	(801)	181%
Cash from operations	2,226	1,255	971	77%
Interest received	3	13	(10)	-77%
Net cash from operating activities	**2,228**	**1,268**	**960**	**76%**
Cash flow from investing activities				
Acquisition of property, plant, and equipment	(3,929)	(4,662)	733	-16%
Acquisition of intangible assets	(6)	(79)	73	-92%
Net cash (used in) investing activities	**(3,935)**	**(4,741)**	**806**	**-17%**
Cash flow from financing activities				
Proceeds from issuance of convertible preferred shares	-	4,568	N/M	N/M
Payment of share issuance costs	-	(2)	N/M	N/M
Proceeds from loans payable	-	3,474	N/M	N/M
Payment of loans payable	(1,581)	(366)	(1,215)	332%
Interest paid on loans payable	(120)	(276)	156	-57%
Payment on lease liabilities	(35)	(66)	31	-47%
Interest paid on lease liabilities	(30)	(30)	-	0%
Net cash from/(used in) financing activities	**(1,767)**	**6,832**	**(8,599)**	**-126%**
Net increase/(decrease) in cash and cash equivalents	**(3,474)**	**3,359**	**(6,833)**	**-203%**
Cash and cash equivalents, beginning	12,957	6,233	6,724	108%
Effects of exchange rate changes in cash and cash equivalents	19	(17)	36	-212%
Cash and cash equivalents, ending	**9,503**	**9,575**	**(72)**	**-1%**

Net cash flows from operating activities

Net cash from operating activities was ₱2,228.5 million for the three months ended March 31, 2021. Our cash flows generated from operating activities for 2021 are calculated by adjusting our profit before income tax of ₱1,962.7 million by (i) non-cash and other items, primarily comprising ₱827.5 million of depreciation and amortization, ₱251.4 million in provision for impairment of trade and other receivables, ₱349.9 million of amortization of deferred contract costs and ₱133 million in finance costs, (ii) changes in certain working capital items that positively impacted cash flows from operating activities, in particular increases in trade and other payables of ₱1,709.4 million and due from related parties of ₱256.7 million, and (iii) changes in certain working capital items that negatively impacted cash flows from operating activities, in particular a ₱672.9 million increase in trade and other receivables, a ₱889.3 million increase in network materials and supplies and a ₱881.9 million increase in other current assets.

Net cash flows used in investing activities

Net cash used in investing activities was ₱3,935.5 million for the three months ended March 31, 2021. During each such period, we made significant investments in capital expenditures to develop additional property, plant and equipment (our end-to-end fiber network).

Cash used for acquisitions of property, plant and equipment was ₱3,929.3 million, for the three months ended March 31, 2021, respectively. Over that period, we made the following significant investments: (i) additions in outside plant equipment, which primarily consists of passive network equipment related to the construction of our end-to-end fiber network, (ii) additions in inside plant equipment, which primarily consists of active network equipment such as dense wavelength division multiplexing equipment and routers and (iii) additions in other property, plant and equipment, which primarily consists of purchases of customer premise equipment, and general IT related investments such as laptop computers and other office IT equipment.

	For the three months ended			
	Mar 31, 2021	Mar 31, 2020	Change	Change %
		(in millions)		
Total additions to property, plant and equipment	**5,336**	**2,446**	**2,890**	**118%**
Total cash capital expenditures[1]	**3,936**	**4,741**		
Cash capital expenditures[1] / Revenue	**-71%**	**-157%**		

Net cash flows used in financing activities
Net cash used in financing activities was ₱1,766.6 million during the three months ended March 31, 2021. Cash flows used in financing activities primarily consisted of ₱1,580.9 million of loan repayments.

Off-Balance Sheet Arrangements

As at March 31, 2021, we did not have any other off-balance sheet arrangements or obligations that were likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. Please refer to Page 21 for a discussion on the Company's international bandwidth capacity investment in a transpacific cable system entered into in April 2021. Converge will invest over U.S.$100 million (around ₱5 billion) for the whole project.

F. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF FINANCIAL RISK

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

Credit Risk

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

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

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

The Group has the following financial assets as at March 31, 2021 where the expected credit losses ("ECL") model has been applied:

In Philippine Peso (millions)	At gross amounts	Allowance provided	Net carrying amount	Internal credit rating	Basis for recognition of ECL
Cash and cash equivalents	9,496.3	-	9,496.3	Performing	12-month ECL
Trade receivables					
Residential - Group 2	1,592.2	(475.9)	1,116.3	Collective assessment	Lifetime ECL
Residential - Group 3	224.3	(223.3)	1.0	Credit impaired	Lifetime ECL
Corporate - Group 1	288.5	-	288.5	Collective assessment	Lifetime ECL
Corporate - Group 2	1,200.9	(219.1)	981.8	Collective assessment	Lifetime ECL
Corporate - Group 3	221.1	(221.0)	0.2	Credit impaired	Lifetime ECL
Other receivables - Group 1	175.2	-	175.2	Performing	12-month ECL
Due from related parties	1,316.1	-	1,316.1	Performing	12-month ECL
	14,514.7	**(1,139.3)**	**13,375.4**		

Credit quality of subscribers and counterparties are classified as follows:

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

Cash and cash equivalents

Cash and cash equivalents exclude cash on hand as of March 31, 2021 amounting to ₱6.36 million. which is not subject to credit risk. To minimize credit risk exposure from cash, the Group deposits its cash in banks with universal banks, all with good credit ratings.

As at March 31, 2021, the Group is also exposed to credit risk in relation to its investment in exchangeable bonds that are measured at fair value through profit or loss and investment in short-term government securities, with the maximum exposure amounting to ₱71.9 million and ₱5.5 million, respectively. The Group's investments in exchangeable bonds and short-term government securities are considered to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.

Trade receivables

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

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

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

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

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

Other receivables

Other receivables above exclude advances to employees which are subject to liquidation.

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

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

Due from related parties

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

Foreign Currency Exchange Risk

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

The Group has transactional currency exposures. Such exposures arise mainly from cash, trade and other current liabilities denominated in US Dollar as of March 31, 2021.

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

At March 31, 2021, if the US Dollar had weakened or strengthened by 0.89% against the Philippine Peso, with all other variables held constant, pre-tax profit for the period ended March 31, 2021 and equity would have been ₱5.1 million lower or higher, mainly as a result of foreign exchange losses or gains on translation of net US Dollar denominated monetary liabilities. The assumed shift in foreign currency exchange rate used in the sensitivity analysis is the rate of change between the US Dollar and the Philippine Peso at the end of the reporting period and the Philippine Peso equivalent determined 30 days after the reporting period, by which management is expected to settle or receive the Group's foreign currency denominated monetary assets or liabilities.

Interest Rate Risk

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

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

As of March 31, 2021, if interest rates increased/decreased by 30 basis points, with all other variables held constant, profit for the period ended March 31, 2021 would have been ₱8.3 million lower/higher, mainly as a result of higher/lower interest expense based on variable rates.

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

Liquidity Risk

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

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

The table below presents the Group's financial liabilities as of March 31, 2021.

	Amount
Trade and other liabilities	15,930.0
Due to related parties	287.0
Loans payable	9,733.0
Lease liabilities	1,894.1
	27,844.1

Trade and other liabilities presented above include non-current portion of subscribers' deposits as at December 31, 2020 amounting to ₱1,132,965,276 (2019 - ₱491,831,373) and exclude non-financial liabilities such as deferred output VAT payable, payable to government agencies, and provision for contingencies.

Capital Risk Management

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

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

Converge is not subject to any externally imposed capital requirements.

Converge loan agreements include compliance with certain ratios.

BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Philippine Accounting Standards (PAS 34) - Interim Financial Reporting. These financial statements should be read in conjunction with annual consolidated financial statements as at and for the year ended December 31, 2020, which have been prepared in accordance with PFRS.

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

The same accounting policies and methods of computation were followed in the interim consolidated financial statements consistent with those adopted for the Group's annual consolidated financial statements for the year ended December 31, 2020.

IV. OTHER RELEVANT INFORMATION

CORPORATE DEVELOPMENTS

Completed Connecting Visayas and Mindanao to our Nationwide Backbone in April 2021
The Company continued the rapid expansion of its nationwide fiber network. Almost 9,600 kilometers of fiber optic cable were added during the first quarter of the year, expanding our backbone and distribution network to more than 64,600 kilometers from about 55,000 kilometers laid down at the end of 2020. With our network expansion, we were able to extend our coverage to an additional 36 cities and municipalities during 1Q2021, extending our services this quarter to provinces including Ilocos Sur, Pangasinan, Nueva Vizcaya, Nueva Ecija, Albay, and Batangas, among others allowing us to reach a total of 352 cities and municipalities as of March 31, 2021.

As of April 2021, Converge's expansion to the Visayas and Mindanao regions ("VisMin") has been progressing as planned and hitting significant milestones. Our fiber cables have reached the shores of major VisMin cities of Cebu and Cagayan de Oro in April. The first phase of our ambitious VisMin backbone expansion project aims to complete seven inter-island subsea cable links, to allow Converge to complete a nationwide backbone stretching from the northern tip of Luzon to the Philippine's main southern island of Mindanao. As of the end of April 2021, we have completed five of the seven links and are on track to complete the remaining two links within 2Q2021, allowing us to launch our services commercially in VisMin by the second half of this year. After soft launching our services in Cebu in November 2020, we have also soft launched on a small scale in Mindanao's main city of Davao in April 2021, allowing us to test the markets ahead of our full commercial launch.

Launched Innovative Products to Provide Better Value Plans to Customers
The Company recognized the need of our enterprise customers for flexibility in connectivity speeds during certain periods of the day. To address this requirement for flexibility, we launched our Dedicated Internet Access Time of Day product in February 2021. This provides our enterprise customers with customized internet options with double their subscribed bandwidth during their chosen preset period, without having to double their monthly subscription fee. Likewise, our SME customers can now avail of the FlexiBiz plan where internet speeds are doubled during peak working hours of the day (7:00AM – 6:59PM).

We also launched the Converge FiberX Time of Day plan for our residential subscribers, to give our customers the option to avail of higher bandwidth at during the period of their choosing. Households can opt for higher bandwidth for work from home and online schooling requirements during the day, or alternatively, select seamless consumption of bandwidth intensive entertainment content such as online games and video streaming at night. We offer Day Plan or Night Plan, which similarly boosts their speed to twice of their subscribed plan during their chosen time of day.

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

In March 2021, Converge installed more than 91% of new NCR subscribers within seven days and 50% within one day of application, respectively. In addition, we have continued to expand our contact agent team by adding more than 150 seats during the first quarter to cater to our customer queries from our expanding subscriber base. Our Answer Call Rates, which measures the number of voice calls that our contact centers answered during the quarter divided by all of the voice calls received, further improved from 87% during 4Q2020 to 94% during 1Q2021.

During the third quarter of last year, the Company rolled out its mobile application Converge Xperience App, which offers a convenient channel for its customers to review and pay their bills, and allows customers to log tickets online. As of March 31, 2021, more than 433,000 subscribers have registered in the application, representing 37% of residential subscribers as of the end of the period. We intend to continue refining and upgrading our mobile application using new technologies for innovation, which will provide new ways of customer engagement.

We believe that "self-help" is a key factor to swiftly and efficiently address potential customer issues. As a new feature on our mobile application, registered subscribers can now monitor the health status of their routers, specifically the speed and temperature of the device. This allows the subscriber to detect possible causes of unreliable connectivity and provide first aid using step-by-step instructions presented in our mobile application.

Announced International Bandwidth Capacity Investment into the 15,000 km transpacific cable system "Bifrost"

In April 2021 Converge signed a binding term sheet with Keppel Telecommunications & Transportation's wholly-owned subsidiary, Keppel Midgard Holdings Pte. Ltd. ("KMH") to grant Converge an IRU for one fiber pair on the main trunk of Bifrost Cable System, which directly connects Singapore to the west coast of North America. KMH and Converge will also jointly develop a branch on the Bifrost Cable System that will land in Davao, Philippines, with Converge also being granted an IRU on the entire Davao branch. The additional branch will significantly increase internet speeds and network diversity for businesses and consumers in the Philippines. Converge will invest over U.S.$100 million (around ₱5 billion) for the whole project. The completion of the proposed transaction is subject to negotiation and execution of definitive agreements, and relevant regulatory approvals.

Expected to be completed in 2024 and spanning over 15,000 km, the Bifrost Cable System is the world's first subsea cable system that directly connects Singapore to the west coast of North America via Indonesia through the Java Sea and Celebes Sea. It will connect Singapore, Indonesia, the Philippines, Guam, and the west coast of North America. In line with Converge's strategy to secure proprietary access to international bandwidth on certain key international routes, we plan to use the bandwidth on the Bifrost cable system to secure sustainable and cost-efficient international connectivity for Converge, while also exploring the possibility to re-sell international bandwidth to third parties through wholesale agreements.

MAJOR STOCKHOLDERS

The following are the major stockholders of Converge as of March 31, 2021:

Title of Class	Name of Record Owner	Name of Beneficial Owner	Citizenship	Number of Shared held	Percentage of Ownership
Common Shares	Comclark Network and Technology Corp.	Dennis Anthony H. Uy Maria Grace Y. Uy Shareholders of Comclark Network and Technology Corp	Filipino	4,797,417,274	63.74%
Common Shares	Coherent Cloud Investments B.V.	Funds ultimately managed by affiliates of Warburg Pincus LLC	Dutch	1,191,412,844	15.83%
Common Shares	PCD Nominee Non-Filipino	Public Ownership	Foreign	1,299,403,792	17.26%
Common Shares	PCD Nominee Filipino	Public Ownership	Filipino	237,892,546	3.16%

BOARD OF DIRECTORS (“BOD”)

The following table sets forth our Board of Directors:

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

SIGNATURES

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

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

____
Dennis Anthony H. Uy
Chief Executive Officer

DATE SIGNED: 4/12/2021

____
Christine R. Blabagno
Treasurer

DATE SIGNED: 4/12/2021

Converge Information and Communications Technology Solutions, Inc. and Subsidiaries

Condensed Consolidated Interim Financial Statements

As at March 31, 2021, December 31, 2020, and
for each of the three months ended March 31, 2021 and 2020

CONVERGE ICT SOLUTIONS INC.

Converge Information and Communications Technology Solutions, Inc. and Subsidiaries

Consolidated Statements of Financial Position
As at March 31, 2021 and December 31, 2020
(All amounts in Philippine Peso)

	March 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	9,502,696,569	12,957,408,688
Trade and other receivables, net	2,594,182,192	2,172,669,790
Due from related parties, current portion	1,152,717,516	1,408,259,424
Network materials and supplies, net	2,624,450,567	2,031,358,171
Deferred contract costs, current portion	1,218,781,390	1,109,716,644
Other current assets	2,473,351,466	1,591,424,876
Total current assets	19,566,179,700	21,270,837,593
Non-current assets		
Property, plant and equipment, net	32,740,217,140	28,127,033,243
Advances to fixed assets suppliers	3,413,765,282	2,507,879,161
Right-of-use assets, net	1,882,854,303	1,859,298,827
Intangible assets, net	1,096,823,782	1,154,646,550
Deferred contract costs, net of current portion	511,592,737	543,161,211
Deferred input value-added tax, net of current portion	534,409,846	138,911,552
Deferred income tax assets, net	778,475,734	788,364,030
Due from related parties, net of current portion	163,422,374	163,422,374
Financial asset at fair value through profit or loss (“FVTPL”)	71,904,900	71,904,900
Other non-current assets	86,623,893	86,623,893
Total non-current assets	41,280,089,991	35,441,245,741
Total assets	60,846,269,691	56,712,083,334
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other current liabilities	16,892,219,662	13,252,779,907
Loans payable, current portion	650,348,214	731,214,286
Lease liabilities, current portion	360,208,176	325,737,209
Due to related parties	287,017,995	217,976,119
Deferred revenue, current portion	540,101,335	463,619,256
Income tax payable	796,009,918	393,924,516
Total current liabilities	19,525,905,300	15,385,251,293
Non-current liabilities		
Deferred revenue, net of current portion	220,141,015	205,105,237
Loans payable, net of current portion	9,082,607,143	10,582,607,143
Lease liabilities, net of current portion	1,533,883,987	1,507,853,434
Retirement benefit obligation	129,372,952	123,146,658
Subscribers’ deposits, net of current portion	1,030,074,215	1,132,965,276
Total non-current liabilities	11,996,079,312	13,551,677,748
Total liabilities	31,521,984,612	28,936,929,041
Equity		
Attributable to owners of the Parent Company		
Share capital		
Common shares	1,881,573,615	1,881,573,615
Additional paid-in capital	18,746,088,245	18,746,088,245
Retained earnings		
Unappropriated	8,688,180,400	7,139,049,614
Reserve for remeasurements of retirement benefit obligation, net of tax	8,130,319	8,130,319
	29,323,972,579	27,774,841,793
Non-controlling interest	312,500	312,500
Total equity	29,324,285,079	27,775,154,293
Total liabilities and equity	60,846,269,691	56,712,083,334

Converge Information and Communications Technology Solutions, Inc. and Subsidiaries

Consolidated Statements of Total Comprehensive Income
For each of the three months ended March 31, 2021 and 2020
(All amounts in Philippine Peso)

	For three months ended March 31	
	2021	**2020**
Revenues	5,546,802,928	3,020,803,962
Cost of services	(2,330,027,356)	(1,440,345,551)
Gross profit	3,216,775,572	1,580,458,411
General and administrative expenses	(935,392,486)	(521,795,656)
Provision for impairment of trade and other receivables	(251,409,384)	(152,159,815)
Other income, net	65,715,867	58,032,052
Profit from operations	2,095,689,569	964,534,992
Finance costs	(132,996,124)	(144,602,807)
Profit before income tax	1,962,693,445	819,932,185
Income tax expense	(413,562,659)	(246,330,340)
Profit for the period	**1,549,130,786**	**573,601,844**
Other comprehensive income		
Item that will not be reclassified to profit or loss		
Remeasurement gain on retirement benefit obligation, net of tax	-	(13,457,549)
Total comprehensive income for the period	**1,549,130,786**	**560,144,295**

Converge Information and Communications Technology Solutions, Inc. and Subsidiaries

Consolidated Statements of Changes in Equity
For each of the three months ended March 31, 2021 and 2020
(All amounts in Philippine Peso)

	Share capital		Additional paid-in capital	Retained earnings		Reserve for remeasurements of retirement benefit obligation, net of tax	Other equity reserves	Non-controlling interest	Total
	Common shares	Convertible preferred shares		Appropriated	Unappropriated				
Balances at January 1, 2020	1,250,000,000	306,818,180	6,541,191,820	2,200,000,000	1,814,215,854	55,240,879	-	312,500	12,167,779,233
Transaction with owners									
Issuance of shares	-	204,545,450	4,361,358,764	-	-	-	-	-	4,565,904,214
Declaration of dividends	-	-	-	-	-	-	-	-	-
Total transactions with owners for the period	-	204,545,450	4,361,358,764	-	-	-	-	-	4,565,904,214
Comprehensive income									
Profit for the period	-	-	-	-	573,601,844	-	-	-	573,601,844
Other comprehensive loss for the period	-	-	-	-	-	(13,457,549)	-	-	(13,457,549)
Total comprehensive income for the period	-	-	-	-	573,601,844	(13,457,549)	-	-	560,144,295
Balances at March 31, 2020	1,250,000,000	511,363,630	10,902,550,584	2,200,000,000	2,387,817,698	41,783,330	-	312,500	17,293,827,742

	Share capital		Additional paid-in capital	Retained earnings		Reserve for remeasurements of retirement benefit obligation, net of tax	Other equity reserves	Non-controlling interest	Total
	Common shares	Convertible preferred shares		Appropriated	Unappropriated				
Balances at January 1, 2021	1,881,573,615	-	18,746,088,245	-	7,139,049,614	8,130,319	-	312,500	27,775,154,293
Comprehensive income									
Profit for the period	-	-	-	-	1,549,130,786	-	-	-	1,549,130,785
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	1,549,130,785	-	-	-	1,549,130,785
Balances at March 31, 2021	**1,881,573,615**	**-**	**18,746,088,245**	**-**	**8,688,180,400**	**8,130,319**	**-**	**312,500**	**29,324,285,079**

CONVERGE
ICT SOLUTIONS INC.

Converge Information and Communications Technology Solutions, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
For the three months ended March 31, 2021 and 2020
(All amounts in Philippine Peso)

	Three months ended March 31	
	2021	**2020**
Cash flows from operating activities		
Profit before income tax	1,962,693,445	819,932,185
Adjustments for:		
Depreciation and amortization	827,536,567	484,282,681
Provision for impairment of trade and other receivables	251,409,384	152,159,815
Amortization of deferred contract costs	349,940,844	147,903,300
Finance costs	132,996,124	144,602,807
Retirement benefit expense	5,823,128	2,040,234
Unrealized foreign exchange (gain) loss, net	(57,458,110)	(41,096,553)
Interest income	(3,702,289)	(12,992,070)
Loss (gain) on disposal of property, plant and equipment	18,621	541,226
Operating income before changes in assets and liabilities	3,469,257,714	1,697,373,625
(Increase) decrease in assets:		
Trade and other receivables, net	(672,921,786)	(640,025,981)
Due from related parties	256,653,329	(329,193,278)
Network materials and supplies	(889,331,053)	(443,539,200)
Deferred contract costs	(427,437,116)	(168,709,867)
Other current assets	(881,926,590)	(347,905,083)
Deferred input valued-added tax	(395,498,294)	(678,604,093)
Increase (decrease) in liabilities:		
Trade and other payables	1,709,408,017	2,074,541,914
Subscribers deposits	(102,891,061)	26,692,204
Due to related parties	69,041,876	16,335,997
Deferred revenue	91,517,857	47,565,920
Cash from operations	2,225,872,893	1,254,532,158
Interest received	2,590,868	12,992,070
Net cash from operating activities	2,228,463,761	1,267,524,227
Cash flows from investing activities		
Acquisitions of property plant, and equipment	(3,929,314,111)	(4,661,539,719)
Acquisitions of intangible assets	(6,145,070)	(79,458,219)
Net cash used in investing activities	(3,935,459,181)	(4,740,997,938)
Cash flows from financing activities		
Proceeds from issuance of convertible preferred shares	-	4,567,949,670
Payment of share issuance costs	-	(2,045,456)
Proceeds from loans payable	-	3,473,750,001
Payments of loans payable	(1,580,866,072)	(365,812,500)
Payment of dividends	-	(470,033,725)
Interest paid on loans payable	(120,327,302)	(275,922,702)
Payments on lease liabilities	(35,129,429)	(65,511,869)
Interest paid on lease liabilities	(30,234,432)	(29,955,729)
Net cash (used in) from financing activities	(1,766,557,235)	6,832,417,690
Net increase in cash and cash equivalent	(3,473,552,655)	3,358,943,979
Cash and cash equivalent, beginning	12,957,408,688	6,233,043,005
Effects of exchange rate changes in cash and cash equivalent	18,840,536	(16,554,936)
Cash and cash equivalent, ending	**9,502,696,569**	**9,575,432,048**

Converge Information and Communications Technology Solutions, Inc. and Subsidiaries

Aging of Trade Receivables

The following table shows the aging of our consolidated trade receivables as at March 31, 2021:

	Total	Current	0-30 days	31-60 days	61-90 days	More than 90 days
			(in millions)			
Residential	1,816.48	818.10	139.09	90.90	61.49	706.90
Corporate	1,709.34	223.96	212.49	148.60	130.69	993.60
Total trade receivables, gross	**3,525.82**	**1,042.06**	**351.58**	**239.50**	**192.19**	**1,701.71**
Less: Allowance for doubtful accounts	(1,139.30)					
Total trade receivables, net	2,386.52					
Other receivables	207.66					
Total trade and other receivables	**2,594.18**					