COVER SHEET

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STI EDUCATION SERVICES GROUP, INC.

(Company's Full Name)

STI ACADEMIC CENTER ORTIGAS CAINTA, ORTIGAS AVENUE EXTENSION, CAINTA RIZAL

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

ARSENIO C. CABRERA, JR.

Contact Person

(632) 8137111

Company Telephone Number

0 3 | 3 1

Month *Day*

Fiscal Year

DEFINITIVE INFORMATION STATEMENT

FORM TYPE

FISRT THURSDAY OF SEPTEMBER

Month *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stocholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

www.sti.edu

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
SEP 2 5 2018
MARKET REGULATION DEPT.
2:05

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

TO ALL STOCKHOLDERS:

Please be informed that the Annual Stockholders' Meeting of **STI EDUCATION SERVICES GROUP, INC.** ("STI ESG"), shall be held on 26 October 2018, 11:00 a.m. at STI Academic Center Ortigas-Cainta, Ortigas Avenue Extension, Cainta, Rizal, for the following purposes:

1. Call to Order
2. Certificate of Notice and Quorum
3. Approval of the Minutes of the 22 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 22 September 2017 up to 26 October 2018.
7. Election of Directors
8. Appointment of External Auditor
9. Adjournment

The Board of Directors of STI ESG has fixed the Record Date for stockholders entitled to vote at the Annual Meeting on 26 September 2018.

Stockholders who will not be able to attend this Annual Meeting may designate their respective proxies and send the proxy forms to the Office of the Corporate Secretary not later than 18 October 2018.

Registration starts at 10:00 a.m. on the date of the scheduled meeting. For your convenience in registering your attendance, please bring some form of identification, such as your Professional I.D., Passport or Driver's license.

Very truly yours,

ARSENIO C. CABRERA, JR.
Corporate Secretary

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AGENDA OF 2018 ANNUAL STOCKHOLDERS' MEETING

1. Call to Order
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25 September 2018

SECURITIES AND EXCHANGE COMMISSION
Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City

Attention : **Mr. Vicente Graciano P. Felizmenio, Jr.**
Director – Market and Securities Regulation Department

Re : **STI Education Services Group, Inc.**

Gentlemen:

In compliance with your letter dated 12 September 2018, please find enclosed the Definitive Information Statement and Management Report of STI Education Services Group, Inc. (the "Corporation") in accordance with the checklist attached to your letter. A summary of the responses of the Corporation to the aforementioned checklist is set forth below:

Remarks of SEC	Response of the Corporation
Definitive Information Statement	
Per Amended By-Laws, the ASM is set every 1st Thursday of September which falls on 17th of September while 20-IS the ASM is on 22nd of September 2017. There shall be a current report regarding the postponement of the meeting (if any) and must be under oath by the president and secretary: No filing of 17-C regarding the postponement was received.	The Corporation disclosed that the Annual Stockholders' Meeting will be held on 26 October 2018, instead of 6 September 2018, the first Thursday of September as provided in the Amended By-Laws of the Corporation, for purposes of attaining quorum. Please see attached 17-C, which the Corporation filed on 6 September 2018.
Part I	
Item 6. Compensation of Directors and Executive Officers	
Part IV, paragraph (B) of "Annex C", as amended.	
(1) Summary of Compensation Table	
Follow prescribed tabular presentation (i.e. separately disclose the salary from bonus)	The table has been updated to comply with the prescribed tabular presentation.

STI Academic Center Ortigas-Cainta | Ortigas Avenue Extension, Cainta, 1900 Rizal | Tel: (632) 812-1784 | Fax: (632) 230-0111

Item 15. Actions with Respect to Reports	
Provide a brief summary of the Minutes of the Annual Stockholders' Meeting and the various resolutions by the Board which are for ratification by the stockholders in the forthcoming meeting.	This has been provided. Please refer to page 22, par. 2 of Item 16. Matters Not Required to be Submitted
<u>Management Report</u>	
Management's Discussion and Analysis (MD&A) or Plan of Operation	
(a) Full fiscal years	
(1) Discussion on Registrant's Financial Condition, Changes in Financial Condition and Results of Operation for the fiscal years 2018-2017, 2017-2016, and 2016-2015.	The Corporation included a discussion on the Financial Condition, Changes in Financial Condition and Results of Operation for the past three (3) fiscal years.
(3) Past and future financial condition and results of operation, with particular emphasis on the prospects for the future.	The Corporation included discussions on its plans and goals in the future.

We trust that you will find our submission in order.

Very truly yours,

APRIL ROSE N. MORATO

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

SEP 25 2018
Cepe 2:45

1. Check the appropriate box:

   [ ] Preliminary Information Statement
   [x] Definitive Information Statement

2. Name of Registrant as specified in its charter **STI Education Services Group, Inc.**

3. **Metro Manila, Philippines**
   Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number **0000113156**

5. BIR Tax Identification Code **000-143-457**

6. **STI Academic Center Ortigas-Cainta, Ortigas Avenue Extension, Cainta, Rizal** **1990**
   Address of principal office Postal Code

7. Registrant's telephone number, including area code **(632) 812-1784**

8. **26 October 2018, 11:00 A.M. at STI Academic Center Ortigas-Cainta, Ortigas Avenue Extension, Cainta, Rizal**
   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 **4 October 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	**3,087,829,443**

11. Are any or all of registrant's securities listed on a Stock Exchange?
    Yes ______ No **X**

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

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	:	11:00 A.M.
Place of Meeting	:	STI Academic Center Ortigas-Cainta, Ortigas Avenue Extension, Cainta, Rizal
Registrant's Mailing Address	:	STI Academic Center Ortigas-Cainta, Ortigas Avenue Extension, Cainta, Rizal
Approximate Date on Which the Information Statement is First Sent Or Given to Security Holders	:	4 October 2018

The Annual Stockholders' Meeting will be held on 26 October 2018, instead of 6 September 2017, the first Thursday of September as provided in the Amended By-Laws of the Company, for purposes of attaining quorum.

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 has an Authorized Capital Stock (ACS) of Five Billion Pesos (PhP5,000,000,000.00) divided into five billion (5,000,000,000) shares with a par value of One Peso (PhP1.00) each. Out of the ACS, three billion eighty seven million eight hundred twenty nine thousand four hundred forty three (3,087,829,443) shares have been subscribed and paid-up. The common shares of the Company are not traded in any market, nor are they subject to outstanding warrants to purchase, or securities convertible into common shares of the Company.

(2) Holders

Foreign ownership limit for the Company is forty percent (40%) of the issued and outstanding common shares, equivalent to 1,232,750,868 common shares. Total shares owned by foreign shareholders as of August 31, 2018 was 7,841,118, equivalent to 0.25% of the outstanding common shares of the Company.

As of August 31, 2018, there were sixty-four (64) 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 August 31, 2018:

	Name	No of Shares Owned	% Ownership
1	STI HOLDINGS	3,040,623,037	98.47
2	PRUDENT RESOURCES, INC.	13,382,275	0.43
3	GONZALES, FRANCISCO B. JR.	8,873,692	0.29
4	ROSSI, PURIFICACION G.	7,841,118	0.25
5	PRUDENCIO, TOMAS J.	3,732,400	0.12
6	SANTOS, MARIA LOURDES	1,725,000	0.06

7	YOUNG, CAROLINA	1,651,828	0.05
8	RAMOS, DULCE	1,155,447	0.04
9	BUSTOS, FELIXBERTO	792,283	0.03
10	DOMINGO, EMERITA R.	303,466	0.01
11	VALERIO, MIKAEL M.S.	241,279	0.01
12	ZARASPE, ANACLETA C.	214,038	0.01
13	MONES, REYNALDO A.	201,901	0.01
14	HEIRS OF EDGAR SARTE	148,622	0.00
15	RELLEVE, ALVIN K.	137,338	0.00
16	PUBLICO, EDGARDO	122,080	0.00
17	DUJUA, JOCELYN	115,532	0.00
18	GARCIA, NOEL B.	83,190	0.00
19	MADRIGAL, VICTORIA P.	63,384	0.00
20	LAO, ERIENE C.	63,384	0.00

**5,952,273 shares were issued to STI Education Services Group, Inc. as a result of the merger between STI Taft and STI Dagupan, resulting to 0.19% ownership of the Company.*

(3) Dividend Policy

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

The BOD approved a dividend declaration policy equivalent to 25% to 40% of the core 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.

Core 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 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 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 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 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.

Dividend History:

Declaration Date	Dividends per Share	Amount
19 September 2017	PhP0.08	PhP246.5 Million
20 September 2016	PhP0.27	PhP832.1 Million
9 September 2016	PhP0.08	PhP246.5 Million
4 September 2015	PhP0.08	PhP250.0 Million

On September 4, 2015, the Company's BOD approved the cash dividends declaration amounting to ₱250.0 million, or ₱0.08 per share, in favor of the stockholders of record as at 31 August 2015. Such dividends were paid on September 16, 2015.

On September 9, 2016, the Company's BOD approved the cash dividends declaration amounting to ₱246.5 million, or ₱0.08 per share, in favor of the stockholders of record as at September 9, 2016. Such dividends were paid on September 15, 2016. On September 20, 2016, the Company's BOD also approved the cash dividends declaration amounting to ₱832.1 million, or ₱0.27 per share, in favor of stockholders of record as at September 20, 2016. The Company paid P431.5 million and P400.6 million dividends to its stockholders on September 23, 2016 and November 3, 2016, respectively.

On September 19, 2017, the Company's BOD approved the cash dividends declaration of ₱0.08 per share for a total amount of ₱246.5 million, in favor of the stockholders of record as at September 30, 2017. Such dividends were paid on October 19, 2017.

(4) Recent Sales of Unregistered or Exempt Securities

There is 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 August 31, 2018

Title of Each Class	No. of Shares Outstanding	No. of Votes
Common Stock	3,087,829,443	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 August 31, 2018

As of August 31, 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.

Class	Name and Address of Record Owner	Nature of Ownership	Citizenship	No. of Shares	% of Ownership
Common	STI Education Systems Holdings, Inc.	Direct Owner	Filipino	3,040,623,037	98.47%

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

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

Class	Name of Beneficial Owner	No. of Shares & Nature of Ownership		Citizenship	% of Ownership
Common	Jesli A. Lapus (Independent Director and Chairman of the Board)	1	Direct	Filipino	00.00%
Common	Monico V. Jacob (Director, Vice Chairman and CEO)	2	Trustee	Filipino	00.00%
Common	Peter K. Fernandez (Director, President and COO)	1	Direct	Filipino	00.00%
Common	Eusebio H. Tanco (Director)	1	Direct	Filipino	00.00%
Common	Maria Vanessa Rose L. Tanco (Director)	1	Direct	Filipino	00.00%
Common	Joseph Augustin Eusebio L. Tanco (Director)	2	Direct	Filipino	00.00%
Common	Raul B. De Mesa (Director)	2	Direct	Filipino	00.00%
Common	Martin K. Tanco (Director)	1	Direct	Filipino	00.00%
Common	Rainerio M. Borja (Director)	2	Trustee	Filipino	00.00%
Common	Robert G. Vergara (Independent Director)	1	Trustee	Filipino	00.00%
Common	Paolo Martin O. Bautista (Director)	1	Trustee	Filipino	00.00%

(c) Voting Trust Holders of 5% or More

As of August 31, 2018, no person holds at least 5% or more of a class under a voting trust or similar agreement.

(d) Changes in Control

There is no arrangement entered into by the Company or any of its stockholders which may result in change of control of the Company.

Item 5. Directors and Executive Officers

(1) 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:

(a) Eusebio H. Tanco
(b) Monico V. Jacob
(c) Rainerio M. Borja
(d) Raul B. De Mesa
(e) Maria Vanessa Rose L. Tanco
(f) Joseph Augustin Eusebio L. Tanco
(g) Martin K. Tanco
(h) Peter K. Fernandez
(i) Paolo Martin O. Bautista
(j) Robert G. Vergara
(k) Jesli A. Lapus

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 Nomination 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 Nomination Committee and the Corporate Secretary.

(2) The Nomination Committee shall pre-screen the qualifications and prepare a Final List of all Candidates.

(3) After the nomination, the Nomination 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 and all stockholders.

(5) Only nominees whose names appear on the Final List of Candidates shall be eligible for election as directors. No other nomination shall be entertained after the Final List of Candidates shall have been prepared.

The Chairman of the Nomination Committee is Mr. Lapus. Messrs. Monico V. Jacob, Eusebio H. Tanco, and Joseph Augustin Eusebio L. Tanco are members of the Nomination 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
Monico V. Jacob	STI ESH	Chairman and CEO	Filipino
Eusebio H. Tanco	STI ESH	N/A	Filipino
Peter K. Fernandez	STI ESH	N/A	Filipino
Raul B. De Mesa	STI ESH	N/A	Filipino
Maria Vanessa Rose L. Tanco	STI ESH	Director	Filipino
Joseph Augustin Eusebio L. Tanco	STI ESH	Director	Filipino
Martin K. Tanco	STI ESH	Director	Filipino
Rainerio M. Borja	STI ESH	Director	Filipino
Paolo Martin O. Bautista	STI ESH	Director	Filipino
Jesli A. Lapus	STI ESH	Independent Director	Filipino
Robert G. Vergara	STI ESH	Independent Director	Filipino

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:

Jesli A. Lapus, 68, Filipino, Chairman and Independent Director

Mr. Lapus is the Chairman of the Company, and its Nomination and Audit Committees. He is also a member of the Executive Committee. He has been an Independent Director of the Company since September 25, 2013.

Mr. Lapus is an Independent Director of STI Education Systems Holdings, Inc., 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.

Mr. Lapus earned his Doctor of Public Administration (honoris causa) from Polythechnic 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.

Monico V. Jacob, 73, Filipino, Vice-Chairman, Chief Executive Officer, and Director

Mr. Jacob is the Vice Chairman and CEO of the Company, and a member of the Executive, Compensation, and Nomination Committees. He has been a director of the Company since 9 December 2002.

Mr. Jacob is also the President and CEO of STI Educations Systems Holdings, Inc., and a member of its Executive, Compensation and Compliance Committees.

Mr. Jacob is the President of STI West Negros University, 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., and 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., Phoenix Petroleum Philippines, Inc., 2Go Group, Inc., Lopez Holdings Corp., all publicly-listed companies. He also serves as a member of the board of directors of De Los Santos Medical Center, iACADEMY, and Heritage Park Management Corporation.

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.

Eusebio H. Tanco, 68, Filipino, Director

Mr. Tanco is the Chairman of the Executive and Compensation Committees of the Company. He is also a member of the Audit and Nomination Committees. He has been a Director of the Company since 16 September 1999.

Mr. Tanco is also Chairman of STI Holdings, and the Chairman of its Executive, Nomination and Compensation Committees.

Mr. Tanco is Chairman of the Board and President of Prudent Resources, Inc., and Prime Power Holdings Corporation. He is the President of Philippines First Insurance Co. Inc.

He is also the Chairman of Mactan Electric Company, Venture Securities Inc., International Hardwood & Veneer Corp, GROW Vite, Inc., Delos Santos-STI College, STI West Negros University, and Eximious Holdings, 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., Bloom with Looms 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 Maestro Holdings, Inc., PhilPlans First, 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 is likewise a member of the Board of Trustees of Philippines, Inc. and the Philippine Chamber of Commerce and Industry.

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

Peter K. Fernandez, 54, Filipino, President, Chief Operating Officer, and Director

Mr. Fernandez is the President and Chief Operating Officer of the Company. He has been a Director since 21 April 2016.

Prior to this appointment, Mr. Fernandez served as Executive Vice President and Chief Operating Officer of the Company from 2004-2016.

Prior to joining the Company, Mr. Fernandez was a member of the Asian Institute of Management faculty for four and a half years. Before joining AIM, Mr. Fernandez was a faculty member of the College of Computer Studies at the De La Salle University.

Mr. Fernandez earned a Bachelor of Science degree in Electronics and Communications Engineering and a Master of Business Administration degree from the De La Salle University.

Rainerio M. Borja, 55, Filipino, Director

Mr. Borja is a member of the Executive Committee. He has been a Director of the Company since 18 November 2004.

Mr. Borja is a Director of STI Holdings and a member of its Executive and Nomination Committees. He is also the Chairman of Techzone Philippines Inc. and 88Gren Inc. He is also a Director of PhilPlans, Inc., Total Consolidated Asset Management Inc., and Techglobal Data Center, Inc.

Mr. Borja is the President of the Asia region for Alorica, comprising more than 34,0000 people in the Philippines, as well as delivery centers in Australia and China, for a total of 24 sites. Under his 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 (4) years prior to EGS' acquisition by Alorica in June 2016.

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.

Raul B. De Mesa, 76, Filipino, Director

Mr. De Mesa is a member of the Compensation and Audit Committees. He has been a Director of the Company since 18 November 2004.

Mr. De Mesa served as the President and Chief Executive Officer of Bank of Commerce. He is a distinguished banker with substantial years of experience in the financial industry. Prior to Bank of Commerce, he had 37 years of banking experience, having occupied various positions in several banking institutions such as Security Bank, Manila Banking Corporation, Far East Bank & Trust Company. Mr. De Mesa is a Director at CAP Life Insurance Corporation. He served as a Director of Bank of Commerce, and Independent Director of Liberty Telecoms Holdings Inc.

Mr. De Mesa is presently the Chairman of the boards of Abacore Capital Holdings, Inc. and Prime Star Development Bank; and Chairman and President of RBM Holdings, Inc. and Pampanga Auto Sales, Inc. He is an independent director of Pride Resources Infrastructure Development Corporation, Montemaria Asia Pilgrims, Inc. and Philab Holdings Corporation. He is a Director of Commerce and Trade Insurance Brokerage, Inc. and Bancommerce Investment Corporation.

Maria Vanessa Rose L. Tanco, 40, Filipino, Director

Ms. Tanco is a Director of the Company since 20 October 2011.

Ms. Tanco is also a Director and member of the Nomination Committee of STI Holdings.

She also holds directorships at STI West Negros University, the Company, PhilPlans First, Inc., and Philhealth Care, Inc. Currently, she is the President and CEO of iACADEMY.

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

Joseph Augustin Eusebio L. Tanco, 37, Filipino

Mr. Tanco is a member of the Nomination Committee. He has been a Director of the Company since 27 October 2005.

Mr. Tanco is a Director, and the Vice President for Investor Relations, and a member of the Compensation Committee of STI Holdings.

Mr. Tanco is currently the President and Chief Executive Officer of 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 Vice President of Eujo Phils. Inc., and Director of Maestro Holdings, Inc., iACADEMY, STI West Negros University, Eximious Holdings, 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.

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.

Martin K. Tanco, 53, Filipino, Director

Mr. Tanco has been a Director of the Company since 4 September 2014.

He is also a Director of STI Holdings and a member of its Executive and Audit Committees.

Mr. Tanco is the Director for Investment of Philplans First, Inc. He is the President of the Philfirst Condominium Association. Mr. Tanco is also a Director of Philippine Life Financial Assurance Corporation, Techglobal Data Center, Inc., and 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, 50, Filipino, Director

Mr. Bautista is a Director of the Company since 23 May 2018.

He is likewise a Director, member of the Audit Committee, and the Chief Investment Officer, and Head of Corporate Strategy of STI Holdings.

Mr. Bautista is an advisor to the Investment Committee of PhilPlans. He has over 20 years of 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.

Robert G. Vergara, 58, Filipino, Independent Director

Mr. Vergara was elected as an Independent Director of the Company on 27 July 2017.

He is likewise an Independent Director of STI Holdings.

Mr. Vergara is also a Director of Cabanatuan Electric Corporation, SEA CREST Fund, and Vergara Advisory Management, Inc.

Mr. Vergara served as the President and General Manager as well as the Vice-Chairman of the Board of Trustees of the Government Service Insurance System from 2010 to October 2016.

Mr. Vergara was the Managing Director and Founding Partner of Cannizaro (Hong Kong) Limited and was a Limited Partner at Cannizaro Capital Partners LLP (United Kingdom) from 2006 to 2010. He previously served as a Principal at Morgan Stanley Dean Witter Asia Ltd. From 2002 to 2006, he was a Director of Lionhart (Hong Kong) Ltd and of IFM Asia Ltd.

Mr. Vergara obtained his Master in Business Administration in Finance, General Management and Corporate Strategy from Harvard Graduate School of Business Administration. He graduated Magna Cum Laude with a Bachelor of Science in Management Engineering and Mathematics from Ateneo de Manila University in 1982.

Yolanda M. Bautista, 66, Filipino, Chief Finance Officer and Treasurer

Ms. Bautista is a member of the Audit and Compensation Committees, and the Treasurer of the Company.

Ms. Bautista is also the Treasurer of STI Holdings and a member of its Executive, Compensation, and Compliance Committees.

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., Banclife Insurance Co., Inc., Tantivy Holdings, Inc., DLS-STI College, Inc., and iACADEMY. She is also the Group Chief Finance Officer of Philippine Life Financial Assurance Corporation and Philhealthcare, Inc. as well as the Chief Finance Officer and Treasurer of the Company, STI West Negros University and Maestro Holdings, Inc.. 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. She serves as Treasurer of PhilPlans First, Inc., Aberlour Holding Company, Daven Holdings, Inc., Harbourside Holding Corporation, Maestro Holdings, Inc., Morray 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, Techzone Philippines, Inc. and Neschester Corporation. She is also Assistant Treasurer of Total Consolidated Asset Management, Inc.

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

Arsenio C. Cabrera, Jr., 58, Filipino, Corporate Secretary, General Counsel, and Corporate Information Officer

Atty. Arsenio C. Cabrera, Jr. is the Corporate Secretary, General Counsel, and Corporate Information Officer of the Company.

He was also elected Corporate Secretary and Chairman of the Compliance Committee of STI Holdings and is also its current Corporate Information Officer.

Atty. Cabrera is a Managing Partner of Herrera Teehankee & Cabrera Law Offices. He also serves as Corporate Secretary of Amina, Inc., Asiatel Services, 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., DLS-STI College Quezon Avenue, Inc., Eximious Holdings, Inc., EUJO Phils. Incorporated, First Optima Realty Corporation, GEOGRACE Resources Philippines, Inc., Gurango Software Corporation, Heritage Park Management, Inc., Lasik Surgery, Inc., Lorenzo Shipping Corporation, Maestro Holdings, Inc., Masbate13 Philippines, Inc., Mina Tierra Gracia, Inc., NiHAO Mineral Resources International, Inc., Oregalore, Inc., Palisades Condominium Corporation, Pay Philexchange, Inc., 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., Tantivy Holdings, Inc., Techglobal Data Center, Inc., TechZone Philippines, Inc., 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.

April Rose N. Morato, 31, Filipino, Assistant Corporate Secretary

Atty. April Rose N. Morato is the Assistant Corporate Secretary of the Company.

She is an Associate of Herrera Teehankee & Cabrera Law Offices. She is also the incumbent Assistant Corporate Secretary of Information and Communications Technology Academy, Inc., Neschester Corporation, Eximious Holdings, Inc., Tantivy Holdings, Inc., EUJO Phils. Incorporated, Tanco & Tanco Holdings, Inc., Search Insurance Agency, Inc., Euhatan Holdings, Inc., EHT Holdings, Inc., Vaness Corporation, Sinoma Energy Conservation (Philippines) Waste Heat Recovery Co., Inc., TVeez Solutions, Inc., Tuesday Licensing and Entertainment, Inc., Bates Licensing and Entertainment, Inc., Fieldtech Asia, Inc., Marilag Corporation, and AMSEC Holdings Corporation.

Atty. Morato holds a Juris Doctor degree and a Bachelor of Arts in Philosophy from the Ateneo De Manila University.

(2) 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.

(3) Family Relationships

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

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

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

(4) 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:

(a) 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;

(b) any conviction by final judgment;

(c) 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 involvement in any type of business, securities, commodities or banking activities;

(d) 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.

(5) Certain Relationships and Related Transactions

The Company has the following major transactions with related parties:

Land Held for Swap

On 21 March 2013, the Board of the Company approved the transfer of land to Techzone Philippines, Inc. (Techzone), a company under common control with the Group, in exchange for condominium units.

In April 2013, the Company and Techzone entered into a real estate mortgage amounting to PhP800 Million with the Company's land as collateral for Techzone's loan, to obtain the funds needed for Techzone to develop the property.

In August 2013, the Deed of Absolute Sale for the sale of the land was executed between the Company and TechZone in accordance with the Board approval. Title to the land has now been transferred in favor of TechZone and consequently, the amount was reclassified, including other directly attributable costs, as "Condominium deposit." Development of the condominium project is likewise ongoing.

As of 31 March 2015, TechZone has already completed the construction of the condominium units and has turned-over the units for retrofitting. As a result, the Company applied the "Condominium deposit" amounting to P396.3 million and recognized the total purchase price of the condominium units amounting to P560.0 million plus directly attributable costs amounting to P8.4 million, under the "Investment properties" account. The resulting difference, which amounted to P172.1 million, was accounted for as "Gain on exchange of land" in the 2015 consolidated statement of comprehensive income.

Consultancy Agreement with STI Education Systems Holdings, Inc.

The Company entered into an agreement with STI Education Systems Holdings, Inc. on the rendering of advisory services starting 1 January 2013.

Contract of Lease

First Optima Realty Corporation

The Company entered into a Contract of Lease with First Optima Realty Corporation on 7 January 2014. The contract covers lease of three (3) parcels of land in Poblacion, Lucena City, and Quezon for a period of 25 years commencing on 1 January 2014 and expiring on 1 January 2039 for PhP 2.1 Million per annum, exclusive of taxes.

BDO Unibank, Inc. – Trust and Investments Group (in its capacity as trustee of the trust fund for the benefit of the Planholders of Philplans First, Inc. – Education)

The Company entered into a Contract of Lease with BDO Unibank, Inc. – Trust and Investments Group, which is the trustee of the trust fund for the benefit of the Planholders of Philplans First, Inc. – Education and the beneficial owner of a parcel of land in Calamba City. The Contract of Lease is for a period of twenty five (25) years commencing on 1 May 2016 and ending on 30 April 2014.

Cement Center, Inc.

The Company entered into a Contract of Lease with Cement Center, Inc. on 15 August 2017. The contract covers the lease of a parcel of land in Sta. Mesa, Manila for a period of twenty five (25) years commencing on the date of delivery of the said premises to the Company.

Conversion of advances to equity

STI Taft

On 1 December 2015, the Board of STI Taft approved the application for an increase in authorized capital stock from 5,000 shares with PhP100 par value per share to 750,000 shares with PhP100 par value per share. Subsequently, STI Taft and the Company agreed to convert a portion of STI Taft's advances from the Company amounting to PhP49.0 million to deposit for future stock subscriptions. On 4 April 2016, the SEC approved STI Taft's increase in authorized capital stock to Php75.0 million. As at 31 March 2017, STI Taft became a 99.9%-owned subsidiary of the Company.

STI Dagupan

On 27 February 2015, the Board of STI Dagupan approved the application for an increase in authorized capital stock from PhP0.5 million to PhP35.0 million and the opening for subscription of 72,000 common shares with an aggregate par value of PhP7.2 million. Subsequently, the Company subscribed to 32,000 shares or an aggregate par value of PhP3.2 million. The Board of STI Dagupan also approved the equity conversion of STI Dagupan's advances from the Company amounting to PhP19.8 million. As at 31 March 2017, the Company's ownership over STI Dagupan increased from 77% to 99.9%.

Deed of Assignment of net assets

On 16 August 2016, STI Diamond entered into a Deed of Assignment with STI Novaliches whereby STI Diamond assigns, transfer and conveys in a manner absolute and irrevocable, and free and clear of all liens and encumbrances, unto STI Novaliches all their rights, title and interest in its assets and liabilities for a consideration of PhP75.7 million, payable in five (5) years. Consequently, the management contract between the Company and STI Diamond was terminated and as a result, the latter was derecognized as a subsidiary of the Company.

Deed of Assignment of net assets

On 18 May 2016, the Company entered into a Memorandum of Agreement to acquire for PhP20.0 million the net assets of an STI franchised school located in Santa Maria, Bulacan. On 31 May 2016, the Company made an initial deposit of PhP10.0 million for the planned acquisition. On 8 February 2017, the Company made an additional deposit of PhP8.0 million.

On 4 April 2017, the Company established STI College of Santa Maria, Inc. (STI Sta. Maria). On 23 May 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 PhP20.0 Million. The assignment of the net assets shall retroact to 1 April 2017. On the same date, STI Sta. Maria paid the remaining balance of PhP2.0 million.

Joint Venture Agreement

In January 2017, the Company and Mr. Tony Tan Caktiong (TTC), Chairman and Founder of Jollibee Foods Corporation, signed a Memorandum of Understanding to establish an academic institution with programs in agro-entrepreneurship, logistics, and quick service restaurants, among others, that are more responsive to the needs of the labor market. The program will be piloted in STI Tanauan in Batangas featuring state-of-the-art agriculture facilities and equipment such as greenhouses, field laboratories, livestock and poultry farms, as well as rainwater harvesting system for irrigation and other uses.

On 21 April 2017, the Company, STI College Tanauan, Inc. (STI Tanauan), Mr. Tony Tan Caktiong (TTC) and Injap Investments, Inc. (Injap), referred collectively as the Joint Venture Parties, entered into an agreement to transform the 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 the Company based on STI Tanauan's unrestricted retained earnings as of 31 March 2017 and cash payments by the Joint Venture Parties.

Additional amendments shall be made to the 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% to the Company, TTC and Injap, respectively.

On 21 June 2017, in separate meetings, the stockholders and the Board of STI Tanauan approved the increase in the authorized capital stock of the corporation from PhP1,000,000 divided into 10,000 shares with a par value of PhP100 to PhP75,000,000 divided into 750,000 shares with a par value of PhP100. 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 PhP15,000,000 to be distributed to stockholders of record as of 31 March 2017 based on the unrestricted retained earnings of STI Tanauan as shown in its audited financial statements as of 31 March 2017.

To date, there is no complaint received by the Company regarding related-party transactions.
For further details, please refer to Note 28, Related Party Transactions of the Company Audited Consolidated Financial Statements for the period ended 31 March 2017.

Transactions with Promoters

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

Item 6. Compensation of Directors and Executive Officers

(1) The directors each receive per diems amounting to PhP15,000.00 for their attendance to board and committee meetings. There is no arrangement for compensation of directors.

(2) The following table summarizes the aggregate compensation for the fiscal years ended March 31, 2016, 2017, and 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 March 31, 2016, 2017, and 2018 and what the Company expects to pay for the fiscal year ending March 31, 2019.

ANNUAL COMPENSATION

The aggregate total compensation for Directors, the President and the top four (4) officers of the Company is shown below.

Name and principal Position	Year Ended 31 March	Salary	Bonus	Other annual compensation
1. Monico V. Jacob (President and Chief Executive Officer 2. Peter K. Fernandez (Chief Operating Officer) 3. Engelbert L. De Guzman (VP for Communications and MIS) 4. Wilfred S. Racadio (VP for Legal Affairs) 5. John Luis Fausto B. Tubongbanua (VP for Corporate and Information Services)	2016	PhP23,853,754.00	-	None
1. Monico V. Jacob (President and Chief Executive Officer 2. Peter K. Fernandez (Chief Operating Officer) 3. Engelbert L. De Guzman (VP for Communications and MIS) 4. Wilfred S. Racadio (VP for Legal Affairs) 5. John Luis Fausto B. Tubongbanua (VP for Corporate and Information Services)	2017	PhP26,955,603.00	-	None
1. Monico V. Jacob (Vice Chairman and Chief Executive Officer 2. Peter K. Fernandez (President and Chief Operating Officer) 3. Engelbert L. De Guzman (VP for Communications and MIS) 4. Wilfred S. Racadio (VP for Legal Affairs)	2018	PhP31,566,845.00	-	None

5. John Luis Fausto B. Tubongbanua (VP for Corporate and Information Services)				
1. Monico V. Jacob (Vice Chairman and Chief Executive Officer 2. Peter K. Fernandez (President and Chief Operating Officer) 3. Engelbert L. De Guzman (VP for Communications and MIS) 4. Wilfred S. Racadio (VP for Legal Affairs) 5. John Luis Fausto B. Tubongbanua (VP for Corporate and Information Services)	2019 (estimate)	PhP30,419,550.00	-	None
Board of Directors	2016	PhP1,775,882.00	-	None
Board of Directors	2017	PhP2,178,869.00	-	None
Board of Directors	2018	PhP2,267,941.00	-	None

The compensation for board members comprise per diems for meetings actually attended.

Notes:
[1] Figures are estimated amounts.
[2] 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.
[3] There are no actions to be taken with regard to any pension or retirement plan in which any such person will participate.
[4] 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 22 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 second year of engagement for the Company.

(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 2017 "Statement of Management Responsibility for Financial Statements", SGV is the appointed independent auditors of the Company. SGV 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. Jesli A. Lapus, Independent Director, is currently the Chairman of the Audit Committee, while Messrs. Eusebio H. Tanco, Raul B. De Mesa and Ms. Yolanda M. Bautista are its members.

The aggregate fees for the services rendered by SGV to the Company, particularly for the audit of the financial statements for the years ended March 31, 2018 and 2017 and the six-months ended September 30, 2016 and 2015 are shown below:

31 March 2018

	March 2018			
	Audit Fees	OPE	VAT	TOTAL
Audit	6,342,000.00	634,200.00	837,144.00	7,813,344.00
Others	-	-	-	-
Total	6,342,000.00	634,200.00	837,144.00	7,813,344.00

31 March 2017

	March 2017			
	Audit Fees	OPE	VAT	TOTAL
Audit	2,550,000.00	285,000.00	340,200.00	3,175,200.00
Others	-	-	-	-
Total	2,550,000.00	285,000.00	340,200.00	3,175,200.00

31 March 2016

	March 2016			
	Audit Fees	OPE	VAT	TOTAL
Audit	5,180,000.00	515,536.00	683,464.00	6,379,000.00
Others	-	-	-	-
Total	5,180,000.00	515,536.00	683,464.00	6,379,000.00

30 September 2016 and 2015

	September 2016 and 2015			
	Audit Fees	OPE	VAT	TOTAL
Audit	10,000,000.00	1,046,401.00	1,325,568.00	12,371,969.00
Others	800,000.00	11,250.00	97,350.00	908,600.00
Total	10,800,000.00	1,057,651.00	1,422,918.00	13,280,569.00

The Company has no disagreements with its independent auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

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 22 September 2017 Annual Stockholders' Meeting. The Minutes of the 22 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 9 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 9 September 2016 up to 22 September 2017
7. Election of Directors
8. Appointment of External Auditor
9. 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 22 September 2017 up to 26 October 2018. Said acts and resolutions of the Board of Directors and of Management since the Annual Stockholders' Meeting held on 22 September 2017 up to 26 October 2018 include, among others: (a) the appointment of officers; (b) approval of audited financial statements; (c) the opening, maintaining and updating of corporate bank accounts and the appointment of signatories; (d) application for credit line facilities and/or long term loans with various financial institutions, including renewal, extension, increase, or amendment thereof; (e) execution of contracts; (f) approval of budget; (g) acquisition of lands and schools; (h) construction and/or renovation of school facilities; (i) application for permits to offer various CHED, DepEd and TESDA programs and courses; and (j) appointment of officers to represent the Company in court cases and proceedings.

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 22 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 22 September 2017

(2) Ratification of all acts of the Board of Directors and of Management from 22 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 Company adheres to the principles and practices of good corporate governance, as embodied in its Corporate Governance Manual and related SEC Circulars.

On 9 March 2011, the Company submitted to the SEC its Amended Manual on Corporate Governance dated 22 February 2011 incorporating the directory provisions of the Revised Code of Corporate Governance in order to comply with the adopted leading practices on good corporate governance.

On 18 July 2014, the Company submitted the Amended Manual on Corporate Governance dated 15 July 2014 in compliance with SEC Memorandum Circular No. 9.

There have been no deviations from the Company's Manual of Corporate Governance.

To ensure that the Company observes good corporate governance and management practices and assure shareholders that the Company conducts its business in accordance with the highest level of accountability, transparency and integrity, the Company has undertaken the continuous improvement and monitoring of its governance and management policies. The Company submits a Certificate of Compliance with the Manual on Corporate Governance on an annual basis to the SEC.

The Company ensures that it has at least two (2) independent directors, or such number of independent directors that constitutes twenty percent (20%) of the members of the Board, whichever is higher, but in no case less than two (2).

The Company, through its Nomination Committee, ensures that all the nominees to the Board possess all the qualifications and none of the disqualifications provided for in the Company's By-Laws and Manual, the Corporation Code, Securities Regulation Code and other relevant laws, rules and regulations.

The Company also has an Audit Committee, which is tasked to review the Audited Financial Statements of the Company. The Chairman of the Audit Committee is an independent director, and each member thereof has at least an adequate understanding or competence of most of the Company's financial management systems and environment.

The Company consistently strives to raise its financial reporting standards by adopting and implementing prescribed Philippine Financial Reporting Standards.

STI EDUCATION SERVICES GROUP, 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, 5TH FLOOR 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 25 September 2018.

STI EDUCATION SERVICES GROUP, INC.
Issuer

APRIL ROSE N. MORATO
Assistant Corporate Secretary

MANAGEMENT REPORT

Group History and Structure

STI Education Services Group, Inc. ("the Company")

Established on August 21, 1983, the Company began with a goal of training as many Filipinos as possible in computer programming and addressing the information technology (IT) education needs of the Philippines. Starting as a training center with only two (2) schools, the Company initially offered short-term computer programming courses that were patterned to satisfy the demand of college graduates and working professionals who wanted to learn more about the emerging computer technology.

Shortly after, the Company's campuses began to grow as it started granting franchises in other locations within Metro Manila which soon expanded to other key areas in Luzon, Visayas, and Mindanao. In the mid-1990s, the Company opened international campuses in Hong Kong, Rome, Milan, Macau, Singapore, Taiwan, and Vietnam. And in 1998, the Company had more than 100 campuses across the nation and outside the Philippines. In 2003, management decided to focus its attention on the domestic market but continued to study the possibility of going international once again.

Over the years, the Company began shifting its focus from short-term courses to college degree programs to adjust to the changing business environment. In 1995, the Company was granted a permit by the Commission on Higher Education (CHED) to operate colleges and started to roll out four-year college programs starting with the Bachelor's Degree in Computer Science. The Company then slowly diversified its programs beyond Information & Communications Technology by introducing new programs in the fields of Business and Management, Engineering, Healthcare, Hospitality Management, Tourism Management, Arts and Sciences, and Education.

The Company embarked on strengthening its geographical presence nationwide as it aggressively constructed improved facilities. More STI schools are now veering away from rented commercial complexes and have moved to bigger and better school-owned stand-alone campuses that are strategically located. All of the improved campuses house state-of-the-art facilities, spacious classrooms, top-of-the-line simulation laboratories, and recreational facilities conducive for high academic delivery. To date, there are fifteen (15) wholly-owned schools with renovated or newly built facilities. In addition, incentives were offered to franchisees to upgrade their facilities of which twelve (12) had responded so far.

The Company has centralized its efforts into academic quality and started investing in trainings on awareness, documentation, and internal quality audit to achieve the ISO 9001:2008 certification on February 5, 2015 and the ISO 9001:2015 certification on February 5, 2018. Awarded by the ISO certifying body TÜV Rheinland Philippines Inc., both certifications focus on the Company's Learning Delivery System that covers courseware development and faculty training and certification for the tertiary level.

When the Department of Education (DepEd) announced the K to 12 program in 2013, the Company capitalized on its nationwide presence and ample facilities to implement the first-to-market approach of the Senior High School (SHS) program. In 2014, DepEd granted permit to offer early implementation of SHS to 92 private schools nationwide, 67 out of 92 schools or 73% are STI schools which made the Company the largest pioneer in Senior High School ("SHS").

Through the consistent efforts of management, the STI brand has been recognized as a provider of high-quality real life education.

STI ESG Network

As a testament to its growing presence nationwide, the STI network has seventy-six (76) schools spread across Luzon, Visayas, and Mindanao and is comprised of sixty-four (64) STI-Branded Colleges and twelve (12) STI-Branded Education Centers. Likewise, of these seventy-six (76) schools, thirty-three (33) college campuses and five (5) education centers are wholly-owned while thirty-three (33) college campuses and seven (7) education centers are operated by franchisees.

Area	Wholly-Owned	Franchised
Metro Manila (16)	Caloocan	Alabang
	Cubao	Marikina
	Shaw	Muñoz-Edsa
	Fairview	Parañaque
	Global	Recto
	Las Piñas	Pasay
	Makati	
	Novaliches	
	Taft	
	Quezon Ave	
Northern Luzon (18)	Baguio	Angeles
	Dagupan	Balagtas
	Laoag	Baliuag
	Meycauayan	La Union
	Tuguegarao	Malolos
	Sta. Maria	San Fernando
		San Jose
		Tarlac
		Vigan
		Alaminos
		Cauayan
		Ilagan
Southern Luzon (19)	Calamba	Bacoor
	Legazpi	Balayan
	Lucena	Dasmariñas
	Naga	Rosario
	Ortigas-Cainta	Sta. Rosa
	San Pablo	Tagaytay
	Southwoods	Tanay
	Sta. Cruz	
	Batangas	
	Puerto Princesa	
	Lipa	
	Tanauan	
Visayas (8)	Cebu	Ormoc
	Iloilo	Bohol
	Kalibo	Dumaguete
		Calbayog
		Maasin

Mindanao (15)	Cagayan De Oro Davao Iligan Malaybalay Valencia Tagum Pagadian	Cotabato Dipolog Gen. Santos Koronadal Surigao Tacurong Zamboanga San Francisco

Corporate Structure

The Company has a total Authorized Capital Stock (ACS) of Five Billion Pesos (₱5,000,000,000.00) divided into five billion (5,000,000,000) shares with a par value of One Peso (₱1.00) each. Out of the ACS, three billion eighty-seven million eight hundred twenty-nine thousand four hundred forty-three (3,087,829,443) shares have been subscribed and paid-up. Of the total subscribed and paid-up capital stock, seven million eight hundred forty-one thousand one hundred eighteen (7,841,118) shares are foreign-owned.

In September 2012, the Company became a subsidiary of the STI Education Systems Holdings, Inc. (STI Holdings) through a share-for-share swap agreement with the shareholders of the Company. As at August 31, 2018 and 2017, STI Holdings owns 98.47% and 98.66% of the Company, respectively.

Capital Market Infrastructure

The Company's ₱3.0 billion bond issue has been assigned by Philippine Rating Services Corporation (PhilRatings) an Issue Credit Rating of **PRS Aa**, in its report to the Securities and Exchange Commission (SEC) dated January 23, 2017, which meant that the Company's proposed debt issue, as of date of report, is of "high quality and is subject to very low credit risk."

According to PhilRatings, "Obligations rated **PRS Aa** are of high quality and are subject to very low credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. PRS Aa is the second highest rating category on PhilRatings' existing credit rating scale."

On March 23, 2017, the Company listed its ₱3 Billion Series 7-year Bonds due 2024 and Series 10-year Bonds due 2027 on the Philippine Dealing and Exchange Corp. (PDEx) secondary market. 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 ₱3.0 billion bond issue is the first tranche of its ₱5.0 billion fixed rate bonds program under its 3-year shelf registration with the SEC. The proceeds of the first tranche of the debt securities program have been earmarked for the expansion of the Company's campuses, refinancing of short-term loans incurred for the acquisition of land, and other general corporate requirements (see Item 2 Properties/Campus Expansion).

Business Development

The Company is the largest subsidiary of STI Education Systems Holdings, Inc. ("STI Holdings"), a publicly-listed company. The Company is engaged in establishing, maintaining, and operating educational institutions. It derives its main revenues from the tuition and other school fees of its owned schools, and from the royalties, and other fees for various educational services provided to its franchised schools.

At present, the Company offers secondary (senior high school) and tertiary (college and TESDA) programs, as well as post-graduate and associate programs. The colleges offer associate/baccalaureate degrees and technical/vocational programs in the fields of Information and Communications Technology (ICT), Business and Management, Hospitality Management, Tourism Management, Arts and Sciences, Engineering, and Education. These programs are accredited by the Commission on Higher Education (CHED) and/or the Technical Education and Skills Development Authority (TESDA), as may be applicable. Also accredited by TESDA, the education centers of the Company offer technical/vocational courses for computer programming, computer technology, multimedia arts, and office administration, among others.

Enrollment

The Company had an average total enrollment of 74,524 for the first and second semesters of SY 2015–16. The average total enrollment continued to go up to 92,707 in SY 2016–17 or a 24.4% increase from the previous year's average total enrollment. This steady increase continued in SY 2017–18 as the number of enrollees went up by 1.52% and reached an average total enrollment of 94,117.

In SY2015–16, the total new college enrollees were 34,149, an 8.13% growth from the previous school year's count. With the full implementation of the K-12 program in SY 2016-17, a total of 37,571 Grade 10 students officially enrolled for Grade 11, while new college enrollees reached 8,586. The senior high school enrollees continued to increase in SY 2017-18 with 54,193, while college enrollees were at 5,265.

The average percentage of students retained in a semester in SY 2015-16 was at 96%. It increased to 97% in SY 2016-17 and remained the same in SY 2017-18. Meanwhile, the average percentage of students who migrated to the succeeding semester was at 92% in SY2015–16, and 94% in SY 2016-2017. In SY2017–18, the migration rate improved to 95%.

In the previous years, significant increases in the enrollment are more evident in the degree programs of the Company compared to its technical/vocational programs. Enrollment in the senior high school tracks and specializations, on the other hand, continued to increase following its nationwide implementation in SY 2016-17. The shares of associate and baccalaureate degree programs and technical/vocational programs in SY 2015-16 were at 85% and 12%, respectively, while the senior high school tracks and specializations was at 3%. Enrollment mix in SY 2016–17 was 56%, 5%, and 39% for associate and baccalaureate degree programs, technical/vocational programs, and senior high school tracks and specializations, respectively. Meanwhile, the enrollment mix posted in SY 2017-18 was 42% for associate and baccalaureate degree programs, 2% for technical/vocational programs, and 56% for senior high school tracks and specializations. The decline in the associate and baccalaureate degree programs and technical/vocational programs was mitigated by the surge in the population of senior high school.

Tuition Fee Increases

There was an average of 5% increase in the tuition fees and other school fees from SY 2015–16 to SY 2017-18.

New Programs/Majors and Revised Curricula

The Company regularly conducts market studies to determine what programs, both degree and technical vocational, are needed by the industry and the market. Moreover, revisions to existing programs are implemented to meet changes in the identified needs, as well as changes in government regulatory requirements.

Existing course offerings are likewise reviewed as needed. The streamlining of program curricula in response to the needs of the market and developments in the industry drives the rationalization of STI course offerings. There were no revised programs in SY 2015–16 and SY 2016–17. Meanwhile, for SY 2017-18, 13 programs were revised and five new programs were developed.

STI ESG's Standardized Courseware

The Company develops courseware to ensure the standard delivery of courses across all campuses in the STI network. These are sets of teaching materials used by the instructors which include the course syllabus with the course outline that sets the general objectives of the course, presentation slides, the class hand-outs and other materials for use throughout the duration of the course, with accompanying instructors' guides. The instructors' guides identify the specific objectives of each class session, the appropriate teaching methodologies to be used, and how the provided materials are to be used to achieve the set objectives. The courseware suited for delivery using LCD technology and other multimedia devices.

As of this writing, the Company has developed courseware for over 500 courses and new courseware materials are being developed as new courses and programs are offered. Moreover, existing courseware are regularly revised and updated to keep up with recent developments in the target industries.

In SY2017–18, 42 courseware materials were developed and revised for Arts and Sciences, IT and Engineering, Business and Management, Tourism Management, and Hospitality Management, while 67 courseware materials were developed and updated for Senior High School. These courseware materials were embedded with activities leading toward attainment of the STI 4Cs— Character, being Change-adept, being a good Communicator, and being a Critical Thinker — the required skills and attitude of top industries worldwide. The materials were also Outcome-Based Education (OBE)-aligned with assessment tools, rubric, and performance tasks. In addition, 103 courseware materials for SHS were uploaded on the eLearning Management System or eLMS in time for the Summer Remedial Program 2018. These are self-paced study versions of the regular SHS subjects with minimal teacher intervention.

Standardized Periodical Examination

The Standardized Periodical Examination for the preliminary, midterms, pre-finals, and finals period, which used to be outsourced to a third party, is being developed by the Company's Academic Research Group or ARG starting in SY 2015–16. In its first year, the group developed 550 exams in the first semester and 523 exams in the second semester. For SY 2016–17, the group prepared 646 exams in the first semester and 538 exams in the second semester. The number of exams developed by ARG continued to increase in SY 2017-2018 with 810 for the first semester and 749 for the second semester.

<u>Milestones</u>

The Company remains steadfast in its commitment to strive for academic excellence that is directed towards the development of the institution and the improvement of the quality of its students and graduates.

(a) *International Organization for Standardization 9001:2008 (ISO 9001:2008)*

In SY 2014–15, the Company received its ISO 9001:2008 certification for its Learning Delivery System. This system covers development of tertiary level courseware and curriculum, faculty training, and faculty certification. The network has worked to fulfill the requirements that included extensive research; training sessions on proper documentation and internal quality audit; documentation of policies, processes, and work instructions; and orientations given to the Company employees.

The ISO 9001:2008 is an international certification that indicates an institution's effectiveness and consistency in managing and carrying out its system regulation. The ISO certification has likewise verified the institution's world-class performance in its education delivery.

(b) *International Organization for Standardization 9001:2015 (ISO 9001:2015)*

The Company is one of the pioneer institutions who was awarded with the ISO 9001:2015 certification. It is a certification upgrade for its Learning Delivery System with emphasis on risk-based thinking, improved applicability for services, and increased leadership requirements. The transition plan started in 2016 wherein a series of activities was conducted to ensure successful fulfillment of requirements such as intensive gap analysis, brainstorming sessions, process reviews, process mapping, and risk identification, assessment, and treatment planning, among others.

The Learning Delivery System is communicated to its stakeholders through the organization's official website, periodic ISO orientation to new employees, and an ISO awareness campaign.

(c) *iLearn and Share*

In SY2015–16, the Company introduced iLearn and Share (iLS) activities to its senior high school students. These are performance tasks wherein students are assessed based on their products and/or performance, which serve as proof of how well they understood and learned the task. Students can then apply their learnings to real life situations.

During the SY 2017-18, Grade 12 Science, Technology, Engineering & Mathematics (STEM) and Humanities & Social Sciences (HUMSS) students, among other academic/technical-vocational strands, from across STI's network exhibited innovative products or services and inventions during the first Senior High School-I Learn & Share Exposition (SHS-iLS Expo). Representatives from the academe and industry sectors, STI alumni, business owners, government agencies, parents, and fellow students visited the various SHS-iLS Expos nationwide, of which many acted as "potential investors," voting for the best student exhibits, startup enterprises, products, and services. The SHS-iLS Expo's culminating activity is a simulation exercise of the real world that allows the Grade 12 students to become not only employees but also employers/entrepreneurs using their initiative and talents to design, produce, and even market their own creations while gaining lifelong learning and valuable experiences in the process.

Some of the standout projects are: the eco-friendly and lo-fi device Bambuzee, in which the device together with lens of a magnifying glass is attached to the mobile phone thus it becomes both a speaker and projector; another is the Coin Box that is made of cardboard and functions as a coin box receptacle; a Smart Waste Bin with notification capability through SMS technology wherein the school utility personnel are notified each time the garbage bin has reached maximum level; an Extension Outlet with Automated Timing Capability to prevent overcharging and overusing of electronic devices that may lead to fire incidents; and lastly, a safety and waterproof jacket for the motorcycle riders that is equipped with a detachable camera to record incidents or crimes and LED lights to make the riders more visible at night. Incidentally, the safety jacket also caught the attention of a Department of Trade and Industry

(DTI) representative, who was present during the Expo to give inspirational talk to the students. The DTI representative encouraged the students to mass produce the jacket and DTI will provide assistance on how to market the product.

(d) *Leaders Convention*

Held in Hong Kong from July 12-14, 2017, the 30th Annual STI Leaders' Convention highlighted the Company's enrollment and stock market performance following the bond offering, the challenges to be encountered in SY 2018-19 when the tertiary freshmen students re-enter the market, and the introduction of the Company's new battle cry which is STI Transform!

Rhodora Angela Fernandez-Ferrer, Executive Director of Private Education Assistance Committee (PEAC) National Secretariat, was once again invited to discuss the importance of sustaining the government subsidy to fulfill the government's mandate of providing and making basic education accessible to all. She also congratulated STI for obtaining the highest percentage of senior high school students in the market. STI campuses who have performed exceptionally well in academics and operations were likewise recognized through the School Achievement Awards.

The convention was attended by the Company Executives led by the Chairman of the Board Secretary Jesli A. Lapus and the Vice Chairman & CEO, Atty. Monico V. Jacob, School Leaders, School Operations Managers, and Senior School Administrators.

(e) *People Soft Campus Solutions (PSCS)*

Oracle's People Soft Campus Solutions is a student administration system that facilitates student admission, enrollment, assessment, and grading, among others. Paired with Report Services, a web-based application hosting the reportorial requirements of the Company, the PSCS was launched in SY2015–16 to STI's network of campuses. It catered to both the college and senior high school students of the Company. Available in real time, the STI schools are able to access numerous reports that they can also modify according to their own requirements. The reports are categorized into four (4)—Academics, Financials, Enrollment, and Government-mandated reports—using the SQL Server Reporting Services 2008 R2.

(f) *STI eLearning Management System*

In SY 2015–16, the Company launched the STI eLearning Management System (eLMS), a software application running on Amazon cloud, to better manage the delivery of educational courses and/or training programs to its students. The curricular course materials aim to augment classroom learning while the extra-curricular course materials are prepared to further nurture student development. The STI eLMS features a built-in support for collaboration through various tools such as wikis, forums, and discussion groups; an internal messaging system with bidirectional support for emails and text messaging; and a built-in portfolio system which students can use to collect works to support learning and/or achievements. With STI eLMS, STI students can now complete their lessons at their own pace, wherever they are.

(g) *Partnership with DepEd and other Educational Institutions*

As the largest pioneer school in Senior High School, the Company was invited by DepEd to share to the NCR Regional Directors, Division Superintendents, and Division Assistant Superintendents its wealth of knowledge and experience in implementing the Senior High School program in its 76 campuses nationwide: DepEd NCR Conference Room in January 2015, TYTANA College in July 2015, Polytechnic

University of the Philippines San Juan campus in October 2015, and Manila Ocean Park in Pasay City and Roosevelt College in Marikina, both in November 2015. In addition, during the K to 12 Convergence at Lucent Hotel in June 2015, STI was given a plaque of recognition for being one of DepEd's partners in the latter's K-12 anniversary celebration.

Student Development

The Company believes that learning should not be confined within the four corners of the classroom. With the effort to ensure that its graduates will be equipped with a well-rounded education that will help them reach their highest potential, the Company allows students to explore, enjoy, and learn through a wide array of academic, co-curricular, and extra-curricular activities.

(a) *Halalan 2016*

In partnership with ABS-CBN's advocacy arm Bayan Mo, iPatrol Mo (BMPM), STI students went through preparations such as workshops on citizen journalism and Voter's Ed prior to election. And on Election Day, the students became budding journalists as they received and verified reports about the ongoing elections via social media platforms such as Facebook and Twitter. The partnership between STI and broadcasting giant ABS-CBN has now spanned for almost two decades and has molded the students to be more aware and involved in shaping the country's future.

(b) *The STI National Youth Convention (STI NYC)*

Since 1995, the STI NYC has been an annual venue where students are provided with opportunities to learn the latest trends from industry leaders and motivate them to apply the values and information they have gained with the objective of contributing to their school and community. The theme and topics vary every school year but always focus on alternative and innovative learning to discover the latest trends in technology, acquiring the most in-demand and job-ready skills, and enhancing specific values anchored on attributes that a model citizen should exhibit.

In SY 2015–16, the there were 39,467 attendees with the convention held in nine different areas. Meanwhile, in SY 2016–17, there were 36,587 students who attended the STI NYC that was held in 12 venues: San Fernando in Pampanga, Legazpi, Baguio, Cebu, Kalibo, Bacolod, Sta. Rosa in Laguna, Pasay, North EDSA, Cagayan de Oro, Davao, and General Santos. However, due to the moratorium issued by CHED and DepEd on educational trips, the last three legs of the convention (namely, Cagayan de Oro, Davao, and General Santos) were cancelled. The moratorium was lifted during SY 2017-2018. Thus, the institution plans to bring back and continue the annual convention in the coming school years.

(c) *Tagisan ng Talino (TNT)*

The TNT is an annual academic competition that tests the competencies of students on impromptu speech, essay writing, mobile app development, cooking, cake and table design, flairtending, tour guiding, and general knowledge. Over the years, specific competitions comprising the TNT have been enhanced to ensure that the competitions' objectives are met. SY 2017-2018 also witnessed the launch of three new competitions.

For SY 2015–16, 933 students participated in eight various competitions and it increased to 958 in SY 2016–17. In SY 2017–18, 1,022 students participated in all 11 competitions.

(d) *Tagisan ng Sining (TNS)*

The TNS is an annual competition that aims to challenge the students' artistry, creativity, and originality in the field of photography and music video making. In SY 2015-16, 211 students from STI campuses nationwide participated in the TNS. The number of participants significantly increased to 222 students in SY 2016-17 and even surged higher to 922 in SY 2017-18.

(e) *Talent Search*

The STI Talent Search uncovers the innate talent of STI students nationwide — from singers and musicians to dancers and up-and-coming models. Every year, all STI campuses nationwide send a total of over 100 contestants to compete in nine (9) regional sites before advancing to the National Finals in events like the STI Singing Idol competition, Battle of the Bands, Hataw Sayaw Dance competition, and the search for Mr. and Ms. STI.

In SY 2015–16, the event had a delegation of 21,177 students to celebrate the founding anniversary of STI while in SY2016–17, the attendees slightly increased to 23,308 students. InSY2017–18, there were 16,116 who witnessed the commemoration of STI's 34^{th} Anniversary.

Since SY 2016-2017, the talent search has been shown live on the STI Official Facebook Fan Page.

(f) *National Basketball Tournament (NBT)*

To promote sportsmanship, camaraderie, and team spirit amongst students, STI conceptualized the National Basketball Tournament, a sports program for STI basketball teams nationwide. In SY 2015-2016, STI West Negros University grabbed the championship title besting 51 teams. The following year, 51 schools once again joined the tournament with STI College Santa Rosa declared as champions. In SY 2017-2018, STI West Negros University came out on top and ruled over the different teams from 53 campuses.

(g) *Women's Volleyball Challenge (WVC)*

This is a sports program intended for the female students of STI. Aside from developing the physical attributes of the students, the WVC also aims to instill in them the value of discipline and further strengthen their character. In SY 2016–17, 24 select schools from Metro Manila joined the 1st WVC with STI College Sta. Maria besting all the other teams and recognized as the tournament's champions.

(h) *National Volleyball League (NVL)*

Following the success of the Women's Volleyball Challenge, the sports program was redeveloped and launched to include all STI campuses nationwide. With the same objectives, the first National Volleyball League was staged in SY 2017-2018 with 44 campuses joining the national tournament and STI West Negros University claiming the first NVL championship title.

(i) *Leaders Enhancement of Attributes Program (LEAP)*

LEAP is a leadership program for the senior high schools students. It aims to empower the student leaders in embracing and establishing a dynamic and concrete culture of excellence in academics, extra-curricular activities, and also career planning through various sessions, and activities. In each session, the participants are tasked to do action plans in which the new information and learnings they gained must be echoed and transferred to their classmates in their homeroom class through the Student Engagement and Educational Development (SEED).

The program was piloted at STI College Ortigas-Cainta with 72 student leaders as participants. The program participants received various internal and external awards such as academic honors, leadership awards, and recognitions during their graduation. Due to the positive results of the pilot program, LEAP will now be implemented in other STI campuses in SY 2018-19.

(j) *Student Leaders' Congress (SLC)*

The SLC is a leadership program that nurtures outstanding student leaders from STI campuses nationwide. It aims to hone the leadership skills and potential of students to become catalysts for positive change in their communities. Held at the STI Academic Center Ortigas-Cainta in SY 2015–16, 40 delegates from the STI network of schools participated. In SY 2016–17, the SLC was once again held at STI Academic Center Ortigas-Cainta and the participants slightly increased to 47.

(k) *Post-Graduation Report*

The STI Alumni Relations, Placement, and Linkages (STI APL) department conducts a survey of the graduating class to track employment rate 12 months after graduation. This is facilitated through each STI School's Alumni and Placement Office. For SY 2016–17, 54% of the surveyed graduates were employed within six months after graduation and 61% were employed after one year.

(l) *Interactive Career Assistance and Recruitment System (ICARES)*

Still as part of the job placement assistance of STI, the STI APL institutionalizes partnerships locally and internationally to help increase the employability of graduates through the Interactive Career Assistance and Recruitment System.

The ICARES is an exclusive job search system for STI graduates that facilitates the easy dissemination of STI's partners for their placement opportunities and provision of candidates (STI graduates) to fill in job openings. Partners for the job placement of STI graduates are enabled to post their job openings and request for lists of graduates through www.i-cares.com or the ICARES at no cost. Registration with ICARES is required for all graduating STI students In SY 2015-2016, 136 partners utilized the ICARES where 91 of its partners were able to post job vacancies on the ICARES website. These numbers increased in SY 2016–17 to 163 partners with 131 partners posting job opportunities on the website. In SY 2017–18, there were 297 unique job posting with 131 partner companies utilizing the ICARES website.

On-the-ground school activities such as job fairs are conducted for recruitment purposes and to provide employment preparation seminars to graduating STI students Thirty-four (34) institutional partners participated in the Company job fairs in SY 2015–16, 38 in SY 2016-2017, and 42 in SY 2017–18. Schools nationwide also have local partnerships within their community to provide graduating students more avenues.

(m) *The STI Distinguished Alumni Awards*

SY 2014-15 marks the launch of the STI Distinguished Alumni Awards (STIDAA). STI campuses nationwide nominated alumni who have received distinction and achievement in their chosen field. The winners — Jose Agustinho Salvador, Janice Lagundi, Felix Emradura, Michael Cunanan, and Edward Czar Aquino —

were awarded on April 30, 2015 during the Achievers' Night of the 2015 STI Leaders' Convention held at the Boracay Regency Hotel Resort and Spa.

On its second year, another batch of exemplary alumni were recognized on April 28, 2016 at the Hennan Resort Alona Beach, Bohol. These are Raquel Gamboa, Benjamin Carbonell, and Julius Serrano.

On its third year, the STIDAA awarded a new group of alumni who stood out from the other nominees. Elmar Dalope, Melmar Quejada, Gretchen Abaniel, Reggie Camoñas, Janine Pring, Matio Morales, Mark Ian Ignacio, and Lambert Armada were honored on April 20, 2017 at the Okada Manila.

In SY 2017-18, STIDAA recognized the largest group of alumni who stood out from 108 nominees. The 2018 STIDAA National Awardees — Richard B. Bucag, Arielle Jazmine A. Llanes, Grant C. Matabaran, Enrico M. Delima, Ian Wendell A. Sison, Ma. Yhelen Patag-Sur, Rhosemer Porquillo-Bundac, Mary Grace Jedaver P. Opingo, Wilbert B. Aquino, Anthony L. Ang, Ethelwin B. Manalo, and Noriel P. Ramos — were recognized on May 4, 2018 at the Okada Manila

Institutional Linkages

The Company establishes, maintains, and promotes partnerships with the legitimate members of the industry to increase our students and graduates' employability under the institutional linkages. Through these linkages, opportunities such as on-the-job training (OJT), employment, courseware enhancements, and faculty development are made available to the Company, its students, and partners. In addition, activities such as mock interviews, employment preparation seminars, job fairs, scholarships, postings of employment opportunities, and faculty trainings are also made possible.

(a) *Junior Achievement of the Philippines, Inc. (JA Philippines)*

The Company partnered with JA Philippines, a member of the international organization Junior Achievement Worldwide, a non-profit group dedicated to educate young business minds about workforce readiness, entrepreneurship, and provide financial literacy through hands-on programs.

This collaboration will bring JA Philippines' Business Skills Pass (BSP) program to select STI campuses for the Accountancy, Business, and Management (ABM) students. It is divided into two programs: Be Entrepreneurial for the Grade 11 students and the JA Company of the Year Program for the Grade 12 students. For SY 2017-2018, the Be Entrepreneurial program was implemented to select STI campuses. The culminating activity for the Be Entrepreneurial program is the business plan development and presentation. In the said activity, STI College Novaliches placed 2nd runner-up in the Business Plan Presentation Competition.

(b) *British Council*

Outcome-Based Education (OBE) is essentially designed to focus on what the students should demonstrate and possesses knowledge, skills, and values after the completion of each course. In OBE, students should be able to shape themselves by starting with the desired end in mind and working backwards to innovate the learning activities and methods of assessment.

In SY 2015-2016, the British Council and the Company collaborated towards innovative learning and held a training workshop for the Company's Content Developers for both tertiary and Senior High School to equip them with skills in improving the Company's OBE and their methods of assessing the students' OBE performance. The participants were taught how to develop assessment tools to help them prepare OBE aligned learning content based on international best practices and keep track with the performance of their students. Meanwhile, in SY 2017-2018, another training was conducted to faculty members to assess their proficiency in speaking, writing, listening, and reading in the English language.

(c) *National Institute of Accounting Technicians (NIAT)*

Through this partnership, the Company has earned the recognition of the business and accounting courses under the Bachelor of Science in Accounting Technology (BSAT) program, qualifying STI students for the three-part CAT® licensure examinations without additional training that is required for BSAT graduates of non-recognized schools.

The recognition the Company received from NIAT not only acknowledges the Company 's design of the BSAT program, but also helps propel the success of the accounting technology career of students undergoing the program. Passing each level of the exams confers an honorific that is recognized by the Institute of Certified Bookkeepers of UK, Institute of Certified Management Accountants (ICMA) in Australia, and Association of Accounting Technicians of UK, giving the passers a promising future abroad.

(d) *Department of Labor and Employment (DOLE)*

DOLE exempts STI schools from applying for a job fair permit provided that it will be held within the school premises. In addition DOLE will provide a speaker to join our schools' job fair events to educate our graduates of their rights and responsibilities as prospective employees to become productive members of society. In return, the Company extends its assistance by promoting and cascading DOLE's mandate of ensuring the jobseeker's protection in any employment facilitation related activities to its schools nationwide.

(e) *InterContinental Hotels Group (IHG)*

The alliance between the Company and IHG will provide internship programs to qualified students in any 4-year program from any campus nationwide. This program includes the following: (1) an orientation to prepare interns; (2) a formal training in a real life workplace; and (3) other activities conducted by the facilitators to help gauge the students' practical aptitude. Their performances will be monitored by industry experts through monthly and term-end evaluations. Upon the completion of the program, interns will be granted certificates to recognize their participation and accomplishment. With the promise of providing students with a memorable and unparalleled internship experience, interns can look forward to gainful learning at Holiday Inn and Crowne Plaza.

(f) *The Asia Foundation*

The Company, led by Atty. Monico V. Jacob, Chief Executive Officer, signed a Memorandum of Agreement (MOA) with Asia Foundation led by its Country Representative Dr. Steven Rood on August 19, 2015. The partnership is another milestone in the Company's advocacy to empower the future through educational opportunities for public school teachers, students, and disadvantaged youths. In this collaboration, the Company was allocated with 66 US-produced reference books for the school's library. In return, Asia Foundation will match this with another set of reference books for donation to one public high school. STI schools likewise each donated $132 to Asia Foundation to ensure the continuance of this program. Through this partnership, the Company was able to donate books to different schools in Metro Manila and South Luzon in SY 2015–16, and to schools in Northern Luzon and Mindanao in SY 2016–17.

(g) *Tiger Resort, Leisure & Entertainment, Inc.*

Tiger Resort is the newest and largest gaming and entertainment destination in Asia. It is also the company behind Okada Manila, a casino resort and hotel complex located in the fast-rising Entertainment City. STI's partnership with Tiger Resort will open career opportunities for STI graduates as they get access to the resort's job openings while the students will be able to participate in its internship program.

<u>Scholarships</u>

The Company partnered with various companies to aid in scholarship programs and increase employment opportunities for STI's graduates.

(a) *Gift of Knowledge*

To provide educational opportunities to deserving individuals who have no means of pursuing postsecondary education, the Company, through the STI Foundation for Leadership in Information Technology and Education, Inc. (STI Foundation), strengthens its partnership with various TV programs from different TV networks. There were 22 scholars registered through the TV programs in SY 2015–16, 53 scholars in SY 2016–17, and 65 scholars in SY 2017-2018.

(b) *Sponsored Scholarship Programs*

The Company and STI Foundation continually strengthen partnerships with corporations and government organizations to be able to provide scholarship programs to support the tertiary education of deserving individuals.

The STI Foundation and its partners were able to support 169 scholars nationwide in SY 2015-16, and 187 scholars in SY 2016-17. The number of scholars continued to increase reaching 400 in SY 2017-18.

(c) *Community Extension and Outreach Programs*

Given the national reach of the Company, it has taken it upon itself to hold socially responsible activities that are aimed to better the communities that individual campuses belong to, and at the same time, develop a positive environment that will be beneficial to all stakeholders.

(d) *The STI Foundation*

The STI Foundation aims to contribute to the improvement of the country's educational system through programs and projects that address the digital divide and promote excellence in education.

(e) *Alternative Learning System (ALS)*

STI Foundation responded to the call of DepEd for the private sector's participation and support in their ALS program, a non-formal education to help learners who wish to complete their basic education. The ALS program also aims to address the problem on the growing number of students who drop out of school every year.

The Company then reached out to out-of-school youth aged 15 and above who still have not finished their secondary education and cannot afford to go through formal schooling. The ALS sessions are conducted every Saturday and employ blended and collaborative modes of instruction (face-to-face instructions), e-learning materials (e-Skwela), and performance-based assessment to prepare and equip the ALS learners with the knowledge required to pass the Accreditation and Equivalency (A&E) Test given by DepEd. In SY 2015–16, out of the 29 ALS Learners who took the A&E test, 12 passed the test and received certificates equivalent to high school diploma. Meanwhile, for SY 2016-2017, 94 ALS learners took the A&E test last October 2017 and 55 of them passed.

(f) *The STI Mobile School*

The STI Mobile School is a fleet of tourist-sized buses that have been converted into roving computer laboratories. Each bus is equipped with a state-of-the-art computer laboratory with internet access, multimedia computers, LCD monitors, sound system, and other top-of-the-line computer equipment.

Since SY 2011–12 until SY 2017-18, the STI Mobile School has travelled to 1,192 sites and trained 168,015 participants nationwide. Today, a total of six mobile school buses travel across Luzon, Visayas, and Mindanao.

(g) *Adopt-a-School Program*

The Company received a Certificate of Appreciation from DepEd for being one of its active partners in the implementation of the Adopt-a-School program. With this alliance, STI Mobile School or the computer laboratory on wheels was utilized to provide alternative learning facilities to DepEd's high schools in far-flung communities to teach basic skills on computer concepts, GNU Image Manipulation Program (GIMP), multimedia animation, audio editing, and movie presentation through ICT-enhanced training sessions.

STI Foundation extended assistance to various special community development projects, outreach programs, and humanitarian services in SY 2015–16 to help tackle the needs of the disadvantaged sectors and other organizations.

In support of the DepEd's back-to-school efforts, the Company, through its advocacy arm STI Foundation, donated over 1,400 sets of school uniforms to public schools in Mt. Pulag, Bukidnon, and Maguindanao. In addition, assorted books, uniforms, and merchandise items were donated to Department of Social Welfare and Development (DSWD) Region 4-A, Friendship Home Fr. Luis Amigo in Manila, Bantay Batas DASALKA in Antipolo, and Mandaluyong National High School. Moreover, the turnover of donations coincided with DepEd's Brigada Eskwela at Carlos L. Albert High School in Quezon City on May 20, 2015 where employees volunteered along with other private partners including Meralco Foundation, Maynilad, and Samsung Foundation. STI Foundation continued to support the Brigada Eskwela progam as volunteers from the Company went to Taytay National High School in Taytay, Rizal on June 3 and 10, 2017 to assist in the clean-up and installation of computers donated by the DepEd Central Office in the computer laboratory.

(h) *Community and Civic Engagements*

STI Foundation collaborated with Caritas Manila's Segunda Mana Project in the latter's goal of generating in-kind donations such as clothes, toys, shoes, and others to be given away to the recipients of the Caritas Manila. Meanwhile, STI Foundation worked with the Ortigas Library Foundation and turned over English and Science books to select provincial public schools and libraries. The Foundation also donated uniforms to the beneficiaries of the Religious Missionaries of the Divine Savior, the victims of the Mayon Volcano eruption through the DepEd Central Office, and the beneficiaries of the National Youth Commission.

Through the Company's partnership with the National Grid Corporation of the Philippines (NGCP), a privately-owned corporation in charge of operating, maintaining, and developing the country's state-owned power grid, STI Foundation facilitated the installation and regular maintenance of computer units donated by NGCP to 34 public elementary and high schools nationwide

(i) *One Million Lapis Campaign*

STI Foundation worked with the DepEd, DSWD, Department of Interior and Local Government (DILG), and other agencies in support of the One Million Lapis campaign organized by the Council for Welfare of Children (CWC). This advocacy aims to collect one million pencils to be given to underprivileged students in elementary schools nationwide. STI Foundation along with the STI network of schools turned over more than 35,000 pencils to DepEd and CWC on November 20, 2016.

Business of Issuer

The Company and its subsidiaries, as educational institutions, derive its main revenues from tuition and other school fees from its owned schools and royalties and other fees for various educational services provided to franchised schools.

The Company offers secondary (senior high school) and tertiary (college and TESDA) programs, as well as post-graduate and associate programs. The colleges of the Company offer associate/baccalaureate degree and technical/vocational programs in the fields of ICT, Business and Management, Hospitality Management, Tourism Management, Arts and Sciences, Engineering, and Education. These programs are accredited by CHED and/or TESDA, as may be applicable. The education centers of the Company offer technical/vocational courses for computer programming, computer technology, multimedia arts, and office administration, among others. The programs in the education centers are accredited by TESDA.

STI ESG School Programs

BS in Information Systems
BS in Computer Science
BS in Information Technology
BS in Information Technology major in Network Engineering*
BS in Information Technology major in Digital Arts*
BS in Accountancy
BS in Management Accounting
BS in Accounting Information System
BS in Accounting Technology*
BS in Business Administration major in Operations Management
BS in Business Management major in Operations*
BS in Office Administration*
BS in Office Administration with specialization in Customer Relations*
BS in Hospitality Management
BS in Culinary Management*
BS in Hotel and Restaurant Management*
BS in Tourism Management
BS in Travel Management*
BS in Computer Engineering
BA in Communication
Bachelor of Multimedia Arts

Bachelor of Secondary Education major in Mathematics
Bachelor of Secondary Education major in Computer Education
Master in Information Technology
3-year Hotel and Restaurant Administration*
2-year Information Technology Program
2-year Hospitality and Restaurant Services
2-year Tourism and Events Management
2-year Computer and Consumer Electronics Program*
2-year Multimedia Arts Program*
Senior High School

**These tertiary programs are offered only to 2nd year students and above.*

In 2014, DepEd granted permit to offer Senior High School to 67 STI schools. In June 2014, 32 the Company's schools were able to pilot Senior High School with a total of 1,195 students. For SY 2015-2016, four more schools started their Senior High School program and the total number of students increased to 1,577. In SY 2016-2017, all 76 schools in the STI network were granted the DepEd permit to offer Senior High School. For SY 2017-2018, SHS students of the Group totaled to 54,193.

Senior High School Program

1. Academic Track
Accountancy, Business, and Management
Humanities and Social Sciences
Science, Technology, Engineering, and Mathematics
General Academic Strand

2. Technical-Vocational-Livelihood Track
ICT Strand with specializations in:
o Computer Programming
o Animation
o Illustration
o Broadband Installation
o Computer Hardware Servicing

Home Economics Strand with specializations in:
o Commercial Cooking
o Cookery
o Bartending
o Food and Beverage Services
o Tour Guiding Services
o Travel Services
o Tourism Promotions Services
o Front Office Services
o Housekeeping

Industrial Arts Strand with specialization in:
o Consumer Electronics Servicing

Professional Accreditations

International Organization for Standardization 9001:2008 (ISO 9001:2008)

In November 2014, the Company was recommended by the ISO certifying body TÜV Rheinland Philippines Inc. for ISO 9001:2008 certification. On February 5, 2015, the Company received the official ISO9001:2008 Certification for its Learning Delivery System. The ISO 9001:2008 certification is a milestone for the institution's thrust towards academic excellence by reaching global standards in its learning delivery system.

International Organization for Standardization 9001:2015 (ISO 9001:2015)

The Company was awarded with the ISO 9001:2015 certification on February 5, 2018 for its Learning Delivery System. It is another milestone for the Company as it became one of the pioneer institutions to be recognized as ISO 9001:2015 certified.

Employees

As of August 31, 2018, the Company had 2,089 employees, 1,395 of whom were faculty members, 460 were non-teaching personnel, and 234 employees were from the main office. The Company provides employees with development programs that assist them in effectively carrying out their jobs and prepare them for career advancement.

	Function	Number of Employees
Main Office	Senior Management Managers Staff	13 67 154
	Sub-Total	**234**
STI Schools	Teaching personnel (wholly-owned schools) Non-teaching personnel (wholly—owned schools)	1,395 460
	Sub-Total	**1,855**
	TOTAL	**2,089**

<u>Market for Company's Common Equity and Related Stockholder Matters</u>

(1) Market Information

The Company has a total Authorized Capital Stock (ACS) of Five Billion Pesos (PhP5,000,000,000.00) divided into five billion (5,000,000,000) shares with a par value of One Peso (PhP1.00) each. Out of the ACS, three billion eighty-seven million eight hundred twenty-nine thousand four hundred thirty-three (3,087,829,433) shares have been subscribed and paid-up. The common shares of the Company are not traded in any market, nor are they subject to outstanding warrants to purchase, or securities convertible into common shares of the Company.

(2) Holders

Foreign ownership limit for the Company is forty percent (40%) of the issued and outstanding common shares, equivalent to 1,232,750,868 common shares. Total shares owned by foreign shareholders as of August 31, 2018 was 7,841,118, equivalent to 0.25% of the outstanding common shares of the Company.

As of August 31, 2018, there were sixty-four (64) 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 August 31, 2018:

	Name	No of Shares Owned	% Ownership
1	STI HOLDINGS	3,040,623,037	98.47
2	PRUDENT RESOURCES, INC.	13,382,275	0.43
3	GONZALES, FRANCISCO B. JR.	8,873,692	0.29
4	ROSSI, PURIFICACION G.	7,841,118	0.25
5	PRUDENCIO, TOMAS J.	3,732,400	0.12
6	SANTOS, MARIA LOURDES	1,725,000	0.06
7	YOUNG, CAROLINA	1,651,828	0.05
8	RAMOS, DULCE	1,155,447	0.04
9	BUSTOS, FELIXBERTO	792,283	0.03
10	DOMINGO, EMERITA R.	303,466	0.01
11	VALERIO, MIKAEL M.S.	241,279	0.01
12	ZARASPE, ANACLETA C.	214,038	0.01
13	MONES, REYNALDO A.	201,901	0.01
14	HEIRS OF EDGAR SARTE	148,622	0.00
15	RELLEVE, ALVIN K.	137,338	0.00
16	PUBLICO, EDGARDO	122,080	0.00
17	DUJUA, JOCELYN	115,532	0.00
18	GARCIA, NOEL B.	83,190	0.00
19	MADRIGAL, VICTORIA P.	63,384	0.00
20	LAO, ERIENE C.	63,384	0.00

**5,952,273 shares were issued to STI Education Services Group, Inc. as a result of the merger between STI Taft and STI Dagupan, resulting to 0.19% ownership of the Company.*

(3) Policy on Dividends Declaration

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

The BOD approved a dividend declaration policy equivalent to 25% to 40% of the core 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.

Core 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 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 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 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 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.

Dividend History:

Declaration Date	Dividends per Share	Amount
19 September 2017	PhP0.08	PhP246.5 Million
20 September 2016	PhP0.27	PhP832.1 Million
9 September 2016	PhP0.08	PhP246.5 Million
4 September 2015	PhP0.08	PhP250.0 Million

On September 4, 2015, the Company's BOD approved the cash dividends declaration amounting to ₱250.0 million, or ₱0.08 per share, in favor of the stockholders of record as at 31 August 2015. Such dividends were paid on September 16, 2015.

On September 9, 2016, the Company's BOD approved the cash dividends declaration amounting to ₱246.5 million, or ₱0.08 per share, in favor of the stockholders of record as at September 9, 2016. Such dividends were paid on September 15, 2016. On September 20, 2016, the Company's BOD also approved the cash dividends declaration amounting to ₱832.1 million, or ₱0.27 per share, in favor of stockholders of record as at September 20, 2016. The Company paid P431.5 million and P400.6 million dividends to its stockholders on September 23, 2016 and November 3, 2016, respectively.

On September 19, 2017, the Company's BOD approved the cash dividends declaration of ₱0.08 per share for a total amount of ₱246.5 million, in favor of the stockholders of record as at September 30, 2017. Such dividends were paid on October 19, 2017.

(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 the Company (or the "Parent Company") and its subsidiaries (hereafter collectively referred to as the "Group") for the fiscal years ended March 31, 2018, 2017 and 2016. The following discussion should be read in conjunction with the attached audited consolidated financial statements of the Group as of and for the year ended March 31, 2018 and for all the other periods presented.

Financial Condition

Three-month period ended June 30, 2018 vs. three-month period ended June 30, 2017

The Group's total assets as at June 30, 2018 amounted to ₱12,157.1 million, 12% or ₱1,266.2 million higher than the balance as at March 31, 2018. This was largely due to ₱694.2 million increase in receivables, mostly pertaining to receivables from students and from DepEd for tuition and other school fees and the ₱410.1 million increase in property and equipment as construction projects continued in full swing.

Cash and cash equivalents increased by 11% or ₱184.0 million as collections were received from students for tuition and other school fees.

Total receivables amounted to ₱1,107.5 million, up by ₱694.2 million from ₱413.3 million as at 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 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. Property and equipment, net of accumulated depreciation, increased by ₱410.1 million from the March 31, 2018 balance of ₱6,197.6 million to ₱6,607.7 million as at June 30, 2018 as construction projects continued.

Total current liabilities increased by ₱1,360.8 million to ₱1,955.9 million as at June 30, 2018 from ₱595.1 million as at March 31, 2018, mainly due to ₱1,038.2 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 attributable to equity holders of the Parent Company decreased by 1% or ₱94.9 million from ₱6,612.2 million as at March 31, 2018 to ₱6,517.3 million as at June 30, 2018.

March 31, 2018 vs. 2017

The Group's total assets as at March 31, 2018 decreased by ₱195.2 million to ₱10,890.9 million from last year's ₱11,086.1 million. Cash and cash equivalents declined by ₱1,262.9 million as a result of continued capital expenditures, payment of loans and interest payments made by the Company on its loans and bonds. On the other hand, property and equipment increased by ₱932.1 million as real properties are acquired and construction continued in full swing.

Cash and cash equivalents decreased by 44% from ₱2,880.3 million as at March 31, 2017 to ₱1,617.4 million as at March 31, 2018 as a result of continued capital outlays on expansion projects which were funded by the proceeds of the bond offer, as well as payment of bank loans and interest payments on bonds.

Receivables, which consist mainly of receivables for tuition and other school fees, increased by ₱61.7 million or 18%. The balance is composed mostly of amounts expected to be collected from students and from DepEd which amounted to ₱248.6 million and ₱50.0 million as at March 31, 2017, respectively, and ₱273.9 million and ₱107.9 million as at March 31, 2018, respectively. 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 15% or ₱17.9 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 decreased by ₱13.4 million or 12% from ₱109.9 million to ₱96.5 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, the Company purchased three parcels of land along EDSA, Pasay City with a combined land area of 3,911 square meters. This is intended to be the site of the nine-storey STI Academic Center Pasay-EDSA with roofdeck, 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 with the Company, with the Company 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, the Company 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. The Company paid 30% down payment inclusive of VAT and related taxes, net of ₱0.2 million reservation fee, amounting to ₱67.5 million on the same month. the Company, 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 covering the period January to December 2018, brought down "Prepaid taxes" by ₱17.9 million compared to ₱91.0 million balance as at March 31, 2017.Prepaid license increased by ₱8.1 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 the Company's 20% ownership in Maestro Holdings, Inc. This company owns the following operating companies: a) 100% of PhilPlans First, Inc; (b) 99.89% of PhilhealthCare, Inc. and c) 70.6% of Philippine Life Financial Assurance Corporation ("PhilLife").

On June 27, 2017, the Company's BOD approved the disposal of this 20% stake in Maestro Holdings. Final negotiations for the sale are ongoing. As such, the Company reclassified its investments in Maestro Holdings as "Noncurrent Asset Held for Sale" in June 2017 and presented the same under the current assets portion of the Statements of Financial Position. Further, with the reclassification as noncurrent asset held for sale, the Company ceased the use of the equity method of accounting for the investment in Maestro Holdings as at June 30, 2017. "Investments in and advances to associates and joint ventures" consequently decreased by the same amount.

Property and equipment, net of accumulated depreciation, climbed by 18% or ₱932.1 million from ₱5,265.5 million to ₱6,197.6 million as at March 31, 2017 and 2018, respectively. As part of the continued expansion projects, the Company acquired parcels of land in Lipa and Legazpi amounting to ₱99.0 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. 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.

Investment properties declined by ₱28.6 million from ₱578.8 million to ₱550.2 million representing depreciation expense recognized for the period.

Investments in and advances to associates and joint ventures decreased by ₱820.6 million from ₱1,335.5 million to ₱514.9 million as at March 31, 2017 and 2018, respectively, with the reclassification of the investment in Maestro Holdings amounting to ₱716.6 million to "Noncurrent Assets Held for Sale". Equity share in net losses amounting to ₱218.2 million recognized during the period April to June 2017, contributed to the decrease. Inter-company receivables are generally settled in cash.

Available for Sale Financial Assets increased by ₱16.5 million from ₱50.9 million to ₱67.4 million as at March 31, 2017 and 2018, respectively, with the reclassification of the deposit for the purchase of proprietary shares in a development in Batangas amounting to ₱16.1 million to "Available for Sale Financial Assets" in December 2017.

Deferred tax assets (DTA) decreased by ₱1.5 million primarily due to the deferred tax liability (DTL) on the remeasurement gains recognized as the market value of the pension plan's investment in equity shares improved significantly for the year ended March 31, 2018. DTA is presented net of DTL.

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 ₱136.3 million from to ₱378.2 million to ₱514.5 million as at March 31, 2018 mainly due to noncurrent advances to suppliers/contractors in connection with construction activities for the period which increased by the same amount as at March 31, 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 its school's assets and liabilities for a price of ₱20.0 million. The assignment of the net assets was effective April 1, 2017. Consequently, the initial deposits made, which was previously recognized under "Deposits for asset acquisitions" with a total amount of ₱18.0 million were applied and STI Sta. Maria paid the remaining balance of ₱2.0 million. 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 Company's short-term loan balance amounted to ₱545.0 million and nil as at March 31, 2017 and 2018, respectively. The Company 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.

Accounts payable and other current liabilities increased by ₱7.4 million largely due to the additional payables recognized in relation to construction works in various STI campuses.

Current portion of interest-bearing loans increased by ₱93.6 million, net of payments made during the year, while non-current portions of borrowings decreased by ₱134.4 million, arising from the reclassification of the total amount due within the coming fiscal year.

Unearned tuition and other school fees increased by ₱24.4 million from ₱29.6 million as at March 31, 2017 to ₱54.0 million as at March 31, 2018 substantially attributed to advance payments of tuition fees and other school fees of incoming students for SY 2018-2019. The unearned revenue will be recognized as income over the incoming school term.

Current portion and noncurrent portion of obligations under finance lease increased by ₱1.5 million and ₱7.6 million, respectively, as at March 31, 2018 with the acquisition of property and equipment under finance lease.

Income tax payable decreased to ₱13.7 million as at March 31,2018 from ₱14.3 million as at March 31, 2017 due to lower taxable income.

The Company listed its ₱3 Billion Series 7-year Bonds due 2024 and Series 10-year Bonds due 2027 on the Philippine Dealing and Exchange Corp. (PDEx) secondary market on March 23, 2017. This is the first tranche of its ₱5,000.0 million 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 23% to ₱4.7 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 as a result of pre-termination of lease contracts. In addition, STI Novaliches' other 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 ₱7.1 million representing current portion as at March 31, 2018.

Relative to the merger of STI Taft and STI Dagupan with the Parent Company in August 2017, the Company 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 pursuant to a Bureau of Internal Revenue requirement on mergers. Consequently, capital stock increased by ₱5.9 million from ₱3,081.9 million to ₱3,087.8 million and the Company recognized treasury shares amounting to ₱10.8 million. Additional paid-in capital increased by ₱7.0 million from ₱379.9 million to ₱386.9 million.

Other equity reserve changed by ₱2.1 million from ₱28.8 million to ₱30.9 million as at March 31, 2018 representing additional paid-in capital recognized on the issuance of shares related to the merger.

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 ₱91.9 million represents the Company'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 up to June 30, 2017, which is the date of reclassification.

As at March 31, 2018, the Company's cumulative actuarial gain increased by ₱46.8 million from ₱35.8 million to ₱82.6 million as at March 31, 2017 and March 31, 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 Company's unrealized mark-to-market losses on its available-for-sale financial assets amounting to ₱24.6 thousand as at March 31, 2017 registered unrealized mark-to-market gains of ₱0.4 million as at March 31, 2018, due to the higher market value of the Manulife shares held by the Company.

The share in associates' remeasurement loss on life insurance reserves amounting to ₱18.3 million shown in the equity side of the audited consolidated statements of financial position as at March 31, 2017 was reclassified to noncurrent asset held for sale as at March 31, 2018. This represents the share of the Company in the restatements made by Maestro Holdings as a 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 (see discussions in subsequent paragraphs).

The Group's share in its associates' unrealized mark-to-market losses on their available-for-sale financial assets and cumulative actuarial gain amounting to ₱16.5 million and ₱0.7 million, respectively, as at March 31, 2017 registered unrealized mark-to-market loss and cumulative actuarial gain amounting to ₱32.0 thousand and ₱0.6 million, respectively, as at March 31, 2018. The amount of ₱ 16.4 million which is part of the ₱16.5 million reported 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 balances shown as at March 31, 2018 do not include any amount pertaining to the reclassified noncurrent asset held for sale. The share in associates' other equity reserve of ₱0.7 million reported as at March 31, 2017 corresponds to the 20% investment share in Maestro Holdings and is part of the reclassification made in June 2017.

Retained earnings, net of cash dividends declared in September 2017 amounting to ₱246.5 million, increased by ₱185.5 million from ₱2,818.4 million to ₱3,003.9 million with the net income attributed to equity holders of the parent company amounting to ₱432.0 million recognized for the period ended March 31, 2018.

March 31, 2017 vs. 2016

The Group's total assets as at March 31, 2017 increased by ₱2,742.2 million to ₱11,086.1 million from previous year's ₱8,343.9 million. This is mainly due to the increase in cash and cash equivalents by ₱2,338.1 million from the ₱3 Billion Fixed rate bond issuance which was partially offset by the loan payments for the period. Property and equipment likewise increased by ₱620.0 million substantially because of the acquisition of EDSA, Pasay City properties, which will be the site of STI Academic Center Pasay-EDSA.

Cash and cash equivalents stood at ₱2,880.3 million as at March 31, 2017 or 431% higher than the previous year's ₱542.2 million. The increase was contributed largely by the proceeds from the retail bond offering in March 2017 and partly by cash generated from operations.

Receivables, which consist mainly of receivables from students, increased by ₱96.8 million or 38%. The balance is composed mostly of amounts expected to be collected as payment for tuition and other school fees from students and from 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 223% or ₱80.8 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 increased by ₱23.0 million or 26% net of the input value-added tax (input VAT) which were applied to pay for the output VAT, substantially on the rent collected in 2017. This is mainly due to the input VAT recognized from the acquisition of EDSA, Pasay City properties.

Property and equipment rose by ₱620.0 million, net of depreciation expense in 2017 amounting to ₱281.5 million, with the acquisition of EDSA, Pasay City properties for ₱552.4 million. This is also partly attributed to the related costs of construction of the school building, purchases of furniture, fixture and equipment for STI College Las Piñas which was completed in July 2016.

Investment properties declined by ₱28.6 million representing depreciation expense recognized in 2017.

Investments in and advances to associates and joint ventures decreased by 23% as an associate registered declines in profit and 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 (DTA) decreased by ₱7.3 million primarily because of the effect of derecognition of a subsidiary, iACADEMY, which was acquired by STI Holdings, the "Ultimate Parent Company" of the Company, in September 2016 and because of the deferred tax liability (DTL) on the remeasurement gains recognized as period adjustments based on the valuation report prepared by an independent actuary. The DTA was presented net of the DTL.

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

Goodwill, intangible and other noncurrent assets slightly increased by ₱20.6 million or 6%.

The Company availed of short term loans in 2017 amounting to ₱1,793.0 million with interest rates ranging from 3.25%-3.75%. Total payments in 2017 amounted to ₱1,248.0 million leaving a short term loan balance of ₱545.0 million as at March 31, 2017. The loan proceeds were used to finance the acquisition of the three parcels of land in EDSA, Pasay City and for working capital requirements.

Accounts payable and other current liabilities was slightly lower by 2% in March 2017 versus the previous year.

Current and non-current portions of interest-bearing loans and borrowings declined by ₱60.0 million and ₱40.8 million, respectively, as principal payments were made in 2017.

Payments were also made in 2017 for finance lease obligations, bringing down the balance payable by ₱0.82 million and ₱0.84 million for current and non-current portions, respectively.

Unearned tuition and other school fees decreased by ₱23.6 million from ₱53.2 million as at March 31, 2016 to ₱29.6 million as at March 31, 2017. Previous year's balance is higher because it includes the advance payments received by iACADEMY (see Note 20 of the Notes to Audited Consolidated Financial Statements attached as part of "Exhibits and schedules").

The Company 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 relevant Maturity date. The Bonds Payable is 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.

Other noncurrent liabilities increased by ₱84.8 million as advanced rent and rental deposits were received by the Company in 2017 on its investment properties. In addition, accounts payable to STI Diamond with present value of ₱57.1 million, net of current portion of ₱3.7 million, was recognized in conveyance of its net assets to STI Novaliches in August 2016.

Income tax payable rose by ₱3.7 million reflecting the increase in the Group's taxable income.

Pension liabilities decreased by 84% to ₱6.1 million as of March 31, 2017 due to impact of remeasurement unrealized gains recognized based on actuarial reports.

Unrealized mark-to-market loss on the Group's available-for-sale financial assets improved with the recognition of ₱0.8 million unrealized mark to market gain in 2017 substantially due to the higher market value of the Manulife shares held by the Company. On the other hand, the Group's share in associates' unrealized mark-to-market loss on available-for-sale financial assets is ₱16.5 million as at March 31, 2017 from an unrealized mark to market gain of ₱131.9 million of the same period of the previous year, as the market values of certain equity shares declined as of the financial statements reporting date.

The share in associates' remeasurement loss on life insurance reserves amounted to ₱18.3 million in 2017. This represents the share of the Company in the restatements made by Maestro Holdings due to the change in 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 equity conversion of the Company's advances of ₱49.0 million to STI Taft, which resulted in the dilution of non-controlling interests, gave rise to an additional ₱11.3 million in the equity reserve account. Further, an additional ₱10.8 million was charged to the other equity reserve account as a result of the sale of iACADEMY to STI Holdings.

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

As at March 31, 2017, the Group's Cumulative actuarial gain increased by ₱19.1 million due to the impact of remeasurement unrealized gains recognized from improved market value of the investment in equity securities of the pension plan assets. Similarly, the Group's share in associates' Cumulative actuarial gain as at March 31, 2017 is ₱0.7 million from a share in associates' Cumulative actuarial loss of ₱18.4 million as at March 31, 2016, resulting from remeasurement unrealized gains recognized based on associates' actuarial reports for the year.

Retained earnings decreased by 17% or ₱560.4 million after declaration of dividends in September 2016 amounting to ₱1,078.7 million, net of the income attributable to equity holders of the parent company amounting to ₱518.3 million earned in 2017.

March 31, 2016 vs. 2015

STI ESG's total assets as at March 31, 2016 slightly decreased by ₱215.4 million to ₱8,510.2 million from ₱8,725.6 million as at March 31, 2015. This was mainly due to the effect of the decrease in Investment in associates and joint ventures amounting to ₱188.6 million and the reduction in Cash balance of ₱87.5million.

Cash and cash equivalents decreased by 14% from ₱629.7 million to ₱542.2 million as at March 31, 2016 and March 31, 2015, respectively, substantially due to the payment of the Current portion of long term loans amounting to ₱216.0 million and dividends paid by STI ESG in September 2015 amounting to ₱250.0 million.

Receivables, which consist mainly of receivables from students, increased by ₱18.5 million or 8%. This was lower than the 19% increase in revenues from tuition and other school fees indicating improvement in collection from students.

Inventories increased by 15% or ₱4.8 million as the schools increased their stock of uniforms in preparation for the enrollment in the coming SY 2015-2016. Procurement of marketing, educational and proware materials were also ramped up primarily for STI ESG's SHS program.

Prepaid expenses decreased slightly by 2% mainly due to decrease in input value-added tax (VAT), as the input VAT related to the acquisition of condominium units by STI ESG in exchange for its land was applied to pay for the output VAT on the rent collected during the year 2015-2016 for the lease of the said condominium units.

Property and equipment rose by ₱14.0 million net of depreciation expense for the period amounting to ₱286.6 million, as construction of the school building in STI College Las Piñas reached the half-way mark and construction activities in other campuses were completed. The additional classrooms in STI

College Novaliches, STI College Caloocan and STI College Ortigas-Cainta were completed, as well as the gymnasium and warehouse in STI College Ortigas-Cainta. School equipment and furniture were also acquired for said schools.

Investment properties slightly decreased by 3% mainly due to depreciation.

Investments in and advances to associates and joint ventures decreased by 9% as an associate registered declines in the market value of its investment in equities. Inter-company receivables are generally settled in cash.

Deferred tax assets increased by ₱7.6 million mainly due to taxes paid on tuition and other school fees and rental income collected in advance. Following statutory regulations, income received or collected in advance are taxable in the same year said income was actually received. Unearned revenues include payments received from SHS students who registered for the SY 2016-2017.

Goodwill, intangible and other noncurrent assets rose by ₱40.1 million or 13% mainly due to the down payment made to a contractor for the STI Las Piñas campus construction project.

Accounts payable and other current liabilities declined by 33% or ₱191.5 million substantially due to payment to suppliers for completed expansion projects. Inter-company payables are generally settled in cash.

Current and non-current portions of interest-bearing loans and borrowings declined by ₱115.2 million and ₱100.8 million, respectively, as principal payments were made during the period.

Payments were also made for finance lease obligations, bringing down the payable balance by ₱1.8 million and ₱3.3 million for current and non-current portions, respectively.

Unearned tuition and other school fees increased by ₱32.6 million from ₱20.6 million as at March 31, 2015 to ₱53.2 million as at March 31, 2016. The increase is substantially due to the registration fees received from SHS students for SY 2016-2017.

Other noncurrent liabilities of ₱31.4 million pertain to advance rent and security deposits paid by lessees of STI ESG's condominium units which were acquired in exchange for its land.

Income tax payable rose by ₱7.5 million reflecting the increase in STI ESG's taxable income.

Pension liabilities increased by 39% to ₱38.1 million as of March 31, 2016 due to recognition of additional retirement obligations.

Unrealized mark-to-market losses on available-for-sale financial assets increased from ₱0.5 million as at March 31, 2015 to ₱0.9 million as at March 31, 2016, as market values of shares held declined.

STI ESG's share in its associates' unrealized mark-to-market gains on available-for-sale financial assets decreased by 71% as the market values of certain equity shares declined as at March 31, 2016.

Cumulative actuarial gain decreased by ₱6.3 million as adjustments were made on actuarial valuations based on experience.

Retained earnings increased by 14% or ₱421.0 million as a result of this year's net income earned less dividends declared.

Results of Operations

Three-month period ended June 30, 2018 vs. three-month period ended June 30, 2017

For the three-month period ended June 30, 2018, the Group generated gross revenues of ₱356.6 million, lower by 9% or ₱33.9 million from same period last year of ₱390.5 million. The Company recorded an operating loss for the three-month period ended June 30, 2018 amounting to ₱67.4 million as against an operating income for the same period last year of ₱7.3 million due to decline in the number of students while net loss this quarter amounted to ₱75.2 million as against ₱236.0 million for the same period last year due to the equity in net losses of an associate recognized for the period ended June 30, 2017.

Earnings before interest, taxes, depreciation and amortization or EBITDA, computed as net income excluding benefit from income tax, depreciation and amortization, equity in net losses of associates and joint ventures, interest expense and interest income decreased by ₱74.0 million to ₱39.3 million from the same period last year of ₱113.3 million. EBITDA margin for the three-month period, decreased from 29% last year to 11% this year.

Financial Highlights and Key Performance Indicators

(in millions except margins, financial ratios and earnings per share)	**June 2018 (Unaudited)**	**March 2018 (Audited)**	**Increase(Decrease)) Amount**	**%**
Condensed Statements of Financial Position				
Total assets	12,157.1	10,890.9	1,266.2	12
Current assets	3,882.8	2,978.7	904.1	30
Cash and cash equivalents	1,801,4	1,617.4	184.-	11
Equity attributable to equity holders of the parent company	6,517.3	6,612.2	(94.9)	(1)
Total liabilities	5,631.6	4,269.2	1,362.4	32
Current liabilities	1,955.9	595.1	1,360.8	229
Financial Ratios				
Debt-to-equity ratio (1)	0.70	0.64	0.06	9
Current ratio (2)	1.99	5.01	(3.02)	(60)
Asset to equity ratio (3)	1.86	1.64	0.22	13

	(Unaudited) Three months ended June 30		**Increase(Decrease)**	
	2018	**2017**	**Amount**	**%**
Condensed Statements of Income				
Revenues	356.6	390.5	(33.9)	(9)
Direct costs (4)	184.5	176.9	7.6	4
Gross profit	172.1	213.6	(41.5)	(19)
Operating expenses	239.5	206.3	33.2	16

Operating profit (loss)	(67.4)	7.3	(74.7)	(1,023)
Other expenses - net	(16.8)	(245.6)	228.8	(93)
Loss before income tax	(84.2)	(238.3)	154.1	(65)
Net Loss	(75.2)	(236.0)	160.8	(68)
EBITDA (5)	39.3	113.3	(74.0)	(65)
Core Income (Loss) (6)	(74.1)	(13.9)	(60.2)	432
Net loss attributable to equity holders of the parent company	(74.0)	(235.2)	161.2	(69)
Loss per share (7)	(0.024)	(0.076)	0.1	(132
Condensed Statements of Cash Flows				
Net cash from operating activities	362.0	310.8	51.2	16
Net cash used in investing activities	(129.3)	(64.5)	(64.8)	100
Net cash used in financing activities	(48.7)	(67.7)	19.0	(28)

Financial Soundness Indicators

	(Unaudited)			
	Three months ended June 30		Increase (Decrease)	
	2018	2017	Amount	%
Liquidity Ratios				
Current ratio (2)	1.99	2.38	(0.39)	(16)
Quick ratio (8)	1.49	1.94	(0.45)	(23)
Cash ratio (9)	0.92	1.34	(0.42)	(31)
Solvency ratios				
Debt-to-equity ratio (1)	0.70	0.78	(0.08)	(10)
Asset to equity ratio (3)	1.86	1.99	(0.13)	(7)
Debt service coverage ratio (10)	3.24	1.59	1.65	104
Interest coverage ratio (11)	(0.64)	(3.04)	2.40	(79)
Profitability ratios				
EBITDA margin (12)	11%	29%	(18)	(62)
Gross profit margin (13)	48%	55%	(7)	(13)
Operating profit (loss) margin (14)	(19%)	2%	(21)	(1,050)
Net profit (loss) margin (15)	(21%)	(60%)	39	(65)
Return on equity (annualized)(16)	(5%)	(15%)	10	(67)
Return on assets (annualized)(17)	(3%)	(6%)	3	(5,000)

(1) *Debt-to-equity ratio is measured as total liabilities, net of unearned tuition and other schools fees, divided by total equity.*

(2) *Current ratio is measured as current assets divided by current liabilities.*

(3) *Asset to equity ratio is measured as total assets divided by total equity.*

(4) *Direct costs is calculated by adding the costs of educational services and educational materials and supplies sold.*

(5) *EBITDA is Net income (loss) excluding provision for income tax, interest expense, depreciation and amortization, equity in net earnings (losses) of associates and joint ventures and interest income.*

(6) *Core income (loss) is computed as consolidated income after 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 coverage 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 (loss) margin is measured as operating profit divided by total revenues.*
(15) *Net (loss) profit margin is measured as net income (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 loss [annualized] divided by average total assets.*

Years ended March 31, 2018 vs. 2017

The Company's gross revenues amounted to ₱2,596.0 million for the year ended March 31, 2018, a decrease of ₱7.2 million from same period last year.

The student enrollment of the schools under the Company at the start of SY is as follows:

	SY 2017-2018	SY 2016-2017	Increase (Decrease)	
			Enrollees	Percentage
STI Network				
Owned schools	54,366*	52,687	1,679	3.2%
Franchised schools	42,165	43,592	(1,427)	(3.3%)
Total Enrollees	**96,531**	**96,279**	**252**	**0.3%**

**Enrollees of STI Sta. Maria are reported as part of "owned schools" effective SY 2017-2018.*

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 SHS, following are the numbers:

	SY 2017-2018	%	SY 2016-2017	%
CHED	40,147	42%	53,016	55%
TESDA	2,191	2%	5,692	6%
DEPED	54,193	56%	37,571	39%
TOTAL	**96,531**	100%	**96,279**	100%

Tuition and other school fees decreased by ₱72.1 million or 3% substantially due to tuition and other school fees earned by iACADEMY and consolidated with the results of the Company up to September 30, 2016. iACADEMY was acquired by STI Holdings in September 2016. Removing the effects of iACADEMY, the Company's revenue from tuition and other school fees would have been flat compared to same period last year.

Revenues from educational services and royalty fees increased by ₱9.2 million and by ₱1.4 million, respectively, or by 5% and by 7%, 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 collected by the franchised schools from their students and DepEd.

Sale of educational materials and supplies increased by 10% or by ₱15.0 million from ₱146.9 million to ₱161.9 million, largely due to increased sale of SHS textbooks. Cost of educational materials and supplies sold increased by ₱3.9 million, net of the rebates received from the acquisition of textbooks for sale to students amounting to ₱5.5 million, concomitant with the increase in sale of textbooks.

Other revenues increased by 201% or ₱39.3 million substantially due to fees for the use of the enrolment and e-Learning Management systems.

Cost of educational services slightly increased by 1% or ₱8.9 million from ₱685.1 million last year to ₱694.0 million. Faculty salaries and benefits increased by 6% or ₱16.4 million attributed to the salaries of instructors who handled the remedial classes of SHS students in April and May 2017, salary alignment of SHS teachers who passed the Licensure Examination for Teachers (LET) and tertiary instructors who earned their Master's degrees and instructors' salaries associated with the operation of STI Sta. Maria. STI Sta. Maria became a 100% subsidiary of the Company starting April 2017. Software maintenance cost increased by ₱4.8 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. On the other hand, the cost of student activities and programs for the year is lower by ₱8.6 million from ₱121.7 million last year to ₱113.1 million this year. On February 21, 2017, CHED issued a memorandum on the imposition of moratorium on field trips and other similar activities covered under CHED Memorandum Order No. 17 Series of 2012. In view of this, certain activities like convention of the students, hotel immersion, culinary and tourism exposure, bartending seminars and educational tours were postponed. This substantially brought the cost of student activities and convention costs down by ₱21.4 million from ₱51.7 million last year to ₱30.3 million for the same period this year. The moratorium was lifted during SY 2017-18. Thus, the Company plans to bring back and continue these annual activities of the students in the coming school years. On the other hand, the Company also held the first K to 12 program Grade 12 graduation which increased the commencement costs from ₱16.2 million last year to ₱32.2 million or by ₱16.0 million this year. Direct expense ratio remains at 31%.

Gross profit decreased by 1% or ₱20.0 million from ₱1,802.7 million for the year ended March 31, 2017 to ₱1,782.7 million for the same period this year. Gross profit margin remains at 69%.

General and administrative expenses, net of expenses reported by iACADEMY last year, increased by 6%, from ₱928.6 million last year to ₱983.4 million this year. Light and water expenses increased substantially due to the cost incurred by STI Sta. Maria and higher expenses recognized by the schools for the year ended March 31, 2018 compared to same period last year, due to increase in the average rate per kilowatt-hour of electricity. Professional fees increased due to expenses incurred in relation to the merger of STI Taft and STI Dagupan with the Company, special audit in relation to the disposal of Maestro Holdings, and various legal and labor-related cases. Taxes and licenses increased due to real property taxes on investment properties. Following the Company's Receivables Impairment policy, STI Sta. Maria which is consolidated to the Group effective April 2017 recognized impairment expense amounting to ₱7.4 million on its outstanding receivables from its students as at March 31, 2018. Further, Advertising and promotions expense increased as the marketing campaign for both SHS and Tertiary programs were intensified.

Equity in net loss of associates and joint ventures amounting to ₱218.2 million for the year ended March 31, 2018 pertains largely to the share of the Company in the loss of Maestro Holdings up to end of June 2017. With the reclassification of the carrying value of the Company's 20% ownership in Maestro Holdings to noncurrent asset held for sale, the Company ceased the use of the equity method of accounting for its investment in Maestro Holdings as at June 30, 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 at its 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 Company has made the necessary adjustments to recognize its share in the restated net earnings and comprehensive income of Maestro Holdings. The Company's financial statements for the fiscal years ended March 31, 2017 and March 31, 2016 have been restated to reflect these adjustments.

Interest income increased by ₱24.3 million due to interest earned from short-term placements of the proceeds from the bonds issued while dividend income increased by ₱1.2 million representing increase in dividends received from De Los Santos Medical Center (formerly De Los Santos General Hospital).

Interest expenses increased by ₱144.7 million from ₱65.8 million to ₱210.5 million due to interest incurred on the Company's bond issue. This is net of total borrowing costs capitalized as part of property and equipment amounting to ₱22.9 million for the year ended March 31, 2018. The average interest capitalization rate is 5.96% for the year ended March 31, 2018.

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 ₱75.7 million payable quarterly, in five (5) years. As a result, the management contract between the Company and STI Diamond was terminated and residual interest has been transferred. With this, STI Diamond was derecognized as a subsidiary of the Company 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 Company for the year ended March 31, 2017.

Provision for income tax amounting to ₱67.7 million, recognized for the year ended March 31, 2018, was lower than same period last year due to lower taxable income.

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 the Company while the ₱0.8 million fair value adjustment last year includes unrealized gains from Manulife and other club shares held by the Company.

The Group, on the other hand, recognized its' share in associates' unrealized mark-to-market gain on available-for-sale financial assets of ₱125.1 million, higher by ₱273.5 million from last year's unrealized mark-to market loss on available-for-sale financial assets of ₱148.4 million, representing the Company's equity on the net changes in fair value of available-for-sale financial assets of Maestro Holdings. This also includes the Company's share for the period up toJune 30, 2017, in the restated unrealized mark-to-market gain on available-for-sale financial assets of Maestro Holdings amounting to ₱125.0 million due to improved market value of equity securities under profit or loss (see discussions in foregoing paragraphs).

The Company also recognized its share in associate's remeasurement gains (loss) on life insurance reserves of Maestro Holdings amounting to ₱0.2 million and (₱4.0) million, as at March 31, 2018 and 2017, respectively, due to change in the methodology used by PhilLife, a subsidiary of Maestro Holdings, in the determination of legal policy reserves on its life insurance contracts from net premium valuation to gross premium valuation as required under IC Circular Letters 2016-66 and 2017-36 (see discussions in foregoing paragraphs).

The Group's share in associates' remeasurement gain (loss) on pension liability declined by ₱18.6 million from ₱19.1 million last year to ₱0.5 million this year, as an associate posted higher actuarial adjustments last year.

Similarly, the Group reported a remeasurement gain on pension liability of ₱46.8 million as at March 31, 2018 compared to remeasurement gain of ₱28.0 million in 2017, 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.

Total comprehensive income increased by ₱191.1 million this year, net of interest expense recognized on bonds and loans, from ₱415.0 million to ₱606.1 million for the year ended March 31, 2018, largely due to the Company's share up to June 30, 2017, in the restated net earnings and comprehensive income of Maestro Holdings (see discussions in foregoing paragraphs).

Earnings before interest, taxes, depreciation and amortization or EBITDA, computed as net income excluding provision for income tax, depreciation and amortization, effect of derecognition of a subsidiary, equity in net earnings (losses) of associates and joint ventures, interest expense, and interest income, decreased by ₱78.9 million to ₱1,219.4 million from last year's ₱1,298.3 million or 6%. EBITDA margin likewise decreased from 50% last year to 47% this year.

Core income, computed as the consolidated income after income tax derived from the Group's main business of education and other recurring income, amounted to ₱651.3 million for the year ended March 31, 2018 compared to the same period last year of ₱822.4 million.

Years ended March 31, 2017 vs. 2016

The Company's gross revenues increased by 11% to ₱2,603.2 million in 2017. This was primarily driven by the remarkable increase in the total number of students of the Group, with the entry of SHS from 77,645 of the previous year to 96,279 students for the year ending March 31, 2017or an increase of 24%.

The student enrollment of the schools at the start of SY for the periods ended March 31 2017 and 2016 were as follows:

	SY 2016-2017	SY 2015-2016	Increase (Decrease)	
			Enrollees	Percentage
STI Network				
Owned schools	52,687	42,878	9,809	23%
Franchised schools	43,592	34,767	8,825	25%
Total Enrollees	**96,279**	**77,645**	**18,634**	**24%**

Tuition and other school fees increased by ₱163.5 million or 8%. While there was a remarkable increase in the total number of students of the Group, 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. This was outweighed by the significant increase in SHS enrollees, which brought an increase in the entire student population by 18,634.

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 collected by the franchised schools from their students and DepEd.

Sale of educational materials and supplies increased by more than double, largely due to increased sale of SHS uniforms and textbooks.

Other revenues decreased by 21% or ₱5.2 million substantially due to the ₱3.7 million receivables which were already written off and were subsequently collected by iACADEMY in March 2016.

Cost of educational services slightly increased by 5% or ₱30.3 million from ₱654.8 million in 2016 to ₱685.1 million in 2017 mainly due to higher expenses directly associated with the increased number of students.

Cost of educational materials and supplies sold increased by ₱63.9 million concomitant with the increase in sale of uniforms and textbooks.

The Group posted lower general and administrative expenses from ₱977.4 million in 2016 to ₱928.6 million in 2017. The highest decline was registered by advertising and promotions costs at ₱47.7 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 April-May for tertiary.

Rental income increased by ₱39.2 million or 63% due to the substantial occupancy of the investment properties owned by the Company.

Equity in net earnings of associates and joint ventures decreased by ₱107.6 million because of lower profits posted by an associate and the recognition of the impairment of certain investments in equities of an associate. This also includes the Company's share in the restated net earnings of Maestro Holdings (see discussions in foregoing paragraphs).

Interest expenses increased by ₱15.3 million due to short-term borrowings incurred for the acquisition of the EDSA, Pasay City properties and other short term loans availed for general corporate requirements.

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 the Company and STI Diamond was terminated and residual interest has been transferred. With this, STI Diamond was derecognized as a subsidiary of the Company for an amount equal to the present value of the related transfer price of ₱60.8 million.

Interest income slightly decreased by ₱1.8 million while dividend income slightly increased by ₱0.4 million.

Provision for income tax increased by ₱26.6 million in March 2017 as a result of the increase in taxable income from previous year's level.

Fair values of the Group's investment in available-for-sale financial assets increased by ₱1.1 million from unrealized loss of ₱0.34 million in 2016 to unrealized gain of ₱0.8 million in 2017 due to favorable market conditions.

The Group on the other hand recognized its share in associates' unrealized mark-to-market loss on available-for-sale financial assets of ₱148.4 million in 2017, lower by ₱144.5 million from previous year's ₱292.9 million, as an associate recognized lower fair value losses on its investment in equities. This also includes the Company's share in the restated comprehensive income of Maestro Holdings (see discussions in foregoing paragraphs).

The Company also recognized its share in associate's remeasurement gain (loss) on life insurance reserves of Maestro Holdings amounting to (₱4.0) million and ₱11.3 million, as at March 31, 2017 and 2016, respectively, (see discussions in foregoing paragraphs) due to change in the methodology used by PhilLife in the determination of legal policy reserves from net premium valuation to gross premium valuation as required under IC Circular Letters 2016-66 and 2017-36 (see discussions in foregoing paragraphs).

The Group's share in associates' remeasurement gain on pension liability improved by ₱18.5 million from ₱0.6 million the previous year to ₱19.1 million in 2017 as an associate posted positive actuarial adjustments.

Similarly, the Group reported a remeasurement gain on pension liability of ₱28.0 million as at March 31, 2017 compared to remeasurement loss of ₱6.3 million in 2016, 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.

Total comprehensive income rose to ₱415.0 million from previous year's comprehensive income of ₱197.0 million due to the higher profits posted by the Company, the increase in market value of equities held by an associate compared with the same period last year and the remeasurement gain recognized attributable to higher market value of the investment in equity securities of the pension plan assets.

Earnings before interest, taxes, depreciation and amortization or EBITDA, computed as net income excluding provision for income tax, depreciation and amortization, effect of derecognition of a subsidiary, equity in net earnings (losses) of associates and joint ventures, interest expense, and interest income, increased by ₱246.7 million to ₱1,298.3 million from the previous year's ₱1,051.6 million or 23%. EBITDA margin likewise improved from 45% in 2016 to 50% in 2017.

Years ended March 31, 2016 vs. 2015

The continuous increase in number of enrollees in STI ESG owned and franchised schools propelled revenue growth by 17% or ₱350.0 million, reaching ₱2,350.5 million in total revenues this year.

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

	SY2016-2017	SY2015-2016	Increase(Decrease)	
STI Network			Enrollees	Percentage
Owned Schools	42,878	39,404	3,474	9%
Franchised Schools	34,767	33,212	1,555	5%
Total Enrollees	**77,645**	**72,616**	**5,029**	**7%**

Tuition and other school fees increased by ₱328.5 million or 19% from SY 2014-2015's ₱1,726.5 million to ₱2,055.0 million for SY 2015-2016, due to the increase in the student enrollment by 7% or 5,029 enrollees and the average increase of 5% in tuition fees implemented by most schools . In addition, STI ESG's enrollment mix was more favorable in SY 2015-2016 than in SY 2014-2015, as enrollment leaned more towards STI network's CHED four-year programs than the two-year programs. Proportion of CHED:TESDA:DepEd students are 86:12:02 for SY 2015-2016 as against 82:16:02 for SY 2014-2015. The four-year CHED programs charge higher tuition and bring in more revenue per student.

Revenues from educational services and royalty fees increased by ₱4.9 million and by ₱0.5 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 collected by the franchised schools from their students.

Sale of educational materials and supplies increased by 21% largely due to increased sale of uniforms.

Other revenues increased by 19% or P3.9 million largely due to the increase in number of students.

Cost of educational services increased by 13% or ₱76.9 million from ₱577.9 million last year to ₱654.8 million this year mostly due to the 21% or ₱28.2 million increase in depreciation expenses charged to direct cost. Faculty salaries and benefits increased by 12% largely due to the hiring of additional faculty members to handle the increased enrollment and the acquisition of the 5 schools from franchisees in October 2014.

Cost of educational materials and supplies sold increased by ₱10.8 million concomitant with the increase in sales.

General and administrative expenses rose by ₱67.6 million or 7% from ₱909.8 million last year to ₱977.4 million this year. Of the increase, ₱23.3 million was due to the increased depreciation charges substantially due to the depreciation expense recognized for the 4 floors of condominium units which were acquired by STI ESG in March 2015 in exchange for its land. The cost of advertising and promotions rose by ₱27.5 million as STI ESG stepped up its marketing campaign for both Tertiary and SHS programs. Professional fees rose by ₱8.4 million substantially due to legal fees related to the acquisition of various schools. Salaries and employee benefits also increased by ₱12.0 million due to the addition of employees from the newly acquired schools in October 2014 and the filling up of plantilla positions.

Rental income increased by twice as much as the previous year or ₱32.0 million or as revenues from lease of condominium units owned by STI ESG were recognized as at March 31, 2016.

Dividend income increased by ₱1.4 million due to dividends received from De Los Santos Medical Center.

Equity in net earnings of associates and joint ventures decreased by 49% or ₱50.9 million as some associates generated lower profits as at March 31, 2016.

STI ESG recorded a net gain of ₱0.3 million from the disposal of transportation equipment last year.

Interest income continued to decline from P6.8 million in 2014 to ₱5.0 million in 2015 to ₱4.7 million in 2016 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.

On the other hand, interest expenses increased by ₱28.9 million due to the interest charges on the long term loans from China Bank which are now charged to operations with the completion of the projects funded by the principal amounts of the loans.

Provision for income tax rose by ₱4.0 million due to corresponding increase in taxable income.

STI ESG's share in associates' unrealized mark-to-market loss on available-for-sale financial assets increased by ₱292.7 million as an associate recognized fair value losses on its investments in equities.

Fair values of STI ESG's investment in available-for-sale financial assets likewise declined, thus, from unrealized gain of ₱0.6 million, an unrealized loss of ₱0.3 million was shown in the report as at March 31, 2016.

STI ESG's share in associates' re-measurement gain (loss) on pension liability improved by ₱4.2 million from a loss of ₱3.6 million in March 2015 to a gain of ₱0.6 million, as at March 31, 2016, as several associates posted positive actuarial adjustments.

Meanwhile, STI ESG incurred re-measurement loss on pension liability of ₱7.0 million this year largely due to the decline in market value of the investment in equity securities of the pension plan assets.

Total comprehensive income decreased by ₱325.7 million due to unfavorable market conditions in the equities market which resulted in substantial unrealized mark-to-market losses as at March 31, 2016 as compared to same period in 2015.

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, gain on exchange of land and excess of fair value of net assets over acquisition cost from a business combination, increased by ₱280.1 million in March 2016 to ₱1,051.6 million from ₱771.5 million or 36%. EBITDA margin likewise improved from 39% to 45% as at March 31, 2015 and 2016, respectively.

<u>The Company's outlook for the near term and medium term</u>

Near-term Prospects

The SY 2018-2019 marked the second highest new student enrollment in the STI-branded schools in the last ten (10) years. The resumption of regular tertiary or college enrolment provided the opportunity to begin the cycle of populating the college-level students in the STI Network from primarily having senior high school new students only in the last two (2)years. The Company is positive that despite the government's implementation of the Republic Act No. 10931 or the Universal Access to Quality Tertiary Education Act, the increase in total college students will be maintained as freshmen, sophomore, junior and, senior college students will continue to populate the enrolment in the next three (3) years. In addition, the government's funding for R.A. 10931 limits the capacity of the State Universities and Colleges (SUCs) and Local Universities and Colleges (LUCs) in accepting new students in the ensuing years.

The expected growth is also supported by the upcoming completion of four (4) new STI Academic Centers and the addition of four (4) new baccalaureate programs within the fiscal year. Furthermore, new 2-year tertiary programs and modular courses are also currently being developed to cater to the industry demands of graduates having specialized and highly-skilled competencies in the fields of information technology, culinary, hospitality services, and maritime.

The Company also expects the enrolment for Senior High School to stabilize in the country considering that the Government has almost completed the capacity-building of the public schools. Senior High School will still continue to be a substantial contributor in the enrolment of the STI Network in the succeeding years.

Medium-term Prospects

The Company remains overall positive about the medium-term prospects of education in the Philippines. Filipino families, in general, have a keen priority for education expenditure. The normalization of college-level and senior high school enrolment will continue in the next few years. The Company will remain vigilant with its growth strategy as it continues to adapt to the needs of the market to maximize opportunities for reinvention and steer the challenges in the future.

<u>Top Five (5) Key Performance Indicators</u>

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.

		3 Months ended June 30		
		2018	2017	Remarks
EBITDA margin	Net income (loss) excluding provision for income tax, depreciation and amortization, equity in net earnings (losses) of associates and joint ventures, interest expense and interest income (EBITDA) divided by total revenues	11%	29%	EBITDA margin slightly declined in 2018 as compared to same period in 2017 mainly due to the lower revenues and increased costs and expenses.
Gross profit margin	Gross profit divided by total revenues	48%	55%	Gross profit margin declined with lower revenues and higher direct costs
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	(5%)	(15%)	Return on equity was lower in 2017 substantially due to the equity share in net losses of associates and joint venture for the current period as compared to same period this year.
Debt service coverage ratio	EBITDA for the last twelve months divided by total principal and interest due for the next twelve months	3.24	1.59	Debt service covers ratio for the periods presented has always been well above the minimum set by management and the lending bank. The bar is 1.05 of cash income (EBITDA) for every peso of loans and interest maturing within the next 12 months.
Debt-to-equity ratio	Total liabilities, net of unearned tuition and school fees, divided by total equity	0.70	0.78	Debt-to-equity ratio improved due to the payment of short-term borrowings and current portion of long-term loans.

<u>Material Changes in Balance Sheet Accounts</u>

Cash and cash equivalents increased by 11% or ₱184.0 million from ₱1,617.4 million to ₱1,801.4 million as at March 31, 2018 and June 30, 2018, respectively, as collections were received from students for tuition and other school fees and were placed on short-term investments earning interest at respective short-term investment rates.

Receivables increased by ₱694.2 million or 168%. Receivables from students increased by ₱417.1 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 is ₱367.1 million as at June 30, 2018. The vouchers are expected to be collected within 8-12 weeks from date of submission of billing statements.

Inventories increased by 15% or ₱20.4 million. This is mainly attributed to the build-up of the inventory of textbooks for SHS students and the new sets of tertiary uniforms in preparation for SY 2018-2019.

Prepaid expenses increased by 6% or ₱5.4 million due to prepayment of insurance which mostly covers 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 ₱410.1 million from the March 31, 2018 balance of ₱6,197.6 million to ₱6,607.7 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 up to fourth floor of the STI Lipa building was completed in July 2018 while the remaining works from 5th 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.
Deferred tax assets rose more than twice as much as the March 31, 2018 balance or by ₱16.7 million substantially due to taxes applicable to tuition and other school fees collected in advance. Following statutory regulations, tuition and other school fees are taxed at the time of collection.

Pension assets as at June 30, 2018 amounting to ₱29.1 million is lower by ₱24.3 million compared to same period last year largely due to the decline in value of equity shares forming part of pension assets.

Goodwill, intangible and other noncurrent assets decreased by ₱31.9 million from ₱514.6 million to ₱482.7 million as at March 31, 2018 mainly due to the reclassification of the noncurrent advances to suppliers/contractors to Property and Equipment as the Company 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 significantly increased by ₱320.2 million or 83% substantially due to obligations to contractors in relation to construction works in various STI campuses.

Unearned tuition and other school fees increased substantially by ₱1,038.2 million from ₱54.0 million as at March 31 to ₱1,092.2 million as at June 30, 2018. This will be recognized as income over the remaining months of the related school term.

Income tax payable increased by ₱2.8 million to ₱16.5 million as at June 30, 2018 from ₱13.7 million last March 31, 2018 reflecting the increase in taxable income as tuition fees and rent collected in advance are taxable in full upon receipt.

Current and Noncurrent portion of obligations under finance lease declined by ₱.4 million and ₱1.7 million, respectively, due to payments made during the period.

Pension liabilities slightly increased by ₱29.5 thousand to ₱4.7 million as at June 30, 2018 due to recognition of additional retirement obligations by the Company's subsidiaries.

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

The Company's cumulative actuarial gain decreased by ₱20.8 million from ₱82.6 million to ₱61.8 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.

The Company's unrealized mark-to-market gain on its available-for-sale financial assets amounting to ₱0.4 million as at March 31, 2018 registered ₱0.2 million as at June 30, 2018, substantially due to the lower market value of the Manulife shares held by the Company.

Retained earnings decreased by ₱74.0 million from ₱3,003.9 million to ₱2,929.9 million due to net loss for the three-month period ended June 30, 2018.

Material Changes in Income Statement Accounts

Total revenues reached ₱356.6 million during the three-month period ended June 30, 2018, a decrease of ₱33.9 million from same period last year.

Tuition and other school fees for the period declined by ₱33.2 million. 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 the Company.

Revenues from educational services and royalty fees both 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.

Sale of educational materials and supplies slightly increased compared to same period last year from ₱80.7 million to ₱81.6 million for the three-month period June 30, 2018. On the other hand, the cost of educational materials and supplies sold increased by 14% due to increase in the price of textbooks and the promotional campaign to dispose old sets of tertiary uniforms.

Other revenues, which substantially are fees for the use of e-Learning Management System (eLMS), decreased to ₱14.8 million for the three-month period ended June 30, 2018 as compared to ₱16.0 million for the same period last year due to lower number of students.

The cost of educational services for the three-month period ended June 30, 2018 is almost at par with the same period last year. While the cost of instructors' salaries and benefits decreased by ₱3.4 million due to reduced number of faculty members concomitant with the lower turn out of enrollees as discussed in the preceding paragraphs, the same was offset by the increase in rent and depreciation expense resulting from escalated rates on renewed lease agreements and amortization expense of leasehold improvements recognized by STI Malaybalay and STI Sta. Maria, respectively. The building renovation of STI Sta. Maria and the fit out works on a newly constructed building which was leased to be the new site of STI Malaybalay were completed in August 2017.

General and administrative expenses significantly increased by 16% or ₱33.2 million from ₱206.3 million to ₱239.5 million for the three-month period this year. The highest increase was registered by advertising and promotions costs which increased year-on-year by ₱36.0 million due to increase in advertising and promotions expense as the marketing campaign for both SHS and Tertiary programs were intensified in time for the opening of classes for SY 2018-2019.

The Group's operating income, that is, income before other income and expenses and income tax, decreased to ₱67.4 million loss for the three-month period ended June 30, 2018 from same period last year's income of ₱7.3 million. The academic cycle, which is one academic year, starts in the month of June and ends in the month of March. The revenue 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. For this quarter, the revenue is equivalent to only one month or the month of June which is the start of the SY. Accordingly, the revenue is expected to be lower during the first quarter of the fiscal year as compared to the other quarters.

Equity in net losses of associates and joint ventures amounting to ₱222.1 million for the three month period ended June 30, 2017 pertains largely to the share of the Company in the loss of PhilPlans First, Inc. arising from the latter's full recognition of the mandated discount interest rate imposed by the 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.

Equity in net losses of associates amounting to ₱1.1 million pertains to the Company's share in the net loss of associates for the three-month period ended June 30, 2018. This amount does not include any share in the operations of PhilPlans or any of the other subsidiaries of Maestro Holdings, Inc. (Maestro) after the Company's Board of Directors approved the disposal of its 20% stake in Maestro on June 27, 2017. With this decision to dispose of the Maestro investment, the Company'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, the Company 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 ₱59.0 million to ₱51.4 million as short-term loans were fully settled as at March 31, 2018 and amortization payments on long-term loans aggregating ₱40.8 million were made in July 2017 and January 2018.

Interest income amounted to ₱8.9 million for the three-month period ended June 30, 2018 mainly from interest earned from short-term placements of the proceeds of bonds which are not deployed to date.

Benefit from income tax amounting to ₱9.0 million was recognized as at June 30, 2018 associated with the net loss recognized for the period.

Net loss of ₱75.2 million was recorded for the three-month period ended June 30, 2018, as against a net loss for the same period last year of ₱236.0 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 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 interest-bearing loans and borrowings the debt service cover ratio 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 1.05:1.00.

As at June 30, 2018 and June 30, 2017, the Group's debt service cover ratio is 3.24:1.00 and 1.59:1.00, 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 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.

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 Company'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 interest-bearing loans and bonds. While the

Company's long-term debt has a floating interest rate, the Company elected to have the interest rate repriced every year, thus minimizing the exposure to market changes in interest rates. The interest rates for the Company bonds are, however, fixed for the 7-year bonds and the 10-year bonds.

Capital Risk- The Group's objectives when managing capital are to provide acceptable returns to stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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 and to the lender bank. 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 June 30, 2017, the Group's debt-to-equity ratio is 0.70:1.00 and 0.78:1.00, respectively. As at March 31, 2018, the Group's debt-to-equity ratio is 0.64:1.00.

Agreements/Commitments and Contingencies/Other Matters

a. There are no changes in accounting estimates used in the preparation of the audited consolidated financial statements for the current and prior financial periods.

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, the Company executed a deed of pledge on all of its shares in De Los Santos Medical Center in favor of Neptune Stroika Holdings, Inc., a wholly-owned subsidiary of Metro Pacific Investments Corporation (MPIC), to cover the indemnity obligations of the Company enumerated in its investment agreement entered into in 2013 with MPIC. The book value of the investment in De Los Santos Medical Center amounted to ₱25.9 million as at June 30, 2018 and March 31, 2018.

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 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 and the issuance of fixed rate bonds by the Company provide certain restrictions and conditions with respect to, among others, change in majority ownership and management and maintenance of financial ratios. The Company is 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 the Group's liquidity 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. 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 21 April 2017, the Company, 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 the Company 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 the Company, TTC and Injap, respectively.

   On 21 June 2017, in separate meetings, the stockholders and the BOD of STI Tanauan approved the increase in its authorized capital stock from P1.0 million divided into 10,000 shares with a par value of P100 to P75.0 million divided into 750,000 shares with a par value of P100. 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 P15.0 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, the Company 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 the Company stock dividends of 150,000 shares and 35,000 shares as subscribed by the latter.

i. On August 1, 2017, the Company 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, the Company 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. the Company 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.

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 AND CORPORATE INFORMATION OFFICER, 5th 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 SERVICES GROUP, INC.
Issuer

APRIL ROSE N. MORATO
Assistant Corporate Secretary

Date: 25 September 2018

MANAGEMENT REPORT

Group History and Structure

STI Education Services Group, Inc. ("the Company")

Established on August 21, 1983, the Company began with a goal of training as many Filipinos as possible in computer programming and addressing the information technology (IT) education needs of the Philippines. Starting as a training center with only two (2) schools, the Company initially offered short-term computer programming courses that were patterned to satisfy the demand of college graduates and working professionals who wanted to learn more about the emerging computer technology.

Shortly after, the Company's campuses began to grow as it started granting franchises in other locations within Metro Manila which soon expanded to other key areas in Luzon, Visayas, and Mindanao. In the mid-1990s, the Company opened international campuses in Hong Kong, Rome, Milan, Macau, Singapore, Taiwan, and Vietnam. And in 1998, the Company had more than 100 campuses across the nation and outside the Philippines. In 2003, management decided to focus its attention on the domestic market but continued to study the possibility of going international once again.

Over the years, the Company began shifting its focus from short-term courses to college degree programs to adjust to the changing business environment. In 1995, the Company was granted a permit by the Commission on Higher Education (CHED) to operate colleges and started to roll out four-year college programs starting with the Bachelor's Degree in Computer Science. The Company then slowly diversified its programs beyond Information & Communications Technology by introducing new programs in the fields of Business and Management, Engineering, Healthcare, Hospitality Management, Tourism Management, Arts and Sciences, and Education.

The Company embarked on strengthening its geographical presence nationwide as it aggressively constructed improved facilities. More STI schools are now veering away from rented commercial complexes and have moved to bigger and better school-owned stand-alone campuses that are strategically located. All of the improved campuses house state-of-the-art facilities, spacious classrooms, top-of-the-line simulation laboratories, and recreational facilities conducive for high academic delivery. To date, there are fifteen (15) wholly-owned schools with renovated or newly built facilities. In addition, incentives were offered to franchisees to upgrade their facilities of which twelve (12) had responded so far.

The Company has centralized its efforts into academic quality and started investing in trainings on awareness, documentation, and internal quality audit to achieve the ISO 9001:2008 certification on February 5, 2015 and the ISO 9001:2015 certification on February 5, 2018. Awarded by the ISO certifying body TÜV Rheinland Philippines Inc., both certifications focus on the Company's Learning Delivery System that covers courseware development and faculty training and certification for the tertiary level.

When the Department of Education (DepEd) announced the K to 12 program in 2013, the Company capitalized on its nationwide presence and ample facilities to implement the first-to-market approach of the Senior High School (SHS) program. In 2014, DepEd granted permit to offer early implementation of SHS to 92 private schools nationwide, 67 out of 92 schools or 73% are STI schools which made the Company the largest pioneer in Senior High School ("SHS").

Through the consistent efforts of management, the STI brand has been recognized as a provider of high-quality real life education.

STI ESG Network

As a testament to its growing presence nationwide, the STI network has seventy-six (76) schools spread across Luzon, Visayas, and Mindanao and is comprised of sixty-four (64) STI-Branded Colleges and twelve (12) STI-Branded Education Centers. Likewise, of these seventy-six (76) schools, thirty-three (33) college campuses and five (5) education centers are wholly-owned while thirty-three (33) college campuses and seven (7) education centers are operated by franchisees.

Area	Wholly-Owned	Franchised
Metro Manila (16)	Caloocan Cubao Shaw Fairview Global Las Piñas Makati Novaliches Taft Quezon Ave	Alabang Marikina Muñoz-Edsa Parañaque Recto Pasay
Northern Luzon (18)	Baguio Dagupan Laoag Meycauayan Tuguegarao Sta. Maria	Angeles Balagtas Baliuag La Union Malolos San Fernando San Jose Tarlac Vigan Alaminos Cauayan Ilagan
Southern Luzon (19)	Calamba Legazpi Lucena Naga Ortigas-Cainta San Pablo Southwoods Sta. Cruz Batangas Puerto Princesa Lipa Tanauan	Bacoor Balayan Dasmariñas Rosario Sta. Rosa Tagaytay Tanay
Visayas (8)	Cebu Iloilo Kalibo	Ormoc Bohol Dumaguete Calbayog Maasin

Mindanao (15)	Cagayan De Oro Davao Iligan Malaybalay Valencia Tagum Pagadian	Cotabato Dipolog Gen. Santos Koronadal Surigao Tacurong Zamboanga San Francisco

Corporate Structure

The Company has a total Authorized Capital Stock (ACS) of Five Billion Pesos (₱5,000,000,000.00) divided into five billion (5,000,000,000) shares with a par value of One Peso (₱1.00) each. Out of the ACS, three billion eighty-seven million eight hundred twenty-nine thousand four hundred forty-three (3,087,829,443) shares have been subscribed and paid-up. Of the total subscribed and paid-up capital stock, seven million eight hundred forty-one thousand one hundred eighteen (7,841,118) shares are foreign-owned.

In September 2012, the Company became a subsidiary of the STI Education Systems Holdings, Inc. (STI Holdings) through a share-for-share swap agreement with the shareholders of the Company. As at August 31, 2018 and 2017, STI Holdings owns 98.47% and 98.66% of the Company, respectively.

Capital Market Infrastructure

The Company's ₱3.0 billion bond issue has been assigned by Philippine Rating Services Corporation (PhilRatings) an Issue Credit Rating of **PRS Aa**, in its report to the Securities and Exchange Commission (SEC) dated January 23, 2017, which meant that the Company's proposed debt issue, as of date of report, is of "high quality and is subject to very low credit risk."

According to PhilRatings, "Obligations rated **PRS Aa** are of high quality and are subject to very low credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. PRS Aa is the second highest rating category on PhilRatings' existing credit rating scale."

On March 23, 2017, the Company listed its ₱3 Billion Series 7-year Bonds due 2024 and Series 10-year Bonds due 2027 on the Philippine Dealing and Exchange Corp. (PDEx) secondary market. 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 ₱3.0 billion bond issue is the first tranche of its ₱5.0 billion fixed rate bonds program under its 3-year shelf registration with the SEC. The proceeds of the first tranche of the debt securities program have been earmarked for the expansion of the Company's campuses, refinancing of short-term loans incurred for the acquisition of land, and other general corporate requirements (see Item 2 Properties/Campus Expansion).

Business Development

The Company is the largest subsidiary of STI Education Systems Holdings, Inc. ("STI Holdings"), a publicly-listed company. The Company is engaged in establishing, maintaining, and operating educational institutions. It derives its main revenues from the tuition and other school fees of its owned schools, and from the royalties, and other fees for various educational services provided to its franchised schools.

At present, the Company offers secondary (senior high school) and tertiary (college and TESDA) programs, as well as post-graduate and associate programs. The colleges offer associate/baccalaureate degrees and technical/vocational programs in the fields of Information and Communications Technology (ICT), Business and Management, Hospitality Management, Tourism Management, Arts and Sciences, Engineering, and Education. These programs are accredited by the Commission on Higher Education (CHED) and/or the Technical Education and Skills Development Authority (TESDA), as may be applicable. Also accredited by TESDA, the education centers of the Company offer technical/vocational courses for computer programming, computer technology, multimedia arts, and office administration, among others.

Enrollment

The Company had an average total enrollment of 74,524 for the first and second semesters of SY 2015–16. The average total enrollment continued to go up to 92,707 in SY 2016–17 or a 24.4% increase from the previous year's average total enrollment. This steady increase continued in SY 2017–18 as the number of enrollees went up by 1.52% and reached an average total enrollment of 94,117.

In SY2015–16, the total new college enrollees were 34,149, an 8.13% growth from the previous school year's count. With the full implementation of the K-12 program in SY 2016-17, a total of 37,571 Grade 10 students officially enrolled for Grade 11, while new college enrollees reached 8,586. The senior high school enrollees continued to increase in SY 2017-18 with 54,193, while college enrollees were at 5,265.

The average percentage of students retained in a semester in SY 2015-16 was at 96%. It increased to 97% in SY 2016-17 and remained the same in SY 2017-18. Meanwhile, the average percentage of students who migrated to the succeeding semester was at 92% in SY2015–16, and 94% in SY 2016-2017. In SY2017–18, the migration rate improved to 95%.

In the previous years, significant increases in the enrollment are more evident in the degree programs of the Company compared to its technical/vocational programs. Enrollment in the senior high school tracks and specializations, on the other hand, continued to increase following its nationwide implementation in SY 2016-17. The shares of associate and baccalaureate degree programs and technical/vocational programs in SY 2015-16 were at 85% and 12%, respectively, while the senior high school tracks and specializations was at 3%. Enrollment mix in SY 2016–17 was 56%, 5%, and 39% for associate and baccalaureate degree programs, technical/vocational programs, and senior high school tracks and specializations, respectively. Meanwhile, the enrollment mix posted in SY 2017-18 was 42% for associate and baccalaureate degree programs, 2% for technical/vocational programs, and 56% for senior high school tracks and specializations. The decline in the associate and baccalaureate degree programs and technical/vocational programs was mitigated by the surge in the population of senior high school.

Tuition Fee Increases

There was an average of 5% increase in the tuition fees and other school fees from SY 2015–16 to SY 2017-18.

New Programs/Majors and Revised Curricula

The Company regularly conducts market studies to determine what programs, both degree and technical vocational, are needed by the industry and the market. Moreover, revisions to existing programs are implemented to meet changes in the identified needs, as well as changes in government regulatory requirements.

Existing course offerings are likewise reviewed as needed. The streamlining of program curricula in response to the needs of the market and developments in the industry drives the rationalization of STI course offerings. There were no revised programs in SY 2015–16 and SY 2016–17. Meanwhile, for SY 2017-18, 13 programs were revised and five new programs were developed.

STI ESG's Standardized Courseware

The Company develops courseware to ensure the standard delivery of courses across all campuses in the STI network. These are sets of teaching materials used by the instructors which include the course syllabus with the course outline that sets the general objectives of the course, presentation slides, the class hand-outs and other materials for use throughout the duration of the course, with accompanying instructors' guides. The instructors' guides identify the specific objectives of each class session, the appropriate teaching methodologies to be used, and how the provided materials are to be used to achieve the set objectives. The courseware suited for delivery using LCD technology and other multimedia devices.

As of this writing, the Company has developed courseware for over 500 courses and new courseware materials are being developed as new courses and programs are offered. Moreover, existing courseware are regularly revised and updated to keep up with recent developments in the target industries.

In SY2017–18, 42 courseware materials were developed and revised for Arts and Sciences, IT and Engineering, Business and Management, Tourism Management, and Hospitality Management, while 67 courseware materials were developed and updated for Senior High School. These courseware materials were embedded with activities leading toward attainment of the STI 4Cs— Character, being Change-adept, being a good Communicator, and being a Critical Thinker — the required skills and attitude of top industries worldwide. The materials were also Outcome-Based Education (OBE)-aligned with assessment tools, rubric, and performance tasks. In addition, 103 courseware materials for SHS were uploaded on the eLearning Management System or eLMS in time for the Summer Remedial Program 2018. These are self-paced study versions of the regular SHS subjects with minimal teacher intervention.

Standardized Periodical Examination

The Standardized Periodical Examination for the preliminary, midterms, pre-finals, and finals period, which used to be outsourced to a third party, is being developed by the Company's Academic Research Group or ARG starting in SY 2015–16. In its first year, the group developed 550 exams in the first semester and 523 exams in the second semester. For SY 2016–17, the group prepared 646 exams in the first semester and 538 exams in the second semester. The number of exams developed by ARG continued to increase in SY 2017-2018 with 810 for the first semester and 749 for the second semester.

Milestones

The Company remains steadfast in its commitment to strive for academic excellence that is directed towards the development of the institution and the improvement of the quality of its students and graduates.

(a) *International Organization for Standardization 9001:2008 (ISO 9001:2008)*

In SY 2014–15, the Company received its ISO 9001:2008 certification for its Learning Delivery System. This system covers development of tertiary level courseware and curriculum, faculty training, and faculty certification. The network has worked to fulfill the requirements that included extensive research; training sessions on proper documentation and internal quality audit; documentation of policies, processes, and work instructions; and orientations given to the Company employees.

The ISO 9001:2008 is an international certification that indicates an institution's effectiveness and consistency in managing and carrying out its system regulation. The ISO certification has likewise verified the institution's world-class performance in its education delivery.

(b) *International Organization for Standardization 9001:2015 (ISO 9001:2015)*

The Company is one of the pioneer institutions who was awarded with the ISO 9001:2015 certification. It is a certification upgrade for its Learning Delivery System with emphasis on risk-based thinking, improved applicability for services, and increased leadership requirements. The transition plan started in 2016 wherein a series of activities was conducted to ensure successful fulfillment of requirements such as intensive gap analysis, brainstorming sessions, process reviews, process mapping, and risk identification, assessment, and treatment planning, among others.

The Learning Delivery System is communicated to its stakeholders through the organization's official website, periodic ISO orientation to new employees, and an ISO awareness campaign.

(c) *iLearn and Share*

In SY2015–16, the Company introduced iLearn and Share (iLS) activities to its senior high school students. These are performance tasks wherein students are assessed based on their products and/or performance, which serve as proof of how well they understood and learned the task. Students can then apply their learnings to real life situations.

During the SY 2017-18, Grade 12 Science, Technology, Engineering & Mathematics (STEM) and Humanities & Social Sciences (HUMSS) students, among other academic/technical-vocational strands, from across STI's network exhibited innovative products or services and inventions during the first Senior High School-I Learn & Share Exposition (SHS-iLS Expo). Representatives from the academe and industry sectors, STI alumni, business owners, government agencies, parents, and fellow students visited the various SHS-iLS Expos nationwide, of which many acted as "potential investors," voting for the best student exhibits, startup enterprises, products, and services. The SHS-iLS Expo's culminating activity is a simulation exercise of the real world that allows the Grade 12 students to become not only employees but also employers/entrepreneurs using their initiative and talents to design, produce, and even market their own creations while gaining lifelong learning and valuable experiences in the process.

Some of the standout projects are: the eco-friendly and lo-fi device Bambuzee, in which the device together with lens of a magnifying glass is attached to the mobile phone thus it becomes both a speaker and projector; another is the Coin Box that is made of cardboard and functions as a coin box receptacle; a Smart Waste Bin with notification capability through SMS technology wherein the school utility personnel are notified each time the garbage bin has reached maximum level; an Extension Outlet with Automated Timing Capability to prevent overcharging and overusing of electronic devices that may lead to fire incidents; and lastly, a safety and waterproof jacket for the motorcycle riders that is equipped with a detachable camera to record incidents or crimes and LED lights to make the riders more visible at night. Incidentally, the safety jacket also caught the attention of a Department of Trade and Industry

(DTI) representative, who was present during the Expo to give inspirational talk to the students. The DTI representative encouraged the students to mass produce the jacket and DTI will provide assistance on how to market the product.

(d) *Leaders Convention*

Held in Hong Kong from July 12-14, 2017, the 30th Annual STI Leaders' Convention highlighted the Company's enrollment and stock market performance following the bond offering, the challenges to be encountered in SY 2018-19 when the tertiary freshmen students re-enter the market, and the introduction of the Company's new battle cry which is STI Transform!

Rhodora Angela Fernandez-Ferrer, Executive Director of Private Education Assistance Committee (PEAC) National Secretariat, was once again invited to discuss the importance of sustaining the government subsidy to fulfill the government's mandate of providing and making basic education accessible to all. She also congratulated STI for obtaining the highest percentage of senior high school students in the market. STI campuses who have performed exceptionally well in academics and operations were likewise recognized through the School Achievement Awards.

The convention was attended by the Company Executives led by the Chairman of the Board Secretary Jesli A. Lapus and the Vice Chairman & CEO, Atty. Monico V. Jacob, School Leaders, School Operations Managers, and Senior School Administrators.

(e) *People Soft Campus Solutions (PSCS)*

Oracle's People Soft Campus Solutions is a student administration system that facilitates student admission, enrollment, assessment, and grading, among others. Paired with Report Services, a web-based application hosting the reportorial requirements of the Company, the PSCS was launched in SY2015–16 to STI's network of campuses. It catered to both the college and senior high school students of the Company. Available in real time, the STI schools are able to access numerous reports that they can also modify according to their own requirements. The reports are categorized into four (4)—Academics, Financials, Enrollment, and Government-mandated reports—using the SQL Server Reporting Services 2008 R2.

(f) *STI eLearning Management System*

In SY 2015–16, the Company launched the STI eLearning Management System (eLMS), a software application running on Amazon cloud, to better manage the delivery of educational courses and/or training programs to its students. The curricular course materials aim to augment classroom learning while the extra-curricular course materials are prepared to further nurture student development. The STI eLMS features a built-in support for collaboration through various tools such as wikis, forums, and discussion groups; an internal messaging system with bidirectional support for emails and text messaging; and a built-in portfolio system which students can use to collect works to support learning and/or achievements. With STI eLMS, STI students can now complete their lessons at their own pace, wherever they are.

(g) *Partnership with DepEd and other Educational Institutions*

As the largest pioneer school in Senior High School, the Company was invited by DepEd to share to the NCR Regional Directors, Division Superintendents, and Division Assistant Superintendents its wealth of knowledge and experience in implementing the Senior High School program in its 76 campuses nationwide: DepEd NCR Conference Room in January 2015, TYTANA College in July 2015, Polytechnic

University of the Philippines San Juan campus in October 2015, and Manila Ocean Park in Pasay City and Roosevelt College in Marikina, both in November 2015. In addition, during the K to 12 Convergence at Lucent Hotel in June 2015, STI was given a plaque of recognition for being one of DepEd's partners in the latter's K-12 anniversary celebration.

Student Development

The Company believes that learning should not be confined within the four corners of the classroom. With the effort to ensure that its graduates will be equipped with a well-rounded education that will help them reach their highest potential, the Company allows students to explore, enjoy, and learn through a wide array of academic, co-curricular, and extra-curricular activities.

(a) *Halalan 2016*

In partnership with ABS-CBN's advocacy arm Bayan Mo, iPatrol Mo (BMPM), STI students went through preparations such as workshops on citizen journalism and Voter's Ed prior to election. And on Election Day, the students became budding journalists as they received and verified reports about the ongoing elections via social media platforms such as Facebook and Twitter. The partnership between STI and broadcasting giant ABS-CBN has now spanned for almost two decades and has molded the students to be more aware and involved in shaping the country's future.

(b) *The STI National Youth Convention (STI NYC)*

Since 1995, the STI NYC has been an annual venue where students are provided with opportunities to learn the latest trends from industry leaders and motivate them to apply the values and information they have gained with the objective of contributing to their school and community. The theme and topics vary every school year but always focus on alternative and innovative learning to discover the latest trends in technology, acquiring the most in-demand and job-ready skills, and enhancing specific values anchored on attributes that a model citizen should exhibit.

In SY 2015–16, the there were 39,467 attendees with the convention held in nine different areas. Meanwhile, in SY 2016–17, there were 36,587 students who attended the STI NYC that was held in 12 venues: San Fernando in Pampanga, Legazpi, Baguio, Cebu, Kalibo, Bacolod, Sta. Rosa in Laguna, Pasay, North EDSA, Cagayan de Oro, Davao, and General Santos. However, due to the moratorium issued by CHED and DepEd on educational trips, the last three legs of the convention (namely, Cagayan de Oro, Davao, and General Santos) were cancelled. The moratorium was lifted during SY 2017-2018. Thus, the institution plans to bring back and continue the annual convention in the coming school years.

(c) *Tagisan ng Talino (TNT)*

The TNT is an annual academic competition that tests the competencies of students on impromptu speech, essay writing, mobile app development, cooking, cake and table design, flairtending, tour guiding, and general knowledge. Over the years, specific competitions comprising the TNT have been enhanced to ensure that the competitions' objectives are met. SY 2017-2018 also witnessed the launch of three new competitions.

For SY 2015–16, 933 students participated in eight various competitions and it increased to 958 in SY 2016–17. In SY 2017–18, 1,022 students participated in all 11 competitions.

(d) *Tagisan ng Sining (TNS)*

The TNS is an annual competition that aims to challenge the students' artistry, creativity, and originality in the field of photography and music video making. In SY 2015-16, 211 students from STI campuses nationwide participated in the TNS. The number of participants significantly increased to 222 students in SY 2016-17 and even surged higher to 922 in SY 2017-18.

(e) *Talent Search*

The STI Talent Search uncovers the innate talent of STI students nationwide — from singers and musicians to dancers and up-and-coming models. Every year, all STI campuses nationwide send a total of over 100 contestants to compete in nine (9) regional sites before advancing to the National Finals in events like the STI Singing Idol competition, Battle of the Bands, Hataw Sayaw Dance competition, and the search for Mr. and Ms. STI.

In SY 2015–16, the event had a delegation of 21,177 students to celebrate the founding anniversary of STI while in SY2016–17, the attendees slightly increased to 23,308 students. InSY2017–18, there were 16,116 who witnessed the commemoration of STI's 34th Anniversary.

Since SY 2016-2017, the talent search has been shown live on the STI Official Facebook Fan Page.

(f) *National Basketball Tournament (NBT)*

To promote sportsmanship, camaraderie, and team spirit amongst students, STI conceptualized the National Basketball Tournament, a sports program for STI basketball teams nationwide. In SY 2015-2016, STI West Negros University grabbed the championship title besting 51 teams. The following year, 51 schools once again joined the tournament with STI College Santa Rosa declared as champions. In SY 2017-2018, STI West Negros University came out on top and ruled over the different teams from 53 campuses.

(g) *Women's Volleyball Challenge (WVC)*

This is a sports program intended for the female students of STI. Aside from developing the physical attributes of the students, the WVC also aims to instill in them the value of discipline and further strengthen their character. In SY 2016–17, 24 select schools from Metro Manila joined the 1st WVC with STI College Sta. Maria besting all the other teams and recognized as the tournament's champions.

(h) *National Volleyball League (NVL)*

Following the success of the Women's Volleyball Challenge, the sports program was redeveloped and launched to include all STI campuses nationwide. With the same objectives, the first National Volleyball League was staged in SY 2017-2018 with 44 campuses joining the national tournament and STI West Negros University claiming the first NVL championship title.

(i) *Leaders Enhancement of Attributes Program (LEAP)*

LEAP is a leadership program for the senior high schools students. It aims to empower the student leaders in embracing and establishing a dynamic and concrete culture of excellence in academics, extra-curricular activities, and also career planning through various sessions, and activities. In each session, the participants are tasked to do action plans in which the new information and learnings they gained must be echoed and transferred to their classmates in their homeroom class through the Student Engagement and Educational Development (SEED).

The program was piloted at STI College Ortigas-Cainta with 72 student leaders as participants. The program participants received various internal and external awards such as academic honors, leadership awards, and recognitions during their graduation. Due to the positive results of the pilot program, LEAP will now be implemented in other STI campuses in SY 2018-19.

(j) *Student Leaders' Congress (SLC)*

The SLC is a leadership program that nurtures outstanding student leaders from STI campuses nationwide. It aims to hone the leadership skills and potential of students to become catalysts for positive change in their communities. Held at the STI Academic Center Ortigas-Cainta in SY 2015–16, 40 delegates from the STI network of schools participated. In SY 2016–17, the SLC was once again held at STI Academic Center Ortigas-Cainta and the participants slightly increased to 47.

(k) *Post-Graduation Report*

The STI Alumni Relations, Placement, and Linkages (STI APL) department conducts a survey of the graduating class to track employment rate 12 months after graduation. This is facilitated through each STI School's Alumni and Placement Office. For SY 2016–17, 54% of the surveyed graduates were employed within six months after graduation and 61% were employed after one year.

(l) *Interactive Career Assistance and Recruitment System (ICARES)*

Still as part of the job placement assistance of STI, the STI APL institutionalizes partnerships locally and internationally to help increase the employability of graduates through the Interactive Career Assistance and Recruitment System.

The ICARES is an exclusive job search system for STI graduates that facilitates the easy dissemination of STI's partners for their placement opportunities and provision of candidates (STI graduates) to fill in job openings. Partners for the job placement of STI graduates are enabled to post their job openings and request for lists of graduates through www.i-cares.com or the ICARES at no cost. Registration with ICARES is required for all graduating STI students In SY 2015-2016, 136 partners utilized the ICARES where 91 of its partners were able to post job vacancies on the ICARES website. These numbers increased in SY 2016–17 to 163 partners with 131 partners posting job opportunities on the website. In SY 2017–18, there were 297 unique job posting with 131 partner companies utilizing the ICARES website.

On-the-ground school activities such as job fairs are conducted for recruitment purposes and to provide employment preparation seminars to graduating STI students Thirty-four (34) institutional partners participated in the Company job fairs in SY 2015–16, 38 in SY 2016-2017, and 42 in SY 2017–18. Schools nationwide also have local partnerships within their community to provide graduating students more avenues.

(m) *The STI Distinguished Alumni Awards*

SY 2014-15 marks the launch of the STI Distinguished Alumni Awards (STIDAA). STI campuses nationwide nominated alumni who have received distinction and achievement in their chosen field. The winners — Jose Agustinho Salvador, Janice Lagundi, Felix Emradura, Michael Cunanan, and Edward Czar Aquino —

were awarded on April 30, 2015 during the Achievers' Night of the 2015 STI Leaders' Convention held at the Boracay Regency Hotel Resort and Spa.

On its second year, another batch of exemplary alumni were recognized on April 28, 2016 at the Hennan Resort Alona Beach, Bohol. These are Raquel Gamboa, Benjamin Carbonell, and Julius Serrano.

On its third year, the STIDAA awarded a new group of alumni who stood out from the other nominees. Elmar Dalope, Melmar Quejada, Gretchen Abaniel, Reggie Camoñas, Janine Pring, Matio Morales, Mark Ian Ignacio, and Lambert Armada were honored on April 20, 2017 at the Okada Manila.

In SY 2017-18, STIDAA recognized the largest group of alumni who stood out from 108 nominees. The 2018 STIDAA National Awardees — Richard B. Bucag, Arielle Jazmine A. Llanes, Grant C. Matabaran, Enrico M. Delima, Ian Wendell A. Sison, Ma. Yhelen Patag-Sur, Rhosemer Porquillo-Bundac, Mary Grace Jedaver P. Opingo, Wilbert B. Aquino, Anthony L. Ang, Ethelwin B. Manalo, and Noriel P. Ramos — were recognized on May 4, 2018 at the Okada Manila

Institutional Linkages

The Company establishes, maintains, and promotes partnerships with the legitimate members of the industry to increase our students and graduates' employability under the institutional linkages. Through these linkages, opportunities such as on-the-job training (OJT), employment, courseware enhancements, and faculty development are made available to the Company, its students, and partners. In addition, activities such as mock interviews, employment preparation seminars, job fairs, scholarships, postings of employment opportunities, and faculty trainings are also made possible.

(a) *Junior Achievement of the Philippines, Inc. (JA Philippines)*

The Company partnered with JA Philippines, a member of the international organization Junior Achievement Worldwide, a non-profit group dedicated to educate young business minds about workforce readiness, entrepreneurship, and provide financial literacy through hands-on programs.

This collaboration will bring JA Philippines' Business Skills Pass (BSP) program to select STI campuses for the Accountancy, Business, and Management (ABM) students. It is divided into two programs: Be Entrepreneurial for the Grade 11 students and the JA Company of the Year Program for the Grade 12 students. For SY 2017-2018, the Be Entrepreneurial program was implemented to select STI campuses. The culminating activity for the Be Entrepreneurial program is the business plan development and presentation. In the said activity, STI College Novaliches placed 2nd runner-up in the Business Plan Presentation Competition.

(b) *British Council*

Outcome-Based Education (OBE) is essentially designed to focus on what the students should demonstrate and possesses knowledge, skills, and values after the completion of each course. In OBE, students should be able to shape themselves by starting with the desired end in mind and working backwards to innovate the learning activities and methods of assessment.

In SY 2015-2016, the British Council and the Company collaborated towards innovative learning and held a training workshop for the Company's Content Developers for both tertiary and Senior High School to equip them with skills in improving the Company's OBE and their methods of assessing the students' OBE performance. The participants were taught how to develop assessment tools to help them prepare OBE aligned learning content based on international best practices and keep track with the performance of their students. Meanwhile, in SY 2017-2018, another training was conducted to faculty members to assess their proficiency in speaking, writing, listening, and reading in the English language.

(c) *National Institute of Accounting Technicians (NIAT)*

Through this partnership, the Company has earned the recognition of the business and accounting courses under the Bachelor of Science in Accounting Technology (BSAT) program, qualifying STI students for the three-part CAT® licensure examinations without additional training that is required for BSAT graduates of non-recognized schools.

The recognition the Company received from NIAT not only acknowledges the Company 's design of the BSAT program, but also helps propel the success of the accounting technology career of students undergoing the program. Passing each level of the exams confers an honorific that is recognized by the Institute of Certified Bookkeepers of UK, Institute of Certified Management Accountants (ICMA) in Australia, and Association of Accounting Technicians of UK, giving the passers a promising future abroad.

(d) *Department of Labor and Employment (DOLE)*

DOLE exempts STI schools from applying for a job fair permit provided that it will be held within the school premises. In addition DOLE will provide a speaker to join our schools' job fair events to educate our graduates of their rights and responsibilities as prospective employees to become productive members of society. In return, the Company extends its assistance by promoting and cascading DOLE's mandate of ensuring the jobseeker's protection in any employment facilitation related activities to its schools nationwide.

(e) *InterContinental Hotels Group (IHG)*

The alliance between the Company and IHG will provide internship programs to qualified students in any 4-year program from any campus nationwide. This program includes the following: (1) an orientation to prepare interns; (2) a formal training in a real life workplace; and (3) other activities conducted by the facilitators to help gauge the students' practical aptitude. Their performances will be monitored by industry experts through monthly and term-end evaluations. Upon the completion of the program, interns will be granted certificates to recognize their participation and accomplishment. With the promise of providing students with a memorable and unparalleled internship experience, interns can look forward to gainful learning at Holiday Inn and Crowne Plaza.

(f) *The Asia Foundation*

The Company, led by Atty. Monico V. Jacob, Chief Executive Officer, signed a Memorandum of Agreement (MOA) with Asia Foundation led by its Country Representative Dr. Steven Rood on August 19, 2015. The partnership is another milestone in the Company's advocacy to empower the future through educational opportunities for public school teachers, students, and disadvantaged youths. In this collaboration, the Company was allocated with 66 US-produced reference books for the school's library. In return, Asia Foundation will match this with another set of reference books for donation to one public high school. STI schools likewise each donated $132 to Asia Foundation to ensure the continuance of this program. Through this partnership, the Company was able to donate books to different schools in Metro Manila and South Luzon in SY 2015–16, and to schools in Northern Luzon and Mindanao in SY 2016–17.

(g) *Tiger Resort, Leisure & Entertainment, Inc.*

Tiger Resort is the newest and largest gaming and entertainment destination in Asia. It is also the company behind Okada Manila, a casino resort and hotel complex located in the fast-rising Entertainment City. STI's partnership with Tiger Resort will open career opportunities for STI graduates as they get access to the resort's job openings while the students will be able to participate in its internship program.

Scholarships

The Company partnered with various companies to aid in scholarship programs and increase employment opportunities for STI's graduates.

(a) *Gift of Knowledge*

To provide educational opportunities to deserving individuals who have no means of pursuing postsecondary education, the Company, through the STI Foundation for Leadership in Information Technology and Education, Inc. (STI Foundation), strengthens its partnership with various TV programs from different TV networks. There were 22 scholars registered through the TV programs in SY 2015–16, 53 scholars in SY 2016–17, and 65 scholars in SY 2017-2018.

(b) *Sponsored Scholarship Programs*

The Company and STI Foundation continually strengthen partnerships with corporations and government organizations to be able to provide scholarship programs to support the tertiary education of deserving individuals.

The STI Foundation and its partners were able to support 169 scholars nationwide in SY 2015-16, and 187 scholars in SY 2016-17. The number of scholars continued to increase reaching 400 in SY 2017-18.

(c) *Community Extension and Outreach Programs*

Given the national reach of the Company, it has taken it upon itself to hold socially responsible activities that are aimed to better the communities that individual campuses belong to, and at the same time, develop a positive environment that will be beneficial to all stakeholders.

(d) *The STI Foundation*

The STI Foundation aims to contribute to the improvement of the country's educational system through programs and projects that address the digital divide and promote excellence in education.

(e) *Alternative Learning System (ALS)*

STI Foundation responded to the call of DepEd for the private sector's participation and support in their ALS program, a non-formal education to help learners who wish to complete their basic education. The ALS program also aims to address the problem on the growing number of students who drop out of school every year.

The Company then reached out to out-of-school youth aged 15 and above who still have not finished their secondary education and cannot afford to go through formal schooling. The ALS sessions are conducted every Saturday and employ blended and collaborative modes of instruction (face-to-face instructions), e-learning materials (e-Skwela), and performance-based assessment to prepare and equip the ALS learners with the knowledge required to pass the Accreditation and Equivalency (A&E) Test given by DepEd. In SY 2015–16, out of the 29 ALS Learners who took the A&E test, 12 passed the test and received certificates equivalent to high school diploma. Meanwhile, for SY 2016-2017, 94 ALS learners took the A&E test last October 2017 and 55 of them passed.

(f) *The STI Mobile School*

The STI Mobile School is a fleet of tourist-sized buses that have been converted into roving computer laboratories. Each bus is equipped with a state-of-the-art computer laboratory with internet access, multimedia computers, LCD monitors, sound system, and other top-of-the-line computer equipment.

Since SY 2011–12 until SY 2017-18, the STI Mobile School has travelled to 1,192 sites and trained 168,015 participants nationwide. Today, a total of six mobile school buses travel across Luzon, Visayas, and Mindanao.

(g) *Adopt-a-School Program*

The Company received a Certificate of Appreciation from DepEd for being one of its active partners in the implementation of the Adopt-a-School program. With this alliance, STI Mobile School or the computer laboratory on wheels was utilized to provide alternative learning facilities to DepEd's high schools in far-flung communities to teach basic skills on computer concepts, GNU Image Manipulation Program (GIMP), multimedia animation, audio editing, and movie presentation through ICT-enhanced training sessions.

STI Foundation extended assistance to various special community development projects, outreach programs, and humanitarian services in SY 2015–16 to help tackle the needs of the disadvantaged sectors and other organizations.

In support of the DepEd's back-to-school efforts, the Company, through its advocacy arm STI Foundation, donated over 1,400 sets of school uniforms to public schools in Mt. Pulag, Bukidnon, and Maguindanao. In addition, assorted books, uniforms, and merchandise items were donated to Department of Social Welfare and Development (DSWD) Region 4-A, Friendship Home Fr. Luis Amigo in Manila, Bantay Batas DASALKA in Antipolo, and Mandaluyong National High School. Moreover, the turnover of donations coincided with DepEd's Brigada Eskwela at Carlos L. Albert High School in Quezon City on May 20, 2015 where employees volunteered along with other private partners including Meralco Foundation, Maynilad, and Samsung Foundation. STI Foundation continued to support the Brigada Eskwela progam as volunteers from the Company went to Taytay National High School in Taytay, Rizal on June 3 and 10, 2017 to assist in the clean-up and installation of computers donated by the DepEd Central Office in the computer laboratory.

(h) *Community and Civic Engagements*

STI Foundation collaborated with Caritas Manila's Segunda Mana Project in the latter's goal of generating in-kind donations such as clothes, toys, shoes, and others to be given away to the recipients of the Caritas Manila. Meanwhile, STI Foundation worked with the Ortigas Library Foundation and turned over English and Science books to select provincial public schools and libraries. The Foundation also donated uniforms to the beneficiaries of the Religious Missionaries of the Divine Savior, the victims of the Mayon Volcano eruption through the DepEd Central Office, and the beneficiaries of the National Youth Commission.

Through the Company's partnership with the National Grid Corporation of the Philippines (NGCP), a privately-owned corporation in charge of operating, maintaining, and developing the country's state-owned power grid, STI Foundation facilitated the installation and regular maintenance of computer units donated by NGCP to 34 public elementary and high schools nationwide

(i) *One Million Lapis Campaign*

STI Foundation worked with the DepEd, DSWD, Department of Interior and Local Government (DILG), and other agencies in support of the One Million Lapis campaign organized by the Council for Welfare of Children (CWC). This advocacy aims to collect one million pencils to be given to underprivileged students in elementary schools nationwide. STI Foundation along with the STI network of schools turned over more than 35,000 pencils to DepEd and CWC on November 20, 2016.

<u>Business of Issuer</u>

The Company and its subsidiaries, as educational institutions, derive its main revenues from tuition and other school fees from its owned schools and royalties and other fees for various educational services provided to franchised schools.

The Company offers secondary (senior high school) and tertiary (college and TESDA) programs, as well as post-graduate and associate programs. The colleges of the Company offer associate/baccalaureate degree and technical/vocational programs in the fields of ICT, Business and Management, Hospitality Management, Tourism Management, Arts and Sciences, Engineering, and Education. These programs are accredited by CHED and/or TESDA, as may be applicable. The education centers of the Company offer technical/vocational courses for computer programming, computer technology, multimedia arts, and office administration, among others. The programs in the education centers are accredited by TESDA.

STI ESG School Programs

BS in Information Systems
BS in Computer Science
BS in Information Technology
BS in Information Technology major in Network Engineering*
BS in Information Technology major in Digital Arts*
BS in Accountancy
BS in Management Accounting
BS in Accounting Information System
BS in Accounting Technology*
BS in Business Administration major in Operations Management
BS in Business Management major in Operations*
BS in Office Administration*
BS in Office Administration with specialization in Customer Relations*
BS in Hospitality Management
BS in Culinary Management*
BS in Hotel and Restaurant Management*
BS in Tourism Management
BS in Travel Management*
BS in Computer Engineering
BA in Communication
Bachelor of Multimedia Arts

Bachelor of Secondary Education major in Mathematics
Bachelor of Secondary Education major in Computer Education
Master in Information Technology
3-year Hotel and Restaurant Administration*
2-year Information Technology Program
2-year Hospitality and Restaurant Services
2-year Tourism and Events Management
2-year Computer and Consumer Electronics Program*
2-year Multimedia Arts Program*
Senior High School

**These tertiary programs are offered only to 2nd year students and above.*

In 2014, DepEd granted permit to offer Senior High School to 67 STI schools. In June 2014, 32 the Company's schools were able to pilot Senior High School with a total of 1,195 students. For SY 2015-2016, four more schools started their Senior High School program and the total number of students increased to 1,577. In SY 2016-2017, all 76 schools in the STI network were granted the DepEd permit to offer Senior High School. For SY 2017-2018, SHS students of the Group totaled to 54,193.

Senior High School Program

1. Academic Track
 Accountancy, Business, and Management
 Humanities and Social Sciences
 Science, Technology, Engineering, and Mathematics
 General Academic Strand

2. Technical-Vocational-Livelihood Track
 ICT Strand with specializations in:
o Computer Programming
o Animation
o Illustration
o Broadband Installation
o Computer Hardware Servicing

 Home Economics Strand with specializations in:
o Commercial Cooking
o Cookery
o Bartending
o Food and Beverage Services
o Tour Guiding Services
o Travel Services
o Tourism Promotions Services
o Front Office Services
o Housekeeping

 Industrial Arts Strand with specialization in:
o Consumer Electronics Servicing

Professional Accreditations

International Organization for Standardization 9001:2008 (ISO 9001:2008)

In November 2014, the Company was recommended by the ISO certifying body TÜV Rheinland Philippines Inc. for ISO 9001:2008 certification. On February 5, 2015, the Company received the official ISO9001:2008 Certification for its Learning Delivery System. The ISO 9001:2008 certification is a milestone for the institution's thrust towards academic excellence by reaching global standards in its learning delivery system.

International Organization for Standardization 9001:2015 (ISO 9001:2015)

The Company was awarded with the ISO 9001:2015 certification on February 5, 2018 for its Learning Delivery System. It is another milestone for the Company as it became one of the pioneer institutions to be recognized as ISO 9001:2015 certified.

Employees

As of August 31, 2018, the Company had 2,089 employees, 1,395 of whom were faculty members, 460 were non-teaching personnel, and 234 employees were from the main office. The Company provides employees with development programs that assist them in effectively carrying out their jobs and prepare them for career advancement.

	Function	Number of Employees
Main Office	Senior Management Managers Staff	13 67 154
	Sub-Total	**234**
STI Schools	Teaching personnel (wholly-owned schools) Non-teaching personnel (wholly—owned schools)	1,395 460
	Sub-Total	**1,855**
	TOTAL	**2,089**

<u>Market for Company's Common Equity and Related Stockholder Matters</u>

(1) Market Information

The Company has a total Authorized Capital Stock (ACS) of Five Billion Pesos (PhP5,000,000,000.00) divided into five billion (5,000,000,000) shares with a par value of One Peso (PhP1.00) each. Out of the ACS, three billion eighty-seven million eight hundred twenty-nine thousand four hundred thirty-three (3,087,829,433) shares have been subscribed and paid-up. The common shares of the Company are not traded in any market, nor are they subject to outstanding warrants to purchase, or securities convertible into common shares of the Company.

(2) Holders

Foreign ownership limit for the Company is forty percent (40%) of the issued and outstanding common shares, equivalent to 1,232,750,868 common shares. Total shares owned by foreign shareholders as of August 31, 2018 was 7,841,118, equivalent to 0.25% of the outstanding common shares of the Company.

As of August 31, 2018, there were sixty-four (64) 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 August 31, 2018:

	Name	**No of Shares Owned**	**% Ownership**
1	STI HOLDINGS	3,040,623,037	98.47
2	PRUDENT RESOURCES, INC.	13,382,275	0.43
3	GONZALES, FRANCISCO B. JR.	8,873,692	0.29
4	ROSSI, PURIFICACION G.	7,841,118	0.25
5	PRUDENCIO, TOMAS J.	3,732,400	0.12
6	SANTOS, MARIA LOURDES	1,725,000	0.06
7	YOUNG, CAROLINA	1,651,828	0.05
8	RAMOS, DULCE	1,155,447	0.04
9	BUSTOS, FELIXBERTO	792,283	0.03
10	DOMINGO, EMERITA R.	303,466	0.01
11	VALERIO, MIKAEL M.S.	241,279	0.01
12	ZARASPE, ANACLETA C.	214,038	0.01
13	MONES, REYNALDO A.	201,901	0.01
14	HEIRS OF EDGAR SARTE	148,622	0.00
15	RELLEVE, ALVIN K.	137,338	0.00
16	PUBLICO, EDGARDO	122,080	0.00
17	DUJUA, JOCELYN	115,532	0.00
18	GARCIA, NOEL B.	83,190	0.00
19	MADRIGAL, VICTORIA P.	63,384	0.00
20	LAO, ERIENE C.	63,384	0.00

**5,952,273 shares were issued to STI Education Services Group, Inc. as a result of the merger between STI Taft and STI Dagupan, resulting to 0.19% ownership of the Company.*

(3) Policy on Dividends Declaration

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

The BOD approved a dividend declaration policy equivalent to 25% to 40% of the core 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.

Core 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 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 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 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 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.

Dividend History:

Declaration Date	Dividends per Share	Amount
19 September 2017	PhP0.08	PhP246.5 Million
20 September 2016	PhP0.27	PhP832.1 Million
9 September 2016	PhP0.08	PhP246.5 Million
4 September 2015	PhP0.08	PhP250.0 Million

On September 4, 2015, the Company's BOD approved the cash dividends declaration amounting to ₱250.0 million, or ₱0.08 per share, in favor of the stockholders of record as at 31 August 2015. Such dividends were paid on September 16, 2015.

On September 9, 2016, the Company's BOD approved the cash dividends declaration amounting to ₱246.5 million, or ₱0.08 per share, in favor of the stockholders of record as at September 9, 2016. Such dividends were paid on September 15, 2016. On September 20, 2016, the Company's BOD also approved the cash dividends declaration amounting to ₱832.1 million, or ₱0.27 per share, in favor of stockholders of record as at September 20, 2016. The Company paid P431.5 million and P400.6 million dividends to its stockholders on September 23, 2016 and November 3, 2016, respectively.

On September 19, 2017, the Company's BOD approved the cash dividends declaration of ₱0.08 per share for a total amount of ₱246.5 million, in favor of the stockholders of record as at September 30, 2017. Such dividends were paid on October 19, 2017.

(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 the Company (or the "Parent Company") and its subsidiaries (hereafter collectively referred to as the "Group") for the fiscal years ended March 31, 2018, 2017 and 2016. The following discussion should be read in conjunction with the attached audited consolidated financial statements of the Group as of and for the year ended March 31, 2018 and for all the other periods presented.

Financial Condition

Three-month period ended June 30, 2018 vs. three-month period ended June 30, 2017

The Group's total assets as at June 30, 2018 amounted to ₱12,157.1 million, 12% or ₱1,266.2 million higher than the balance as at March 31, 2018. This was largely due to ₱694.2 million increase in receivables, mostly pertaining to receivables from students and from DepEd for tuition and other school fees and the ₱410.1 million increase in property and equipment as construction projects continued in full swing.

Cash and cash equivalents increased by 11% or ₱184.0 million as collections were received from students for tuition and other school fees.

Total receivables amounted to ₱1,107.5 million, up by ₱694.2 million from ₱413.3 million as at 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 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. Property and equipment, net of accumulated depreciation, increased by ₱410.1 million from the March 31, 2018 balance of ₱6,197.6 million to ₱6,607.7 million as at June 30, 2018 as construction projects continued.

Total current liabilities increased by ₱1,360.8 million to ₱1,955.9 million as at June 30, 2018 from ₱595.1 million as at March 31, 2018, mainly due to ₱1,038.2 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 attributable to equity holders of the Parent Company decreased by 1% or ₱94.9 million from ₱6,612.2 million as at March 31, 2018 to ₱6,517.3 million as at June 30, 2018.

March 31, 2018 vs. 2017

The Group's total assets as at March 31, 2018 decreased by ₱195.2 million to ₱10,890.9 million from last year's ₱11,086.1 million. Cash and cash equivalents declined by ₱1,262.9 million as a result of continued capital expenditures, payment of loans and interest payments made by the Company on its loans and bonds. On the other hand, property and equipment increased by ₱932.1 million as real properties are acquired and construction continued in full swing.

Cash and cash equivalents decreased by 44% from ₱2,880.3 million as at March 31, 2017 to ₱1,617.4 million as at March 31, 2018 as a result of continued capital outlays on expansion projects which were funded by the proceeds of the bond offer, as well as payment of bank loans and interest payments on bonds.

Receivables, which consist mainly of receivables for tuition and other school fees, increased by ₱61.7 million or 18%. The balance is composed mostly of amounts expected to be collected from students and from DepEd which amounted to ₱248.6 million and ₱50.0 million as at March 31, 2017, respectively, and ₱273.9 million and ₱107.9 million as at March 31, 2018, respectively. 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 15% or ₱17.9 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 decreased by ₱13.4 million or 12% from ₱109.9 million to ₱96.5 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, the Company purchased three parcels of land along EDSA, Pasay City with a combined land area of 3,911 square meters. This is intended to be the site of the nine-storey STI Academic Center Pasay-EDSA with roofdeck, 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 with the Company, with the Company 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, the Company 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. The Company paid 30% down payment inclusive of VAT and related taxes, net of ₱0.2 million reservation fee, amounting to ₱67.5 million on the same month. the Company, 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 covering the period January to December 2018, brought down "Prepaid taxes" by ₱17.9 million compared to ₱91.0 million balance as at March 31, 2017.Prepaid license increased by ₱8.1 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 the Company's 20% ownership in Maestro Holdings, Inc. This company owns the following operating companies: a) 100% of PhilPlans First, Inc; (b) 99.89% of PhilhealthCare, Inc. and c) 70.6% of Philippine Life Financial Assurance Corporation ("PhilLife").

On June 27, 2017, the Company's BOD approved the disposal of this 20% stake in Maestro Holdings. Final negotiations for the sale are ongoing. As such, the Company reclassified its investments in Maestro Holdings as "Noncurrent Asset Held for Sale" in June 2017 and presented the same under the current assets portion of the Statements of Financial Position. Further, with the reclassification as noncurrent asset held for sale, the Company ceased the use of the equity method of accounting for the investment in Maestro Holdings as at June 30, 2017. "Investments in and advances to associates and joint ventures" consequently decreased by the same amount.

Property and equipment, net of accumulated depreciation, climbed by 18% or ₱932.1 million from ₱5,265.5 million to ₱6,197.6 million as at March 31, 2017 and 2018, respectively. As part of the continued expansion projects, the Company acquired parcels of land in Lipa and Legazpi amounting to ₱99.0 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. 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.

Investment properties declined by ₱28.6 million from ₱578.8 million to ₱550.2 million representing depreciation expense recognized for the period.

Investments in and advances to associates and joint ventures decreased by ₱820.6 million from ₱1,335.5 million to ₱514.9 million as at March 31, 2017 and 2018, respectively, with the reclassification of the investment in Maestro Holdings amounting to ₱716.6 million to "Noncurrent Assets Held for Sale". Equity share in net losses amounting to ₱218.2 million recognized during the period April to June 2017, contributed to the decrease. Inter-company receivables are generally settled in cash.

Available for Sale Financial Assets increased by ₱16.5 million from ₱50.9 million to ₱67.4 million as at March 31, 2017 and 2018, respectively, with the reclassification of the deposit for the purchase of proprietary shares in a development in Batangas amounting to ₱16.1 million to "Available for Sale Financial Assets" in December 2017.

Deferred tax assets (DTA) decreased by ₱1.5 million primarily due to the deferred tax liability (DTL) on the remeasurement gains recognized as the market value of the pension plan's investment in equity shares improved significantly for the year ended March 31, 2018. DTA is presented net of DTL.

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 ₱136.3 million from to ₱378.2 million to ₱514.5 million as at March 31, 2018 mainly due to noncurrent advances to suppliers/contractors in connection with construction activities for the period which increased by the same amount as at March 31, 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 its school's assets and liabilities for a price of ₱20.0 million. The assignment of the net assets was effective April 1, 2017. Consequently, the initial deposits made, which was previously recognized under "Deposits for asset acquisitions" with a total amount of ₱18.0 million were applied and STI Sta. Maria paid the remaining balance of ₱2.0 million. 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 Company's short-term loan balance amounted to ₱545.0 million and nil as at March 31, 2017 and 2018, respectively. The Company 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.

Accounts payable and other current liabilities increased by ₱7.4 million largely due to the additional payables recognized in relation to construction works in various STI campuses.

Current portion of interest-bearing loans increased by ₱93.6 million, net of payments made during the year, while non-current portions of borrowings decreased by ₱134.4 million, arising from the reclassification of the total amount due within the coming fiscal year.

Unearned tuition and other school fees increased by ₱24.4 million from ₱29.6 million as at March 31, 2017 to ₱54.0 million as at March 31, 2018 substantially attributed to advance payments of tuition fees and other school fees of incoming students for SY 2018-2019. The unearned revenue will be recognized as income over the incoming school term.

Current portion and noncurrent portion of obligations under finance lease increased by ₱1.5 million and ₱7.6 million, respectively, as at March 31, 2018 with the acquisition of property and equipment under finance lease.

Income tax payable decreased to ₱13.7 million as at March 31,2018 from ₱14.3 million as at March 31, 2017 due to lower taxable income.

The Company listed its ₱3 Billion Series 7-year Bonds due 2024 and Series 10-year Bonds due 2027 on the Philippine Dealing and Exchange Corp. (PDEx) secondary market on March 23, 2017. This is the first tranche of its ₱5,000.0 million 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 23% to ₱4.7 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 as a result of pre-termination of lease contracts. In addition, STI Novaliches' other 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 ₱7.1 million representing current portion as at March 31, 2018.

Relative to the merger of STI Taft and STI Dagupan with the Parent Company in August 2017, the Company 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 pursuant to a Bureau of Internal Revenue requirement on mergers. Consequently, capital stock increased by ₱5.9 million from ₱3,081.9 million to ₱3,087.8 million and the Company recognized treasury shares amounting to ₱10.8 million. Additional paid-in capital increased by ₱7.0 million from ₱379.9 million to ₱386.9 million.

Other equity reserve changed by ₱2.1 million from ₱28.8 million to ₱30.9 million as at March 31, 2018 representing additional paid-in capital recognized on the issuance of shares related to the merger.

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 ₱91.9 million represents the Company'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 up to June 30, 2017, which is the date of reclassification.

As at March 31, 2018, the Company's cumulative actuarial gain increased by ₱46.8 million from ₱35.8 million to ₱82.6 million as at March 31, 2017 and March 31, 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 Company's unrealized mark-to-market losses on its available-for-sale financial assets amounting to ₱24.6 thousand as at March 31, 2017 registered unrealized mark-to-market gains of ₱0.4 million as at March 31, 2018, due to the higher market value of the Manulife shares held by the Company.

The share in associates' remeasurement loss on life insurance reserves amounting to ₱18.3 million shown in the equity side of the audited consolidated statements of financial position as at March 31, 2017 was reclassified to noncurrent asset held for sale as at March 31, 2018. This represents the share of the Company in the restatements made by Maestro Holdings as a 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 (see discussions in subsequent paragraphs).

The Group's share in its associates' unrealized mark-to-market losses on their available-for-sale financial assets and cumulative actuarial gain amounting to ₱16.5 million and ₱0.7 million, respectively, as at March 31, 2017 registered unrealized mark-to-market loss and cumulative actuarial gain amounting to ₱32.0 thousand and ₱0.6 million, respectively, as at March 31, 2018. The amount of ₱ 16.4 million which is part of the ₱16.5 million reported 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 balances shown as at March 31, 2018 do not include any amount pertaining to the reclassified noncurrent asset held for sale. The share in associates' other equity reserve of ₱0.7 million reported as at March 31, 2017 corresponds to the 20% investment share in Maestro Holdings and is part of the reclassification made in June 2017.

Retained earnings, net of cash dividends declared in September 2017 amounting to ₱246.5 million, increased by ₱185.5 million from ₱2,818.4 million to ₱3,003.9 million with the net income attributed to equity holders of the parent company amounting to ₱432.0 million recognized for the period ended March 31, 2018.

March 31, 2017 vs. 2016

The Group's total assets as at March 31, 2017 increased by ₱2,742.2 million to ₱11,086.1 million from previous year's ₱8,343.9 million. This is mainly due to the increase in cash and cash equivalents by ₱2,338.1 million from the ₱3 Billion Fixed rate bond issuance which was partially offset by the loan payments for the period. Property and equipment likewise increased by ₱620.0 million substantially because of the acquisition of EDSA, Pasay City properties, which will be the site of STI Academic Center Pasay-EDSA.

Cash and cash equivalents stood at ₱2,880.3 million as at March 31, 2017 or 431% higher than the previous year's ₱542.2 million. The increase was contributed largely by the proceeds from the retail bond offering in March 2017 and partly by cash generated from operations.

Receivables, which consist mainly of receivables from students, increased by ₱96.8 million or 38%. The balance is composed mostly of amounts expected to be collected as payment for tuition and other school fees from students and from 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 223% or ₱80.8 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 increased by ₱23.0 million or 26% net of the input value-added tax (input VAT) which were applied to pay for the output VAT, substantially on the rent collected in 2017. This is mainly due to the input VAT recognized from the acquisition of EDSA, Pasay City properties.

Property and equipment rose by ₱620.0 million, net of depreciation expense in 2017 amounting to ₱281.5 million, with the acquisition of EDSA, Pasay City properties for ₱552.4 million. This is also partly attributed to the related costs of construction of the school building, purchases of furniture, fixture and equipment for STI College Las Piñas which was completed in July 2016.

Investment properties declined by ₱28.6 million representing depreciation expense recognized in 2017.

Investments in and advances to associates and joint ventures decreased by 23% as an associate registered declines in profit and 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 (DTA) decreased by ₱7.3 million primarily because of the effect of derecognition of a subsidiary, iACADEMY, which was acquired by STI Holdings, the "Ultimate Parent Company" of the Company, in September 2016 and because of the deferred tax liability (DTL) on the remeasurement gains recognized as period adjustments based on the valuation report prepared by an independent actuary. The DTA was presented net of the DTL.

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

Goodwill, intangible and other noncurrent assets slightly increased by ₱20.6 million or 6%.

The Company availed of short term loans in 2017 amounting to ₱1,793.0 million with interest rates ranging from 3.25%-3.75%. Total payments in 2017 amounted to ₱1,248.0 million leaving a short term loan balance of ₱545.0 million as at March 31, 2017. The loan proceeds were used to finance the acquisition of the three parcels of land in EDSA, Pasay City and for working capital requirements.

Accounts payable and other current liabilities was slightly lower by 2% in March 2017 versus the previous year.

Current and non-current portions of interest-bearing loans and borrowings declined by ₱60.0 million and ₱40.8 million, respectively, as principal payments were made in 2017.

Payments were also made in 2017 for finance lease obligations, bringing down the balance payable by ₱0.82 million and ₱0.84 million for current and non-current portions, respectively.

Unearned tuition and other school fees decreased by ₱23.6 million from ₱53.2 million as at March 31, 2016 to ₱29.6 million as at March 31, 2017. Previous year's balance is higher because it includes the advance payments received by iACADEMY (see Note 20 of the Notes to Audited Consolidated Financial Statements attached as part of "Exhibits and schedules").

The Company 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 relevant Maturity date. The Bonds Payable is 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.

Other noncurrent liabilities increased by ₱84.8 million as advanced rent and rental deposits were received by the Company in 2017 on its investment properties. In addition, accounts payable to STI Diamond with present value of ₱57.1 million, net of current portion of ₱3.7 million, was recognized in conveyance of its net assets to STI Novaliches in August 2016.

Income tax payable rose by ₱3.7 million reflecting the increase in the Group's taxable income.

Pension liabilities decreased by 84% to ₱6.1 million as of March 31, 2017 due to impact of remeasurement unrealized gains recognized based on actuarial reports.

Unrealized mark-to-market loss on the Group's available-for-sale financial assets improved with the recognition of ₱0.8 million unrealized mark to market gain in 2017 substantially due to the higher market value of the Manulife shares held by the Company. On the other hand, the Group's share in associates' unrealized mark-to-market loss on available-for-sale financial assets is ₱16.5 million as at March 31, 2017 from an unrealized mark to market gain of ₱131.9 million of the same period of the previous year, as the market values of certain equity shares declined as of the financial statements reporting date.

The share in associates' remeasurement loss on life insurance reserves amounted to ₱18.3 million in 2017. This represents the share of the Company in the restatements made by Maestro Holdings due to the change in 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 equity conversion of the Company’s advances of ₱49.0 million to STI Taft, which resulted in the dilution of non-controlling interests, gave rise to an additional ₱11.3 million in the equity reserve account. Further, an additional ₱10.8 million was charged to the other equity reserve account as a result of the sale of iACADEMY to STI Holdings.

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

As at March 31, 2017, the Group’s Cumulative actuarial gain increased by ₱19.1 million due to the impact of remeasurement unrealized gains recognized from improved market value of the investment in equity securities of the pension plan assets. Similarly, the Group’s share in associates’ Cumulative actuarial gain as at March 31, 2017 is ₱0.7 million from a share in associates’ Cumulative actuarial loss of ₱18.4 million as at March 31, 2016, resulting from remeasurement unrealized gains recognized based on associates’ actuarial reports for the year.

Retained earnings decreased by 17% or ₱560.4 million after declaration of dividends in September 2016 amounting to ₱1,078.7 million, net of the income attributable to equity holders of the parent company amounting to ₱518.3 million earned in 2017.

March 31, 2016 vs. 2015

STI ESG’s total assets as at March 31, 2016 slightly decreased by ₱215.4 million to ₱8,510.2 million from ₱8,725.6 million as at March 31, 2015. This was mainly due to the effect of the decrease in Investment in associates and joint ventures amounting to ₱188.6 million and the reduction in Cash balance of ₱87.5million.

Cash and cash equivalents decreased by 14% from ₱629.7 million to ₱542.2 million as at March 31, 2016 and March 31, 2015, respectively, substantially due to the payment of the Current portion of long term loans amounting to ₱216.0 million and dividends paid by STI ESG in September 2015 amounting to ₱250.0 million.

Receivables, which consist mainly of receivables from students, increased by ₱18.5 million or 8%. This was lower than the 19% increase in revenues from tuition and other school fees indicating improvement in collection from students.

Inventories increased by 15% or ₱4.8 million as the schools increased their stock of uniforms in preparation for the enrollment in the coming SY 2015-2016. Procurement of marketing, educational and proware materials were also ramped up primarily for STI ESG’s SHS program.

Prepaid expenses decreased slightly by 2% mainly due to decrease in input value-added tax (VAT), as the input VAT related to the acquisition of condominium units by STI ESG in exchange for its land was applied to pay for the output VAT on the rent collected during the year 2015-2016 for the lease of the said condominium units.

Property and equipment rose by ₱14.0 million net of depreciation expense for the period amounting to ₱286.6 million, as construction of the school building in STI College Las Piñas reached the half-way mark and construction activities in other campuses were completed. The additional classrooms in STI

College Novaliches, STI College Caloocan and STI College Ortigas-Cainta were completed, as well as the gymnasium and warehouse in STI College Ortigas-Cainta. School equipment and furniture were also acquired for said schools.

Investment properties slightly decreased by 3% mainly due to depreciation.

Investments in and advances to associates and joint ventures decreased by 9% as an associate registered declines in the market value of its investment in equities. Inter-company receivables are generally settled in cash.

Deferred tax assets increased by ₱7.6 million mainly due to taxes paid on tuition and other school fees and rental income collected in advance. Following statutory regulations, income received or collected in advance are taxable in the same year said income was actually received. Unearned revenues include payments received from SHS students who registered for the SY 2016-2017.

Goodwill, intangible and other noncurrent assets rose by ₱40.1 million or 13% mainly due to the down payment made to a contractor for the STI Las Piñas campus construction project.

Accounts payable and other current liabilities declined by 33% or ₱191.5 million substantially due to payment to suppliers for completed expansion projects. Inter-company payables are generally settled in cash.

Current and non-current portions of interest-bearing loans and borrowings declined by ₱115.2 million and ₱100.8 million, respectively, as principal payments were made during the period.

Payments were also made for finance lease obligations, bringing down the payable balance by ₱1.8 million and ₱3.3 million for current and non-current portions, respectively.

Unearned tuition and other school fees increased by ₱32.6 million from ₱20.6 million as at March 31, 2015 to ₱53.2 million as at March 31, 2016. The increase is substantially due to the registration fees received from SHS students for SY 2016-2017.

Other noncurrent liabilities of ₱31.4 million pertain to advance rent and security deposits paid by lessees of STI ESG's condominium units which were acquired in exchange for its land.

Income tax payable rose by ₱7.5 million reflecting the increase in STI ESG's taxable income.

Pension liabilities increased by 39% to ₱38.1 million as of March 31, 2016 due to recognition of additional retirement obligations.

Unrealized mark-to-market losses on available-for-sale financial assets increased from ₱0.5 million as at March 31, 2015 to ₱0.9 million as at March 31, 2016, as market values of shares held declined.

STI ESG's share in its associates' unrealized mark-to-market gains on available-for-sale financial assets decreased by 71% as the market values of certain equity shares declined as at March 31, 2016.

Cumulative actuarial gain decreased by ₱6.3 million as adjustments were made on actuarial valuations based on experience.

Retained earnings increased by 14% or ₱421.0 million as a result of this year's net income earned less dividends declared.

Results of Operations

Three-month period ended June 30, 2018 vs. three-month period ended June 30, 2017

For the three-month period ended June 30, 2018, the Group generated gross revenues of ₱356.6 million, lower by 9% or ₱33.9 million from same period last year of ₱390.5 million. The Company recorded an operating loss for the three-month period ended June 30, 2018 amounting to ₱67.4 million as against an operating income for the same period last year of ₱7.3 million due to decline in the number of students while net loss this quarter amounted to ₱75.2 million as against ₱236.0 million for the same period last year due to the equity in net losses of an associate recognized for the period ended June 30, 2017.

Earnings before interest, taxes, depreciation and amortization or EBITDA, computed as net income excluding benefit from income tax, depreciation and amortization, equity in net losses of associates and joint ventures, interest expense and interest income decreased by ₱74.0 million to ₱39.3 million from the same period last year of ₱113.3 million. EBITDA margin for the three-month period, decreased from 29% last year to 11% this year.

Financial Highlights and Key Performance Indicators

(in millions except margins, financial ratios and earnings per share)	**June 2018 (Unaudited)**	**March 2018 (Audited)**	**Increase(Decrease)) Amount**	**%**
Condensed Statements of Financial Position				
Total assets	12,157.1	10,890.9	1,266.2	12
Current assets	3,882.8	2,978.7	904.1	30
Cash and cash equivalents	1,801,4	1,617.4	184.-	11
Equity attributable to equity holders of the parent company	6,517.3	6,612.2	(94.9)	(1)
Total liabilities	5,631.6	4,269.2	1,362.4	32
Current liabilities	1,955.9	595.1	1,360.8	229
Financial Ratios				
Debt-to-equity ratio (1)	0.70	0.64	0.06	9
Current ratio (2)	1.99	5.01	(3.02)	(60)
Asset to equity ratio (3)	1.86	1.64	0.22	13

	(Unaudited) Three months ended June 30		**Increase(Decrease)**	
	2018	**2017**	**Amount**	**%**
Condensed Statements of Income				
Revenues	356.6	390.5	(33.9)	(9)
Direct costs (4)	184.5	176.9	7.6	4
Gross profit	172.1	213.6	(41.5)	(19)
Operating expenses	239.5	206.3	33.2	16

Operating profit (loss)	(67.4)	7.3	(74.7)	(1,023)
Other expenses - net	(16.8)	(245.6)	228.8	(93)
Loss before income tax	(84.2)	(238.3)	154.1	(65)
Net Loss	(75.2)	(236.0)	160.8	(68)
EBITDA [(5)]	39.3	113.3	(74.0)	(65)
Core Income (Loss) [(6)]	(74.1)	(13.9)	(60.2)	432
Net loss attributable to equity holders of the parent company	(74.0)	(235.2)	161.2	(69)
Loss per share [(7)]	(0.024)	(0.076)	0.1	(132
Condensed Statements of Cash Flows				
Net cash from operating activities	362.0	310.8	51.2	16
Net cash used in investing activities	(129.3)	(64.5)	(64.8)	100
Net cash used in financing activities	(48.7)	(67.7)	19.0	(28)

Financial Soundness Indicators

	(Unaudited)			
	Three months ended June 30		Increase (Decrease)	
	2018	**2017**	**Amount**	**%**
Liquidity Ratios				
Current ratio [(2)]	1.99	2.38	(0.39)	(16)
Quick ratio [(8)]	1.49	1.94	(0.45)	(23)
Cash ratio [(9)]	0.92	1.34	(0.42)	(31)
Solvency ratios				
Debt-to-equity ratio [(1)]	0.70	0.78	(0.08)	(10)
Asset to equity ratio [(3)]	1.86	1.99	(0.13)	(7)
Debt service coverage ratio [(10)]	3.24	1.59	1.65	104
Interest coverage ratio [(11)]	(0.64)	(3.04)	2.40	(79)
Profitability ratios				
EBITDA margin [(12)]	11%	29%	(18)	(62)
Gross profit margin [(13)]	48%	55%	(7)	(13)
Operating profit (loss) margin [(14)]	(19%)	2%	(21)	(1,050)
Net profit (loss) margin [(15)]	(21%)	(60%)	39	(65)
Return on equity (annualized)[(16)]	(5%)	(15%)	10	(67)
Return on assets (annualized)[(17)]	(3%)	(6%)	3	(5,000)

(1) *Debt-to-equity ratio is measured as total liabilities, net of unearned tuition and other schools fees, divided by total equity.*

(2) *Current ratio is measured as current assets divided by current liabilities.*

(3) *Asset to equity ratio is measured as total assets divided by total equity.*

(4) *Direct costs is calculated by adding the costs of educational services and educational materials and supplies sold.*

(5) *EBITDA is Net income (loss) excluding provision for income tax, interest expense, depreciation and amortization, equity in net earnings (losses) of associates and joint ventures and interest income.*

(6) *Core income (loss) is computed as consolidated income after 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 coverage 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 (loss) margin is measured as operating profit divided by total revenues.*
(15) *Net (loss) profit margin is measured as net income (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 loss [annualized] divided by average total assets.*

Years ended March 31, 2018 vs. 2017

The Company's gross revenues amounted to ₱2,596.0 million for the year ended March 31, 2018, a decrease of ₱7.2 million from same period last year.

The student enrollment of the schools under the Company at the start of SY is as follows:

	SY 2017-2018	SY 2016-2017	Increase (Decrease)	
			Enrollees	Percentage
STI Network				
Owned schools	54,366*	52,687	1,679	3.2%
Franchised schools	42,165	43,592	(1,427)	(3.3%)
Total Enrollees	**96,531**	**96,279**	**252**	**0.3%**

**Enrollees of STI Sta. Maria are reported as part of "owned schools" effective SY 2017-2018.*

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 SHS, following are the numbers:

	SY 2017-2018	%	SY 2016-2017	%
CHED	40,147	42%	53,016	55%
TESDA	2,191	2%	5,692	6%
DEPED	54,193	56%	37,571	39%
TOTAL	**96,531**	100%	**96,279**	100%

Tuition and other school fees decreased by ₱72.1 million or 3% substantially due to tuition and other school fees earned by iACADEMY and consolidated with the results of the Company up to September 30, 2016. iACADEMY was acquired by STI Holdings in September 2016. Removing the effects of iACADEMY, the Company's revenue from tuition and other school fees would have been flat compared to same period last year.

Revenues from educational services and royalty fees increased by ₱9.2 million and by ₱1.4 million, respectively, or by 5% and by 7%, 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 collected by the franchised schools from their students and DepEd.

Sale of educational materials and supplies increased by 10% or by ₱15.0 million from ₱146.9 million to ₱161.9 million, largely due to increased sale of SHS textbooks. Cost of educational materials and supplies sold increased by ₱3.9 million, net of the rebates received from the acquisition of textbooks for sale to students amounting to ₱5.5 million, concomitant with the increase in sale of textbooks.

Other revenues increased by 201% or ₱39.3 million substantially due to fees for the use of the enrolment and e-Learning Management systems.

Cost of educational services slightly increased by 1% or ₱8.9 million from ₱685.1 million last year to ₱694.0 million. Faculty salaries and benefits increased by 6% or ₱16.4 million attributed to the salaries of instructors who handled the remedial classes of SHS students in April and May 2017, salary alignment of SHS teachers who passed the Licensure Examination for Teachers (LET) and tertiary instructors who earned their Master's degrees and instructors' salaries associated with the operation of STI Sta. Maria. STI Sta. Maria became a 100% subsidiary of the Company starting April 2017. Software maintenance cost increased by ₱4.8 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. On the other hand, the cost of student activities and programs for the year is lower by ₱8.6 million from ₱121.7 million last year to ₱113.1 million this year. On February 21, 2017, CHED issued a memorandum on the imposition of moratorium on field trips and other similar activities covered under CHED Memorandum Order No. 17 Series of 2012. In view of this, certain activities like convention of the students, hotel immersion, culinary and tourism exposure, bartending seminars and educational tours were postponed. This substantially brought the cost of student activities and convention costs down by ₱21.4 million from ₱51.7 million last year to ₱30.3 million for the same period this year. The moratorium was lifted during SY 2017-18. Thus, the Company plans to bring back and continue these annual activities of the students in the coming school years. On the other hand, the Company also held the first K to 12 program Grade 12 graduation which increased the commencement costs from ₱16.2 million last year to ₱32.2 million or by ₱16.0 million this year. Direct expense ratio remains at 31%.

Gross profit decreased by 1% or ₱20.0 million from ₱1,802.7 million for the year ended March 31, 2017 to ₱1,782.7 million for the same period this year. Gross profit margin remains at 69%.

General and administrative expenses, net of expenses reported by iACADEMY last year, increased by 6%, from ₱928.6 million last year to ₱983.4 million this year. Light and water expenses increased substantially due to the cost incurred by STI Sta. Maria and higher expenses recognized by the schools for the year ended March 31, 2018 compared to same period last year, due to increase in the average rate per kilowatt-hour of electricity. Professional fees increased due to expenses incurred in relation to the merger of STI Taft and STI Dagupan with the Company, special audit in relation to the disposal of Maestro Holdings, and various legal and labor-related cases. Taxes and licenses increased due to real property taxes on investment properties. Following the Company's Receivables Impairment policy, STI Sta. Maria which is consolidated to the Group effective April 2017 recognized impairment expense amounting to ₱7.4 million on its outstanding receivables from its students as at March 31, 2018. Further, Advertising and promotions expense increased as the marketing campaign for both SHS and Tertiary programs were intensified.

Equity in net loss of associates and joint ventures amounting to ₱218.2 million for the year ended March 31, 2018 pertains largely to the share of the Company in the loss of Maestro Holdings up to end of June 2017. With the reclassification of the carrying value of the Company's 20% ownership in Maestro Holdings to noncurrent asset held for sale, the Company ceased the use of the equity method of accounting for its investment in Maestro Holdings as at June 30, 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 at its 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 Company has made the necessary adjustments to recognize its share in the restated net earnings and comprehensive income of Maestro Holdings. The Company's financial statements for the fiscal years ended March 31, 2017 and March 31, 2016 have been restated to reflect these adjustments.

Interest income increased by ₱24.3 million due to interest earned from short-term placements of the proceeds from the bonds issued while dividend income increased by ₱1.2 million representing increase in dividends received from De Los Santos Medical Center (formerly De Los Santos General Hospital).

Interest expenses increased by ₱144.7 million from ₱65.8 million to ₱210.5 million due to interest incurred on the Company's bond issue. This is net of total borrowing costs capitalized as part of property and equipment amounting to ₱22.9 million for the year ended March 31, 2018. The average interest capitalization rate is 5.96% for the year ended March 31, 2018.

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 ₱75.7 million payable quarterly, in five (5) years. As a result, the management contract between the Company and STI Diamond was terminated and residual interest has been transferred. With this, STI Diamond was derecognized as a subsidiary of the Company 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 Company for the year ended March 31, 2017.

Provision for income tax amounting to ₱67.7 million, recognized for the year ended March 31, 2018, was lower than same period last year due to lower taxable income.

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 the Company while the ₱0.8 million fair value adjustment last year includes unrealized gains from Manulife and other club shares held by the Company.

The Group, on the other hand, recognized its' share in associates' unrealized mark-to-market gain on available-for-sale financial assets of ₱125.1 million, higher by ₱273.5 million from last year's unrealized mark-to market loss on available-for-sale financial assets of ₱148.4 million, representing the Company's equity on the net changes in fair value of available-for-sale financial assets of Maestro Holdings. This also includes the Company's share for the period up toJune 30, 2017, in the restated unrealized mark-to-market gain on available-for-sale financial assets of Maestro Holdings amounting to ₱125.0 million due to improved market value of equity securities under profit or loss (see discussions in foregoing paragraphs).

The Company also recognized its share in associate's remeasurement gains (loss) on life insurance reserves of Maestro Holdings amounting to ₱0.2 million and (₱4.0) million, as at March 31, 2018 and 2017, respectively, due to change in the methodology used by PhilLife, a subsidiary of Maestro Holdings, in the determination of legal policy reserves on its life insurance contracts from net premium valuation to gross premium valuation as required under IC Circular Letters 2016-66 and 2017-36 (see discussions in foregoing paragraphs).

The Group's share in associates' remeasurement gain (loss) on pension liability declined by ₱18.6 million from ₱19.1 million last year to ₱0.5 million this year, as an associate posted higher actuarial adjustments last year.

Similarly, the Group reported a remeasurement gain on pension liability of ₱46.8 million as at March 31, 2018 compared to remeasurement gain of ₱28.0 million in 2017, 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.

Total comprehensive income increased by ₱191.1 million this year, net of interest expense recognized on bonds and loans, from ₱415.0 million to ₱606.1 million for the year ended March 31, 2018, largely due to the Company's share up to June 30, 2017, in the restated net earnings and comprehensive income of Maestro Holdings (see discussions in foregoing paragraphs).

Earnings before interest, taxes, depreciation and amortization or EBITDA, computed as net income excluding provision for income tax, depreciation and amortization, effect of derecognition of a subsidiary, equity in net earnings (losses) of associates and joint ventures, interest expense, and interest income, decreased by ₱78.9 million to ₱1,219.4 million from last year's ₱1,298.3 million or 6%. EBITDA margin likewise decreased from 50% last year to 47% this year.

Core income, computed as the consolidated income after income tax derived from the Group's main business of education and other recurring income, amounted to ₱651.3 million for the year ended March 31, 2018 compared to the same period last year of ₱822.4 million.

Years ended March 31, 2017 vs. 2016

The Company's gross revenues increased by 11% to ₱2,603.2 million in 2017. This was primarily driven by the remarkable increase in the total number of students of the Group, with the entry of SHS from 77,645 of the previous year to 96,279 students for the year ending March 31, 2017or an increase of 24%.

The student enrollment of the schools at the start of SY for the periods ended March 31 2017 and 2016 were as follows:

	SY 2016-2017	SY 2015-2016	Increase (Decrease)	
			Enrollees	Percentage
STI Network				
Owned schools	52,687	42,878	9,809	23%
Franchised schools	43,592	34,767	8,825	25%
Total Enrollees	**96,279**	**77,645**	**18,634**	**24%**

Tuition and other school fees increased by ₱163.5 million or 8%. While there was a remarkable increase in the total number of students of the Group, 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. This was outweighed by the significant increase in SHS enrollees, which brought an increase in the entire student population by 18,634.

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 collected by the franchised schools from their students and DepEd.

Sale of educational materials and supplies increased by more than double, largely due to increased sale of SHS uniforms and textbooks.

Other revenues decreased by 21% or ₱5.2 million substantially due to the ₱3.7 million receivables which were already written off and were subsequently collected by iACADEMY in March 2016.

Cost of educational services slightly increased by 5% or ₱30.3 million from ₱654.8 million in 2016 to ₱685.1 million in 2017 mainly due to higher expenses directly associated with the increased number of students.

Cost of educational materials and supplies sold increased by ₱63.9 million concomitant with the increase in sale of uniforms and textbooks.

The Group posted lower general and administrative expenses from ₱977.4 million in 2016 to ₱928.6 million in 2017. The highest decline was registered by advertising and promotions costs at ₱47.7 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 April-May for tertiary.

Rental income increased by ₱39.2 million or 63% due to the substantial occupancy of the investment properties owned by the Company.

Equity in net earnings of associates and joint ventures decreased by ₱107.6 million because of lower profits posted by an associate and the recognition of the impairment of certain investments in equities of an associate. This also includes the Company's share in the restated net earnings of Maestro Holdings (see discussions in foregoing paragraphs).

Interest expenses increased by ₱15.3 million due to short-term borrowings incurred for the acquisition of the EDSA, Pasay City properties and other short term loans availed for general corporate requirements.

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 the Company and STI Diamond was terminated and residual interest has been transferred. With this, STI Diamond was derecognized as a subsidiary of the Company for an amount equal to the present value of the related transfer price of ₱60.8 million.

Interest income slightly decreased by ₱1.8 million while dividend income slightly increased by ₱0.4 million.

Provision for income tax increased by ₱26.6 million in March 2017 as a result of the increase in taxable income from previous year's level.

Fair values of the Group's investment in available-for-sale financial assets increased by ₱1.1 million from unrealized loss of ₱0.34 million in 2016 to unrealized gain of ₱0.8 million in 2017 due to favorable market conditions.

The Group on the other hand recognized its share in associates' unrealized mark-to-market loss on available-for-sale financial assets of ₱148.4 million in 2017, lower by ₱144.5 million from previous year's ₱292.9 million, as an associate recognized lower fair value losses on its investment in equities. This also includes the Company's share in the restated comprehensive income of Maestro Holdings (see discussions in foregoing paragraphs).

The Company also recognized its share in associate's remeasurement gain (loss) on life insurance reserves of Maestro Holdings amounting to (₱4.0) million and ₱11.3 million, as at March 31, 2017 and 2016, respectively, (see discussions in foregoing paragraphs) due to change in the methodology used by PhilLife in the determination of legal policy reserves from net premium valuation to gross premium valuation as required under IC Circular Letters 2016-66 and 2017-36 (see discussions in foregoing paragraphs).

The Group's share in associates' remeasurement gain on pension liability improved by ₱18.5 million from ₱0.6 million the previous year to ₱19.1 million in 2017 as an associate posted positive actuarial adjustments.

Similarly, the Group reported a remeasurement gain on pension liability of ₱28.0 million as at March 31, 2017 compared to remeasurement loss of ₱6.3 million in 2016, 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.

Total comprehensive income rose to ₱415.0 million from previous year's comprehensive income of ₱197.0 million due to the higher profits posted by the Company, the increase in market value of equities held by an associate compared with the same period last year and the remeasurement gain recognized attributable to higher market value of the investment in equity securities of the pension plan assets.

Earnings before interest, taxes, depreciation and amortization or EBITDA, computed as net income excluding provision for income tax, depreciation and amortization, effect of derecognition of a subsidiary, equity in net earnings (losses) of associates and joint ventures, interest expense, and interest income, increased by ₱246.7 million to ₱1,298.3 million from the previous year's ₱1,051.6 million or 23%. EBITDA margin likewise improved from 45% in 2016 to 50% in 2017.

Years ended March 31, 2016 vs. 2015

The continuous increase in number of enrollees in STI ESG owned and franchised schools propelled revenue growth by 17% or ₱350.0 million, reaching ₱2,350.5 million in total revenues this year.

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

	SY2016-2017	SY2015-2016	Increase(Decrease)	
STI Network			Enrollees	Percentage
Owned Schools	42,878	39,404	3,474	9%
Franchised Schools	34,767	33,212	1,555	5%
Total Enrollees	**77,645**	**72,616**	**5,029**	**7%**

Tuition and other school fees increased by ₱328.5 million or 19% from SY 2014-2015's ₱1,726.5 million to ₱2,055.0 million for SY 2015-2016, due to the increase in the student enrollment by 7% or 5,029 enrollees and the average increase of 5% in tuition fees implemented by most schools . In addition, STI ESG's enrollment mix was more favorable in SY 2015-2016 than in SY 2014-2015, as enrollment leaned more towards STI network's CHED four-year programs than the two-year programs. Proportion of CHED:TESDA:DepEd students are 86:12:02 for SY 2015-2016 as against 82:16:02 for SY 2014-2015. The four-year CHED programs charge higher tuition and bring in more revenue per student.

Revenues from educational services and royalty fees increased by ₱4.9 million and by ₱0.5 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 collected by the franchised schools from their students.

Sale of educational materials and supplies increased by 21% largely due to increased sale of uniforms.

Other revenues increased by 19% or P3.9 million largely due to the increase in number of students.

Cost of educational services increased by 13% or ₱76.9 million from ₱577.9 million last year to ₱654.8 million this year mostly due to the 21% or ₱28.2 million increase in depreciation expenses charged to direct cost. Faculty salaries and benefits increased by 12% largely due to the hiring of additional faculty members to handle the increased enrollment and the acquisition of the 5 schools from franchisees in October 2014.

Cost of educational materials and supplies sold increased by ₱10.8 million concomitant with the increase in sales.

General and administrative expenses rose by ₱67.6 million or 7% from ₱909.8 million last year to ₱977.4 million this year. Of the increase, ₱23.3 million was due to the increased depreciation charges substantially due to the depreciation expense recognized for the 4 floors of condominium units which were acquired by STI ESG in March 2015 in exchange for its land. The cost of advertising and promotions rose by ₱27.5 million as STI ESG stepped up its marketing campaign for both Tertiary and SHS programs. Professional fees rose by ₱8.4 million substantially due to legal fees related to the acquisition of various schools. Salaries and employee benefits also increased by ₱12.0 million due to the addition of employees from the newly acquired schools in October 2014 and the filling up of plantilla positions.

Rental income increased by twice as much as the previous year or ₱32.0 million or as revenues from lease of condominium units owned by STI ESG were recognized as at March 31, 2016.

Dividend income increased by ₱1.4 million due to dividends received from De Los Santos Medical Center.

Equity in net earnings of associates and joint ventures decreased by 49% or ₱50.9 million as some associates generated lower profits as at March 31, 2016.

STI ESG recorded a net gain of ₱0.3 million from the disposal of transportation equipment last year.

Interest income continued to decline from P6.8 million in 2014 to ₱5.0 million in 2015 to ₱4.7 million in 2016 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.

On the other hand, interest expenses increased by ₱28.9 million due to the interest charges on the long term loans from China Bank which are now charged to operations with the completion of the projects funded by the principal amounts of the loans.

Provision for income tax rose by ₱4.0 million due to corresponding increase in taxable income.

STI ESG's share in associates' unrealized mark-to-market loss on available-for-sale financial assets increased by ₱292.7 million as an associate recognized fair value losses on its investments in equities.

Fair values of STI ESG's investment in available-for-sale financial assets likewise declined, thus, from unrealized gain of ₱0.6 million, an unrealized loss of ₱0.3 million was shown in the report as at March 31, 2016.

STI ESG's share in associates' re-measurement gain (loss) on pension liability improved by ₱4.2 million from a loss of ₱3.6 million in March 2015 to a gain of ₱0.6 million, as at March 31, 2016, as several associates posted positive actuarial adjustments.

Meanwhile, STI ESG incurred re-measurement loss on pension liability of ₱7.0 million this year largely due to the decline in market value of the investment in equity securities of the pension plan assets.

Total comprehensive income decreased by ₱325.7 million due to unfavorable market conditions in the equities market which resulted in substantial unrealized mark-to-market losses as at March 31, 2016 as compared to same period in 2015.

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, gain on exchange of land and excess of fair value of net assets over acquisition cost from a business combination, increased by ₱280.1 million in March 2016 to ₱1,051.6 million from ₱771.5 million or 36%. EBITDA margin likewise improved from 39% to 45% as at March 31, 2015 and 2016, respectively.

<u>The Company's outlook for the near term and medium term</u>

Near-term Prospects

The SY 2018-2019 marked the second highest new student enrollment in the STI-branded schools in the last ten (10) years. The resumption of regular tertiary or college enrolment provided the opportunity to begin the cycle of populating the college-level students in the STI Network from primarily having senior high school new students only in the last two (2)years. The Company is positive that despite the government's implementation of the Republic Act No. 10931 or the Universal Access to Quality Tertiary Education Act, the increase in total college students will be maintained as freshmen, sophomore, junior and, senior college students will continue to populate the enrolment in the next three (3) years. In addition, the government's funding for R.A. 10931 limits the capacity of the State Universities and Colleges (SUCs) and Local Universities and Colleges (LUCs) in accepting new students in the ensuing years.

The expected growth is also supported by the upcoming completion of four (4) new STI Academic Centers and the addition of four (4) new baccalaureate programs within the fiscal year. Furthermore, new 2-year tertiary programs and modular courses are also currently being developed to cater to the industry demands of graduates having specialized and highly-skilled competencies in the fields of information technology, culinary, hospitality services, and maritime.

The Company also expects the enrolment for Senior High School to stabilize in the country considering that the Government has almost completed the capacity-building of the public schools. Senior High School will still continue to be a substantial contributor in the enrolment of the STI Network in the succeeding years.

Medium-term Prospects

The Company remains overall positive about the medium-term prospects of education in the Philippines. Filipino families, in general, have a keen priority for education expenditure. The normalization of college-level and senior high school enrolment will continue in the next few years. The Company will remain vigilant with its growth strategy as it continues to adapt to the needs of the market to maximize opportunities for reinvention and steer the challenges in the future.

<u>Top Five (5) Key Performance Indicators</u>

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.

		3 Months ended June 30		
		2018	2017	Remarks
EBITDA margin	Net income (loss) excluding provision for income tax, depreciation and amortization, equity in net earnings (losses) of associates and joint ventures, interest expense and interest income (EBITDA) divided by total revenues	11%	29%	EBITDA margin slightly declined in 2018 as compared to same period in 2017 mainly due to the lower revenues and increased costs and expenses.
Gross profit margin	Gross profit divided by total revenues	48%	55%	Gross profit margin declined with lower revenues and higher direct costs
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	(5%)	(15%)	Return on equity was lower in 2017 substantially due to the equity share in net losses of associates and joint venture for the current period as compared to same period this year.
Debt service coverage ratio	EBITDA for the last twelve months divided by total principal and interest due for the next twelve months	3.24	1.59	Debt service covers ratio for the periods presented has always been well above the minimum set by management and the lending bank. The bar is 1.05 of cash income (EBITDA) for every peso of loans and interest maturing within the next 12 months.
Debt-to-equity ratio	Total liabilities, net of unearned tuition and school fees, divided by total equity	0.70	0.78	Debt-to-equity ratio improved due to the payment of short-term borrowings and current portion of long-term loans.

Material Changes in Balance Sheet Accounts

Cash and cash equivalents increased by 11% or ₱184.0 million from ₱1,617.4 million to ₱1,801.4 million as at March 31, 2018 and June 30, 2018, respectively, as collections were received from students for tuition and other school fees and were placed on short-term investments earning interest at respective short-term investment rates.

Receivables increased by ₱694.2 million or 168%. Receivables from students increased by ₱417.1 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 is ₱367.1 million as at June 30, 2018. The vouchers are expected to be collected within 8-12 weeks from date of submission of billing statements.

Inventories increased by 15% or ₱20.4 million. This is mainly attributed to the build-up of the inventory of textbooks for SHS students and the new sets of tertiary uniforms in preparation for SY 2018-2019.

Prepaid expenses increased by 6% or ₱5.4 million due to prepayment of insurance which mostly covers 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 ₱410.1 million from the March 31, 2018 balance of ₱6,197.6 million to ₱6,607.7 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 up to fourth floor of the STI Lipa building was completed in July 2018 while the remaining works from 5th 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.
Deferred tax assets rose more than twice as much as the March 31, 2018 balance or by ₱16.7 million substantially due to taxes applicable to tuition and other school fees collected in advance. Following statutory regulations, tuition and other school fees are taxed at the time of collection.

Pension assets as at June 30, 2018 amounting to ₱29.1 million is lower by ₱24.3 million compared to same period last year largely due to the decline in value of equity shares forming part of pension assets.

Goodwill, intangible and other noncurrent assets decreased by ₱31.9 million from ₱514.6 million to ₱482.7 million as at March 31, 2018 mainly due to the reclassification of the noncurrent advances to suppliers/contractors to Property and Equipment as the Company 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 significantly increased by ₱320.2 million or 83% substantially due to obligations to contractors in relation to construction works in various STI campuses.

Unearned tuition and other school fees increased substantially by ₱1,038.2 million from ₱54.0 million as at March 31 to ₱1,092.2 million as at June 30, 2018. This will be recognized as income over the remaining months of the related school term.

Income tax payable increased by ₱2.8 million to ₱16.5 million as at June 30, 2018 from ₱13.7 million last March 31, 2018 reflecting the increase in taxable income as tuition fees and rent collected in advance are taxable in full upon receipt.

Current and Noncurrent portion of obligations under finance lease declined by ₱.4 million and ₱1.7 million, respectively, due to payments made during the period.

Pension liabilities slightly increased by ₱29.5 thousand to ₱4.7 million as at June 30, 2018 due to recognition of additional retirement obligations by the Company's subsidiaries.

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

The Company's cumulative actuarial gain decreased by ₱20.8 million from ₱82.6 million to ₱61.8 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.

The Company's unrealized mark-to-market gain on its available-for-sale financial assets amounting to ₱0.4 million as at March 31, 2018 registered ₱0.2 million as at June 30, 2018, substantially due to the lower market value of the Manulife shares held by the Company.

Retained earnings decreased by ₱74.0 million from ₱3,003.9 million to ₱2,929.9 million due to net loss for the three-month period ended June 30, 2018.

Material Changes in Income Statement Accounts

Total revenues reached ₱356.6 million during the three-month period ended June 30, 2018, a decrease of ₱33.9 million from same period last year.

Tuition and other school fees for the period declined by ₱33.2 million. 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 the Company.

Revenues from educational services and royalty fees both 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.

Sale of educational materials and supplies slightly increased compared to same period last year from ₱80.7 million to ₱81.6 million for the three-month period June 30, 2018. On the other hand, the cost of educational materials and supplies sold increased by 14% due to increase in the price of textbooks and the promotional campaign to dispose old sets of tertiary uniforms.

Other revenues, which substantially are fees for the use of e-Learning Management System (eLMS), decreased to ₱14.8 million for the three-month period ended June 30, 2018 as compared to ₱16.0 million for the same period last year due to lower number of students.

The cost of educational services for the three-month period ended June 30, 2018 is almost at par with the same period last year. While the cost of instructors' salaries and benefits decreased by ₱3.4 million due to reduced number of faculty members concomitant with the lower turn out of enrollees as discussed in the preceding paragraphs, the same was offset by the increase in rent and depreciation expense resulting from escalated rates on renewed lease agreements and amortization expense of leasehold improvements recognized by STI Malaybalay and STI Sta. Maria, respectively. The building renovation of STI Sta. Maria and the fit out works on a newly constructed building which was leased to be the new site of STI Malaybalay were completed in August 2017.

General and administrative expenses significantly increased by 16% or ₱33.2 million from ₱206.3 million to ₱239.5 million for the three-month period this year. The highest increase was registered by advertising and promotions costs which increased year-on-year by ₱36.0 million due to increase in advertising and promotions expense as the marketing campaign for both SHS and Tertiary programs were intensified in time for the opening of classes for SY 2018-2019.

The Group's operating income, that is, income before other income and expenses and income tax, decreased to ₱67.4 million loss for the three-month period ended June 30, 2018 from same period last year's income of ₱7.3 million. The academic cycle, which is one academic year, starts in the month of June and ends in the month of March. The revenue 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. For this quarter, the revenue is equivalent to only one month or the month of June which is the start of the SY. Accordingly, the revenue is expected to be lower during the first quarter of the fiscal year as compared to the other quarters.

Equity in net losses of associates and joint ventures amounting to ₱222.1 million for the three month period ended June 30, 2017 pertains largely to the share of the Company in the loss of PhilPlans First, Inc. arising from the latter's full recognition of the mandated discount interest rate imposed by the 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.

Equity in net losses of associates amounting to ₱1.1 million pertains to the Company's share in the net loss of associates for the three-month period ended June 30, 2018. This amount does not include any share in the operations of PhilPlans or any of the other subsidiaries of Maestro Holdings, Inc. (Maestro) after the Company's Board of Directors approved the disposal of its 20% stake in Maestro on June 27, 2017. With this decision to dispose of the Maestro investment, the Company'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, the Company 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 ₱59.0 million to ₱51.4 million as short-term loans were fully settled as at March 31, 2018 and amortization payments on long-term loans aggregating ₱40.8 million were made in July 2017 and January 2018.

Interest income amounted to ₱8.9 million for the three-month period ended June 30, 2018 mainly from interest earned from short-term placements of the proceeds of bonds which are not deployed to date.

Benefit from income tax amounting to ₱9.0 million was recognized as at June 30, 2018 associated with the net loss recognized for the period.

Net loss of ₱75.2 million was recorded for the three-month period ended June 30, 2018, as against a net loss for the same period last year of ₱236.0 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 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 interest-bearing loans and borrowings the debt service cover ratio 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 1.05:1.00.

As at June 30, 2018 and June 30, 2017, the Group's debt service cover ratio is 3.24:1.00 and 1.59:1.00, 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 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.

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 Company'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 interest-bearing loans and bonds. While the

Company's long-term debt has a floating interest rate, the Company elected to have the interest rate repriced every year, thus minimizing the exposure to market changes in interest rates. The interest rates for the Company bonds are, however, fixed for the 7-year bonds and the 10-year bonds.

Capital Risk- The Group's objectives when managing capital are to provide acceptable returns to stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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 and to the lender bank. 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 June 30, 2017, the Group's debt-to-equity ratio is 0.70:1.00 and 0.78:1.00, respectively. As at March 31, 2018, the Group's debt-to-equity ratio is 0.64:1.00.

Agreements/Commitments and Contingencies/Other Matters

a. There are no changes in accounting estimates used in the preparation of the audited consolidated financial statements for the current and prior financial periods.

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, the Company executed a deed of pledge on all of its shares in De Los Santos Medical Center in favor of Neptune Stroika Holdings, Inc., a wholly-owned subsidiary of Metro Pacific Investments Corporation (MPIC), to cover the indemnity obligations of the Company enumerated in its investment agreement entered into in 2013 with MPIC. The book value of the investment in De Los Santos Medical Center amounted to ₱25.9 million as at June 30, 2018 and March 31, 2018.

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 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 and the issuance of fixed rate bonds by the Company provide certain restrictions and conditions with respect to, among others, change in majority ownership and management and maintenance of financial ratios. The Company is 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 the Group's liquidity 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. 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 21 April 2017, the Company, 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 the Company 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 the Company, TTC and Injap, respectively.

   On 21 June 2017, in separate meetings, the stockholders and the BOD of STI Tanauan approved the increase in its authorized capital stock from P1.0 million divided into 10,000 shares with a par value of P100 to P75.0 million divided into 750,000 shares with a par value of P100. 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 P15.0 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, the Company 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 the Company stock dividends of 150,000 shares and 35,000 shares as subscribed by the latter.

i. On August 1, 2017, the Company 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, the Company 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. the Company 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.

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 AND CORPORATE INFORMATION OFFICER, 5th 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 SERVICES GROUP, INC.
Issuer

APRIL ROSE N. MORATO
Assistant Corporate Secretary

Date: 25 September 2018

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 Services Group, Inc. and have been an independent director since 5 September 2013 to present.

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

Company/Organizations	Position/Relationship	Period of Service
STI Education Systems Holdings, Inc..	Independent Director	4 October 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 Services Group, 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 Services Group, 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 Services Group, 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.

SUBSCRIBED AND SWORN to before me this SEP 05 2018 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. 339;
Page No. 69;
Book No. II;
Series of 2018.

LE IRIS T. LUCIDO
NOTARY PUBLIC
ROLL NO. 64413
MAKATI CITY, PHILIPPINES

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 Services Group, 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):

Company/Organizations	Position/Relationship	Period of Service
STI Education Systems Holdings, Inc.	Independent Director	27 July 2017 to present
Cabanatuan Electric Corporation	Director	26th June 2010
SEA CREST Fund	Director	30th 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 Services Group, 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 Services Group, 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 Services Group, Inc. of any changes in the abovementioned information within five (5) days from its occurrence.

IN WITNESS WHEREOF, I have executed this Certificate of Independent Director on this 4th day of September 2018 at Makati City.

ROBERT G. VERGARA

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

SEP 05 2018

SUBSCRIBED AND SWORN to before me this __ day of September 2018 at Makati City, affiant personally appeared me and exhibited to me his Passport No. EC7612146 issued on 4 May 2016 at DFA Manila.

Doc. No. 52;
Page No. 12;
Book No. III;
Series of 2018.

RONALD LUKE T. SARTHOU, JR. NOTARY PUBLIC ROLL NO. 63690 MAKATI CITY PHILIPPINES

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
IBP No. 026134 / Pangasinan / 11 January 2018
MCLE Compliance No. V-0009015
NBI No. S630DRVR78-CB81989

SECRETARY'S CERTIFICATE

I, **ARSENIO C. CABRERA, JR.**, Filipino, of legal age, with business address at 5/F SGV II Building, 6758 Ayala Avenue, Makati City, after having sworn in accordance with law, hereby depose and state that:

1. I am the Corporate Secretary of **STI EDUCATION SERVICES GROUP, INC.** (the "Corporation"), a corporation duly organized and existing, under and by virtue of Philippine laws with office address at the STI Academic Center Ortigas-Cainta, Ortigas Avenue Extension, Cainta, Rizal.

2. I hereby certify that no director or officer of the Corporation is connected with any government agency or government instrumentalities.

3. The foregoing is in accordance with the records of the Corporation in my possession.

IN WITNESS WHEREOF, I have hereunto affixed my signature this SEP 0 4 2018 4th day of September 2018 at Makati City.

ARSENIO C. CABRERA, JR.
Corporate Secretary

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

SUBSCRIBED AND SWORN to before me this SEP 0 4 2018 4th day of September 2018 in Makati City, affiant exhibiting to me his Philippine Passport No. P0055009A issued on 26 August 2016 at DFA NCR South.

Doc. No. 391;
Page No. 68;
Book No. II;
Series of 2018.

LE IRIS T. LUCIDO
NOTARY PUBLIC
ROLL NO. 64413
MAKATI CITY, PHILIPPINES

Litlucido
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

108142018003800

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	0000113156
Company Name	STI EDUCATION SERVICES GROUP, INC.
Industry Classification	
Company Type	Stock Corporation

Document Information

Document ID	108142018003800
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	June 30, 2018
No. of Days Late	0
Department	CFD
Remarks	

C O V E R   S H E E T

SEC Registration Number

0	0	0	0	0	1	1	3	1	5	6

STI EDUCATION SERVICES GROUP, INC. (A Private Educational Institution) and SUBSIDIARIES

(Company's Full Name)

STI Academic Center Ortigas-Cainta, Ortigas Avenue Extension, Cainta, Rizal

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

MERLIZA D. SANTOS

Contact Person

(632) 8121784

Company Telephone Number

0 6 **3 0**

Month *Day*

Fiscal Year

SEC FORM 17-Q For the Quarter ended 30 June 2018

FORM TYPE

1st Thursday of September

Month *Day*

Annual Meeting

N A

Secondary License Type, If Applicable

M S R D

Dept. Requiring this Doc.

N A

Amended Article Number/Section

Total Amount of Borrowings

64

Total No. of Stockholders

₱3,687,762,770

Domestic

N A

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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	June 30, 2018
2.	SEC Identification Number	113156
3.	BIR Tax Identification Number	000-143-457-000
4.	Exact name of registrant as specified in its charter	STI EDUCATION SERVICES GROUP, INC.
5.	Province, country or other jurisdiction of incorporation or organization	Metro Manila, Philippines
6.	Industry Classification Code (SEC Use Only)	
7.	Address of Principal Office	STI Academic Center Ortigas-Cainta, Ortigas Avenue Extension, Cainta Rizal
8.	Registrant's telephone number (including area code)	(632) 812-17-84
9.	Former name, former address, former fiscal year, if changed since last report	N/A

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
Common Stock	3,087,829,443 shares Issued and Outstanding
Fixed Rate Bonds	₱ 3,000,000,000.00 Outstanding

11. Are any or all of these securities listed on a Stock Exchange?

Yes [ ] No [√]

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Securities Regulations Code (SRC) and SRC Rule 17 (a) - 1 there under 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

SIGNATURE PAGE

Pursuant to the requirements of Section 17 of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

STI EDUCATION SERVICES GROUP, INC.

By:

Signature and Title	**MONICO V. JACOB** Vice Chairman and CEO
Date	August 14, 2018
Signature and Title	**PETER K. FERNANDEZ** President and COO
Date	August 14, 2018
Signature and Title	**YOLANDA M. BAUTISTA** Treasurer
Date	August 14, 2018

STI EDUCATION SERVICES GROUP, INC.
(A Private Educational Institution)
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)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 22)	**₱1,801,443,945**	₱1,617,391,465
Receivables (Notes 6, 19 and 22)	**1,107,541,730**	413,284,908
Inventories (Note 7)	**155,286,238**	134,865,713
Prepaid expenses and other current assets (Note 8)	**101,918,991**	96,528,454
	3,166,190,904	2,262,070,540
Noncurrent asset held for sale (Notes 9 and 12)	**716,586,558**	716,586,558
Total Current Assets	**3,882,777,462**	2,978,657,098
Noncurrent Assets		
Property and equipment-net (Note 10)	**6,607,661,539**	6,197,605,958
Investment properties-net (Note 11)	**543,067,479**	550,225,012
Investments in and advances to associates and joint ventures (Notes 9, 12, 19 and 22)	**513,829,767**	514,904,349
Available-for-sale financial assets (Note 22)	**67,201,155**	67,399,715
Deferred tax assets - net	**30,759,784**	14,063,366
Pension assets - net	**29,131,672**	53,474,883
Goodwill, intangible and other noncurrent assets (Note 13)	**482,679,310**	514,578,321
Total Noncurrent Assets	**8,274,330,706**	7,912,251,604
TOTAL ASSETS	**₱12,157,108,168**	₱10,890,908,702
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 14 and 22)	**₱706,806,495**	₱386,574,998
Current portion of interest-bearing loans and borrowings (Notes 15 and 23)	**134,400,000**	134,400,000
Unearned tuition and other school fees	**1,092,209,120**	53,985,019
Current portion of obligations under finance lease	**5,980,835**	6,360,503
Income tax payable	**16,495,898**	13,736,650
Total Current Liabilities	**1,955,892,348**	595,057,170
Noncurrent Liabilities		
Interest-bearing loans and borrowings - net of current portion (Notes 15 and 23)	**600,000,000**	600,000,000
Bonds payable (Note 16)	**2,953,362,770**	2,951,879,134
Pension liabilities - net	**4,690,854**	4,661,347
Obligations under finance lease - net of current portion	**12,409,425**	14,079,817
Other noncurrent liabilities (Note 17)	**105,277,616**	103,571,888
Total Noncurrent Liabilities	**3,675,740,665**	3,674,192,186
Total Liabilities *(Carried Forward)*	**5,631,633,013**	4,269,249,356

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Total Liabilities *(Brought Forward)*	**₱5,631,633,013**	₱4,269,249,356
Equity Attributable to Equity Holders of the Parent Company		
Capital stock (Notes 1 and 18)	**3,087,829,443**	3,087,829,443
Additional paid-in capital	**386,916,479**	386,916,479
Treasury stock (Note 18)	**(10,833,137)**	(10,833,137)
Cumulative actuarial gain	**61,804,570**	82,577,422
Other comprehensive income associated with noncurrent asset held for sale (Notes 12 and 18)	**91,876,446**	91,876,446
Unrealized mark-to-market gain on available-for-sale financial assets	**205,831**	404,391
Other equity reserve (Note 2)	**(30,941,455)**	(30,941,455)
Share in associates':		
Unrealized mark-to-market loss on available-for-sale financial assets (Note 12)	**(32,023)**	(32,023)
Cumulative actuarial gain (Note 12)	**551,296**	551,296
Retained earnings	**2,929,896,472**	3,003,879,555
Total Equity Attributable to Equity Holders of the Parent Company	**6,517,273,922**	6,612,228,417
Equity Attributable to Non-Controlling Interests	**8,201,233**	9,430,929
Total Equity	**6,525,475,155**	6,621,659,346
TOTAL LIABILITIES AND EQUITY	**₱12,157,108,168**	₱10,890,908,702

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

STI EDUCATION SERVICES GROUP, INC.
(A Private Educational Institution)
AND SUBSIDIARIES

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

	Three months ended June 30	
	2018 (Unaudited)	2017 (Unaudited)
REVENUES		
Sale of services:		
Tuition and other school fees	**₱211,837,095**	₱245,001,108
Educational services	**44,661,379**	45,030,822
Royalty fees	**3,702,022**	3,740,984
Others	**14,840,549**	16,048,286
Sale of goods -		
Sale of educational materials and supplies	**81,587,667**	80,711,545
	356,628,712	390,532,745
COSTS AND EXPENSES		
Cost of educational services	**120,976,343**	121,044,856
Cost of educational materials and supplies sold	**63,548,753**	55,923,609
General and administrative expenses	**239,540,264**	206,283,856
	424,065,360	383,252,321
INCOME (LOSS) BEFORE OTHER INCOME (EXPENSES) AND INCOME TAX	**(67,436,648)**	7,280,424
OTHER INCOME (EXPENSES) – net		
Interest expense	**(51,416,647)**	(58,978,147)
Rental income	**24,509,594**	25,867,208
Equity in net loss of associates and joint ventures (Note 12)	**(1,074,582)**	(222,084,320)
Dividend income	**2,334,364**	2,121,519
Interest income (Note 5)	**8,871,571**	7,477,801
Gain on sale of property and equipment	**–**	14,790
	(16,775,700)	(245,581,149)
LOSS BEFORE INCOME TAX	**(84,212,348)**	(238,300,725)
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	**5,388,754**	17,486,026
Deferred	**(14,388,323)**	(19,791,174)
	(8,999,569)	(2,305,148)
NET LOSS *(Carried Forward)*	**(75,212,779)**	(235,995,577)

	Three months ended June 30	
	2018	2017
	(Unaudited)	(Unaudited)
NET LOSS *(Brought Forward)*	**(₱75,212,779)**	(₱235,995,577)
OTHER COMPREHENSIVE INCOME (LOSS)		
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	–	125,067,071
Share in associate's remeasurement gains on life insurance reserves	–	226,977
Unrealized mark-to-market gain (loss) on available-for-sale financial assets	**(198,560)**	37,440
	(198,560)	125,331,488
Items not to be reclassified to profit or loss in subsequent years:		
Remeasurement loss in pension liability	**(23,080,947)**	–
Tax effect	**2,308,095**	–
Share in associates' remeasurement gain on pension liabilities	–	39,868
	(20,772,852)	39,868
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(20,971,412)**	125,371,356
TOTAL COMPREHENSIVE LOSS	**(₱96,184,191)**	(₱110,624,221)
Net Loss Attributable To		
Equity holders of the Parent Company	**(₱73,983,083)**	(₱235,225,969)
Non-controlling interests	**(1,229,696)**	(769,608)
	(₱75,212,779)	(₱235,995,577)
Total Comprehensive Loss Attributable To		
Equity holders of the Parent Company	**(₱94,954,495)**	(₱109,854,613)
Non-controlling interests	**(1,229,696)**	(769,608)
	(₱96,184,191)	(₱110,624,221)
Basic/Diluted Earnings (Loss) Per Share (EPS) on Net Loss Attributable to Equity Holders of the Parent Company (Note 20)	**(₱0.024)**	(₱0.076)

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

STI EDUCATION SERVICES GROUP, INC.
(A Private Educational Institution)
AND SUBSIDIARIES

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

	Equity Attributable to Equity Holders of the Parent Company (Note 18)														
	Capital Stock	**Additional**	**Treasury Stock**	**Cumulative Actuarial Gain**	**Unrealized Mark-to-market Gain (Loss) on Available-for-sale Financial Assets**	**Other Equity Reserve**	**Share in Associates' Unrealized Mark-to-market Loss on Available-for-sale Financial**	**Share in Associates' Cumulative Actuarial Gain (Loss)**	**Share in Associates' Other Equity Reserves**	**Share in associate's remeasurement gains on life insurance reserves**	**Other comprehensive income associated with noncurrent asset held for sale**	**Retained Earnings**	**Total**	**Equity Attributable to Non-controlling Interests**	**Total Equity**
Balance at April 1, 2018	**₱3,087,829,443**	**₱386,916,479**	**(₱10,833,137)**	**₱82,577,422**	**₱404,391**	**(₱30,941,455)**	**(₱ 32,023)**	**₱551,296**	**₱–**	**₱–**	**₱91,876,446**	**₱3,003,879,555**	**₱6,612,228,417**	**₱9,430,929**	**₱6,621,659,346**
Net loss	–	–	–	–	–	–	–	–	–	–	–	**(73,983,083)**	**(73,983,083)**	**(1,229,696)**	**(75,212,779)**
Other comprehensive loss	–	–	–	**(20,772,852)**	**(198,560)**	–	–	–	–	–	**–**	–	**(20,971,412)**	**–**	**(20,971,412)**
Total comprehensive loss	–	–	–	**(20,772,852)**	**(198,560)**	–	–	–	–	–	**–**	**(73,983,083)**	**(94,954,495)**	**(1,229,696)**	**(96,184,191)**
Balance at June 30, 2018	**₱3,087,829,443**	**₱386,916,479**	**(₱10,833,137)**	**₱61,804,570**	**₱205,831**	**(₱30,941,455)**	**(₱32,023)**	**₱551,296**	**₱–**	**₱–**	**₱91,876,446**	**₱2,929,896,472**	**₱6,517,273,922**	**₱8,201,233**	**₱6,525,475,155**
Balance at April 1, 2017	₱3,081,871,859	₱379,937,290	₱–	₱35,771,624	(₱24,569)	(₱28,837,819)	(₱16,537,137)	₱713,619	₱728,649	(₱18,323,651)	₱–	₱2,818,372,090	₱6,253,671,955	₱8,419,916	₱6,262,091,871
Net loss	–	–	–	–	–	–	–	–	–	–	–	(235,225,969)	(235,225,969)	(769,608)	(235,995,577)
Reclassification to noncurrent asset held for sale	–	–	–	–	–	–	(108,558,621)	(685,850)	(728,649)	18,096,674	91,876,446	–	–	–	–
Other comprehensive income	–	–	–	–	37,440	–	125,067,071	39,868	–	226,977	–	–	125,371,356	–	125,371,356
Total comprehensive income (loss)	–	–	–	–	37,440	–	16,508,450	(645,982)	(728,649)	₱18,323,651	91,876,446	(235,225,969)	(109,854,613)	(769,608)	(110,624,221)
Dividend declaration	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Balance at June 30, 2017	₱3,081,871,859	₱379,937,290	₱–	₱35,771,624	₱12,871	(₱28,837,819)	(₱28,687)	₱67,637	₱–	₱–	₱91,876,446	₱2,583,146,121	₱6,143,817,342	₱7,650,308	₱6,151,467,650

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

STI EDUCATION SERVICES GROUP, INC.
(A Private Educational Institution)
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND 2017

	Three months ended June 30	
	2018 (Unaudited)	2017 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱84,212,348)**	(₱238,300,725)
Adjustments to reconcile loss before income tax to net cash flows:		
Depreciation and amortization (Notes 10 and 11)	**79,877,705**	77,996,827
Equity in net loss of associates and joint ventures (Note 12)	**1,074,582**	222,084,320
Interest expense	**51,416,647**	58,978,147
Movement in pension	**1,635,210**	1,758,488
Dividend income	**(2,334,364)**	(2,121,519)
Interest income	**(8,871,571)**	(7,477,801)
Operating income before working capital changes	**38,585,861**	112,917,737
Decrease (increase) in:		
Receivables	**170,739,117**	25,948,725
Inventories	**(20,420,525)**	(30,030,305)
Prepaid expenses and other current assets	**(4,694,680)**	(19,286,943)
Increase (decrease) in:		
Accounts payable and other current liabilities	**(4,651,195)**	(29,742,940)
Unearned income	**175,562,526**	248,292,921
Other noncurrent liabilities (Note 17)	**1,705,728**	(1,853,543)
Net cash generated from operations	**356,826,832**	306,245,652
Interest received	**8,871,571**	7,477,801
Income and other taxes paid	**(3,668,802)**	(2,901,790)
Net cash from operating activities	**362,029,601**	310,821,663
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 10)	**(158,718,837)**	(69,742,280)
Subsidiaries, net of cash received (Note 13)	–	5,828,110
Decrease (increase) in:		
Investments in and advances to associates and joint ventures	–	495,024
Intangible assets and other noncurrent assets	**29,466,163**	(3,205,112)
Dividends received	–	2,121,519
Net cash used in investing activities	**(129,252,674)**	(64,502,739)

(Forward)

	2018 (Unaudited)	2017 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Obligations under finance lease	**(₱1,810,060)**	(₱1,790,448)
Short-term loans	–	(15,000,000)
Interest paid	**(45,481,228)**	(50,941,123)
Dividend paid	**(1,433,159)**	–
Net cash used in financing activities	**(48,724,447)**	(67,731,571)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**184,052,480**	178,587,353
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,617,391,465**	2,880,282,731
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱1,801,443,945**	₱3,058,870,084

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

1. Corporate Information

a. General

STI Education Services Group, Inc. (STI ESG 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). The Parent Company was incorporated on June 2, 1983 and 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. The Group 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.

The registered office address of the Parent Company is STI Academic Center Ortigas-Cainta, Ortigas Avenue Extension, Cainta Rizal.

As at June 30, 2018 and March 31, 2018, the subsidiaries of the Parent Company, which are all incorporated in the Philippines, are as follows:

		Effective Percentage of Ownership			
		June 30, 2018		March 31, 2018	
Subsidiaries	**Principal Activities**	**Direct**	**Indirect**	Direct	Indirect
STI College Tuguegarao, Inc. (STI Tuguegarao)	Educational Institution	**100**	**–**	100	–
STI Caloocan [(a)]	Educational Institution	**100**	**–**	100	–
STI College Batangas, Inc. (STI Batangas)	Educational Institution	**100**	**–**	100	–
STI College Iloilo, Inc. (STI Iloilo)	Educational Institution	**100**	**–**	100	–
STI College Tanauan, Inc. (STI Tanauan)	Educational Institution	**100**	**–**	100	–
STI Lipa, Inc. (STI Lipa)	Educational Institution	**100**	**–**	100	–
STI College Pagadian, Inc. (STI Pagadian)	Educational Institution	**100**	**–**	100	–
STI College Novaliches, Inc. (STI Novaliches)	Educational Institution	**100**	**–**	100	–
STI College of Santa Maria (STI Sta. Maria) [(b)]	Educational Institution	**100**	**–**	100	–
De Los Santos-STI College, Inc. (De Los Santos-STI College) [(c)]	Educational Institution	**52**	**–**	52	–
STI College Quezon Avenue, Inc. (STI QA)[(d)]	Educational Institution	**–**	**52**	–	52

[(a)] *A subsidiary through a management contract*
[(b)] *A subsidiary starting April 2017*
[(c)] *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.*
[(d)] *A wholly-owned subsidiary of De Los Santos-STI College*

On March 23, 2017, the Parent Company issued the first tranche amounting to ₱3,000.0 million 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. (PDEx) (see Note 16).

STI ESG is 98.47%-owned by STI Education Systems Holdings, Inc. (STI Holdings) which is the ultimate parent company of the Group. STI Holdings is a company incorporated in the Philippines and is listed in the Philippine Stock Exchange (PSE).

The Parent Company has investments in several entities which own and operate STI schools. STI schools may be operated either by: (a) the Parent Company; (b) its subsidiaries; or (c) independent entrepreneurs (referred to as the "franchisees") under the terms of licensing agreements with the Parent Company. 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. The Company has requested CHED for endorsement of this move to accept a second batch of college freshmen 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.

The establishment, operation, administration and management of schools are subject to the existing laws, rules and regulations, policies, and standards of the Department of Education (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.

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 have been 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 unaudited interim condensed 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 ESG 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 on 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. 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 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 Other Comprehensive Income (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 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.

- 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 nonmonetary asset or non-monetary 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. 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 FVOCI. 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 this August of SY 2018-2019. The two batches of college freshmen enrollees will end this May 2019. 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.

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 loss for the three-month periods ended June 30, 2018 and 2017 and EBITDA, defined as earnings before interest expense, interest income, benefit from income tax, depreciation and amortization and equity in net loss of associates and joint ventures.

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

	Unaudited	
	2018	2017
Consolidated net loss	**(₱75,212,779)**	(₱235,995,577)
Equity in net loss of associates and joint ventures	**1,074,582**	222,084,320
Depreciation and amortization	**79,877,705**	77,996,827
Interest expense	**51,416,647**	58,978,147
Benefit from income tax	**(8,999,569)**	(2,305,148)
Interest income	**(8,871,571)**	(7,477,801)
Consolidated EBITDA	**₱39,285,015**	₱113,280,768

Geographical Segment Data

The following tables present revenue and income information and certain assets and liabilities information regarding geographical segments for the three-month periods ended June 30, 2018 and 2017:

	June 30, 2018 (Unaudited)					
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
Revenues						
External revenue	**₱238,755,622**	**₱16,146,606**	**₱87,297,432**	**₱5,101,292**	**₱9,327,760**	**₱356,628,712**
Results						
Income (loss) before other income (expenses) and income tax	**(49,570,044)**	**(9,993,806)**	**2,935,714**	**(2,727,708)**	**(8,080,804)**	**(67,436,648)**
Equity in net loss of associates and joint ventures	**(1,074,582)**	**–**	**–**	**–**	**–**	**(1,074,582)**
Interest expense	**(51,416,526)**	**–**	**(121)**	**–**	**–**	**(51,416,647)**
Interest income	**8,827,166**	**7,495**	**25,839**	**3,819**	**7,252**	**8,871,571**
Other income	**26,674,091**	**–**	**140,313**	**29,554**	**–**	**26,843,958**
Benefit from income tax	**8,999,569**	**–**	**–**	**–**	**–**	**8,999,569**
Net Income (Loss)	**(₱57,560,326)**	**(₱9,986,311)**	**₱3,101,745**	**(₱2,694,335))**	**(₱8,073,552)**	**(₱75,212,779)**
EBITDA						**₱39,285,015**

	June 30, 2017 (Unaudited)					
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
Revenues						
External revenue	**₱255,912,821**	**₱21,073,493**	**₱95,462,849**	**₱5,822,953**	**₱12,260,629**	**₱390,532,745**
Results						
Income (loss) before other income (expenses) and income tax	**4,321,995**	**(3,312,156))**	**12,909,921**	**(2,294,701)**	**(4,344,635)**	**7,280,424**
Equity in net loss of associates and joint ventures	**(222,084,320)**	**–**	**–**	**–**	**–**	**(222,084,320)**
Interest expense	**(58,974,312)**	**–**	**(3,835)**	**–**	**–**	**(58,978,147)**
Interest income	**7,445,810**	**6,315**	**22,310**	**1,146**	**2,220**	**7,477,801**
Other income	**27,504,659**	**–**	**416,487**	**7,545**	**74,826**	**28,003,517**
Benefit from income tax	**2,305,148**	**–**	**–**	**–**	**–**	**2,305,148**
Net Income (Loss)	**(₱239,481,020)**	**(₱3,305,841)**	**₱13,344,883**	**(₱2,286,010)**	**(₱4,267,589)**	**(₱235,995,577)**
EBITDA						**₱113,280,768**

	June 30, 2018 (Unaudited)					
	Metro Manila	**Northern Luzon**	**Southern Luzon**	**Visayas**	**Mindanao**	**Consolidated**
Assets and Liabilities						
Segment assets[(a)]	**₱ 8,978,893,920**	**₱162,277,895**	**₱1,241,736,175**	**₱70,453,811**	**₱187,884,244**	**₱10,641,246,045**
Goodwill	**225,554,342**	**–**	**–**	**–**	**–**	**225,554,342**
Investments in and advances to associates and joint ventures (Note 12)	**513,829,767**	**–**	**–**	**–**	**–**	**513,829,767**
Pension assets	**29,131,672**	**–**	**–**	**–**	**–**	**29,131,672**
Noncurrent asset held for sale	**716,586,558**	**–**	**–**	**–**	**–**	**716,586,558**
Deferred tax assets	**27,727,990**	**1,370,256**	**1,463,808**	**142,363**	**55,367**	**30,759,784**
Total Assets	**₱10,491,724,249**	**₱163,648,151**	**₱1,243,199,983**	**₱70,596,174**	**₱187,939,611**	**₱12,157,108,168**
Segment liabilities[(b)]	**₱1,294,404,783**	**₱97,612,209**	**₱423,237,545**	**₱29,820,365**	**₱75,714,227**	**₱1,920,789,129**
Interest-bearing loans and borrowings	**734,400,000**	**–**	**–**	**–**	**–**	**734,400,000**
Bonds payable	**2,953,362,770**	**–**	**–**	**–**	**–**	**2,953,362,770**
Pension liabilities	**4,129,067**	**48,958**	**440,697**	**59,486**	**12,646**	**4,690,854**
Obligations under finance lease	**18,390,260**	**–**	**–**	**–**	**–**	**18,390,260**
Total Liabilities	**₱5,004,686,880**	**₱97,661,167**	**₱423,678,242**	**₱29,879,851**	**₱75,726,873**	**₱5,631,633,013**
Other Segment Information						
Capital expenditures for property and equipment						₱480,582,904
Depreciation and amortization						79,877,705
Noncash expenses other than depreciation and amortization						1,758,537

	March 31, 2018 (Audited)					
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
Assets and Liabilities						
Segment assets[(a)]	₱8,106,603,160	₱132,951,846	₱922,464,706	₱52,590,632	₱151,714,860	₱9,366,325,204
Goodwill	225,554,342	–	–	–	–	225,554,342
Investments in and advances to associates and joint ventures (Note 12)	514,904,349	–	–	–	–	514,904,349
Pension assets	53,474,883	–	–	–	–	53,474,883
Noncurrent asset held for sale	716,586,558	–	–	–	–	716,586,558
Deferred tax assets	12,652,738	916,408	345,862	105,387	42,971	14,063,366
Total Assets	₱9,629,776,030	₱133,868,254	₱922,810,568	₱52,696,019	₱151,757,831	₱10,890,908,702
Segment liabilities[(b)]	₱360,051,353	₱50,474,180	₱100,258,912	₱9,541,223	₱37,542,887	₱557,868,555
Interest-bearing loans and borrowings	734,400,000	–	–	–	–	734,400,000
Bonds payable	2,951,879,134	–	–	–	–	2,951,879,134
Pension liabilities	4,157,813	39,293	400,120	53,514	10,607	4,661,347
Obligations under finance lease	20,440,320	–	–	–	–	20,440,320
Total Liabilities	₱4,070,928,620	₱50,513,473	₱100,659,032	₱9,594,737	₱37,553,494	₱4,269,249,356
Other Segment Information						
Capital expenditures for property and equipment						₱1,209,647,204
Depreciation and amortization						317,087,840
Noncash expenses other than depreciation and amortization						89,749,101

(a) *Segment assets exclude goodwill, investments in and advances to associates and joint ventures, pension assets, noncurrent asset held for sale and deferred tax assets.*
(b) *Segment liabilities exclude interest-bearing loans and borrowings, bonds payable, pension liabilities and obligations under finance lease.*

5. Cash and Cash Equivalents

This account consists of:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Cash on hand and in banks	**₱570,088,261**	₱593,902,397
Cash equivalents	**1,231,355,684**	1,023,489,068
	₱1,801,443,945	₱1,617,391,465

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

Interest earned from cash in banks and cash equivalents amounted to ₱8.8 million and ₱7.5 million for the three-month periods ended June 30, 2018 and 2017, respectively.

6. Receivables

This account consists of:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Tuition and other school fees	**₱1,058,029,584**	₱381,792,196
Educational services (see Notes 19 and 22)	**53,371,951**	40,014,195
Rent, utilities and other related receivables (see Notes 19 and 22)	**31,269,077**	32,483,536
Advances to officers and employees (see Notes 19 and 22)	**20,198,974**	20,389,150
Current portion of advances to associates, joint ventures and other related parties (see Notes 19 and 22)	**-**	143,571
Dividend receivable	**2,334,364**	-
Others (see Note 22)	**28,645,852**	24,647,005
	1,193,849,802	499,469,653
Less allowance for doubtful accounts	**86,308,072**	86,184,745
	₱1,107,541,730	₱413,284,908

The terms and conditions of the receivables are as follows:

a. Tuition and other school fees 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 the next financial year.

d. Advances to officers and employees are normally liquidated within one month.

e. Dividend receivable is generally noninterest-bearing and is normally collected within 30 days.

f. For terms and conditions relating to advances to associates, joint ventures and other related parties, refer to Note 19.

g. Other receivables are expected to be collected within the next financial year. Other receivables include receivables from a former franchisee, vendors and SSS amounting to ₱1.4 million, ₱3.9 million and ₱0.3 million, respectively, as at June 30, 2018 and amounting to ₱1.4 million, ₱4.6 million and ₱2.8 million, respectively, as at March 31, 2018. These receivables are expected to be collected within the year.

7. **Inventories**

This account consists of:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
At net realizable value:		
Educational materials	**₱140,699,497**	₱122,417,691
Promotional materials	**12,298,558**	11,048,596
School materials and supplies	**2,288,183**	1,399,426
	₱155,286,238	₱134,865,713

Educational materials include inventory of school uniforms amounting to ₱123.3 million and ₱113.0 million as at June 30, 2018 and March 31, 2018, respectively. This also includes textbooks and other educational-related materials amounting to ₱17.4 million and ₱9.4 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 ₱8.1 million, respectively, as at June 30, 2018 and ₱3.6 million and ₱7.4 million, respectively, as at March 31, 2018.

8. **Prepaid Expenses and Other Current Assets**

This account consists of:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Prepaid taxes	**₱72,703,724**	₱73,111,195
Prepaid insurance	**9,358,091**	514,357
Prepaid rent	**6,505,262**	6,383,872
Prepaid subscriptions and licenses	**5,976,537**	9,006,827
Excess contributions to CEAP	**3,560,528**	3,518,596
Software maintenance cost	**1,098,295**	2,205,737
Others	**2,716,554**	1,787,870
	₱101,918,991	₱96,528,454

Prepaid taxes represent creditable withholding taxes (CWT), input Value Added Tax (VAT), prepaid business and real property taxes. Most of the input VAT are from 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 the coverage, which is normally within one year.

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 terms of the lease agreements.

Prepaid subscriptions and licenses pertain substantially to Microsoft license subscriptions which are amortized over the period of coverage.

Excess contributions to Catholic Education 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 or STI QA 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 accounting and enrollment systems which are amortized in accordance with the terms of the agreements.

9. **Noncurrent Asset Held for Sale**

Noncurrent asset held for sale amounting to ₱716.6 million, as at June 30, 2018 and March 31, 2018, 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, there was no write-down of the non-current asset held for sale as the carrying amount did not fall below its fair value less cost to sell.

10. Property and Equipment

The rollforward analyses 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
Cost, Net of Accumulated Depreciation and Amortization										
Balance at beginning of period	**₱2,303,062,317**	**₱2,833,240,358**	**₱98,294,053**	**₱53,362,705**	**₱65,679,119**	**₱21,375,401**	**₱52,702,795**	**₱13,031,566**	**₱756,857,644**	**₱6,197,605,958**
Additions	–	**518,289**	**4,474,671**	**2,846,079**	**2,390,562**	–	**3,896,982**	**937,835**	**465,518,486**	**480,582,904**
Disposal	–	–	–	–	–	**(240,000)**	–	–	–	**(240,000)**
Reclassification	–	**3,436,280**	–	–	–	–	–	–	**(3,436,280)**	–
Depreciation and amortization	–	**(38,953,820)**	**(10,128,038)**	**(6,755,757)**	**(3,512,550)**	**(2,080,303)**	**(7,282,733)**	**(1,574,122)**	–	**(70,287,323)**
Balance at end of period	**₱2,303,062,317**	**₱2,798,241,107**	**₱92,640,686**	**₱49,453,027**	**₱64,557,131**	**₱19,055,098**	**₱49,317,044**	**₱12,395,279**	**₱1,218,939,850**	**₱6,607,661,539**
At June 30, 2018										
Cost	**₱2,303,062,317**	**₱3,672,155,631**	**₱461,888,279**	**₱246,217,238**	**₱324,820,917**	**₱64,782,560**	**₱342,823,978**	**₱108,788,910**	**₱1,218,939,850**	**₱8,743,479,680**
Accumulated depreciation and amortization	–	**873,914,524**	**369,247,593**	**196,764,211**	**260,263,786**	**45,727,462**	**293,506,934**	**96,393,631**	–	**2,135,818,141**
Net book value	**₱2,303,062,317**	**₱2,798,241,107**	**₱92,640,686**	**₱49,453,027**	**₱64,557,131**	**₱19,055,098**	**₱49,317,044**	**₱12,395,279**	**₱1,218,939,850**	**₱6,607,661,539**

	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
Cost, Net of Accumulated Depreciation and Amortization										
Balance at beginning of period	₱2,083,048,682	₱2,890,942,852	₱107,761,154	₱67,315,803	₱21,512,031	₱10,655,437	₱39,605,444	₱14,217,122	₱30,414,181	₱5,265,472,706
Additions	220,013,635	69,549,139	33,460,371	12,826,325	53,110,899	18,602,166	39,725,156	5,501,869	756,857,644	1,209,647,204
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
Reclassification	–	27,976,631	291,650	–	2,171,867	–	16,200	(42,167)	(30,414,181)	–
Depreciation and amortization	–	(155,228,264)	(43,680,320)	(26,794,173)	(11,115,678)	(7,552,202)	(27,567,020)	(6,774,976)	–	(278,712,633)
Balance at end of period	₱2,303,062,317	₱2,833,240,358	₱98,294,053	₱53,362,705	₱65,679,119	₱21,375,401	₱52,702,795	₱13,031,566	₱756,857,644	₱6,197,605,958
At March 31, 2018										
Cost	₱2,303,062,317	₱3,668,272,709	₱457,341,957	₱243,371,160	₱322,430,354	₱65,142,560	₱338,926,996	₱107,851,076	₱756,857,644	₱8,263,256,773
Accumulated depreciation and amortization	–	835,032,351	359,047,904	190,008,455	256,751,235	43,767,159	286,224,201	94,819,510	–	2,065,650,815
Net book value	₱2,303,062,317	₱2,833,240,358	₱98,294,053	₱53,362,705	₱65,679,119	₱21,375,401	₱52,702,795	₱13,031,566	₱756,857,644	₱6,197,605,958

The cost of fully depreciated property and equipment still being used by the Group amounted to ₱790.1 million and ₱781.4 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 and March 31, 2018, 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 related contract costs amounted to ₱2,676.8 million, inclusive of materials, cost of labor and overhead and all other costs necessary for the completion of the projects. The construction of ground up to fourth floor of the STI Lipa building was completed in July 2018 while the remaining works from 5th 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 ₱3.7 million and ₱22.9 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% for the three-month period ended June 30, 2018 and for the year ended March 31, 2018, respectively, which was the effective rate of the borrowings.

11. Investment Properties

The rollforward analyses of this account are as follows:

	June 30, 2018 (Unaudited)		
	Land	**Buildings**	**Total**
Cost:			
Balance at beginning and end of period	**₱23,986,424**	**₱636,233,550**	**₱660,219,974**
Accumulated depreciation:			
Balance at beginning of period	**–**	**109,994,962**	**109,994,962**
Depreciation	**–**	**7,157,533**	**7,157,533**
Balance at end of period	**–**	**117,152,495**	**117,152,495**
Net book value	**₱23,986,424**	**₱519,081,055**	**₱543,067,479**

	March 31, 2018 (Audited)		
	Land	Buildings	Total
Cost:			
Balance at beginning and end of period	₱23,986,424	₱636,233,550	₱660,219,974
Accumulated depreciation:			
Balance at beginning of period	–	81,364,835	81,364,835
Depreciation	–	28,630,127	28,630,127
Balance at end of period	–	109,994,962	109,994,962
Net book value	₱23,986,424	₱526,238,588	₱550,225,012

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

The details and movements of this account are as follows:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Investments at Equity		
Acquisition cost:		
Balance at beginning of period	**₱549,867,252**	₱723,985,378
Reversal	**–**	(43,000)
Reclassification to noncurrent asset held for sale (Note 9)	**–**	(174,075,126)
Balance at end of period	**549,867,252**	549,867,252
Accumulated equity in net earnings (loss):		
Balance at beginning of period	**(35,482,176)**	644,942,552
Equity in net loss	**(1,074,582)**	(218,245,327)
Reclassification to noncurrent asset held for sale	**–**	(450,634,986)
Dividends received	**–**	(11,544,415)
Balance at end of period	**(36,556,758)**	(35,482,176)
Accumulated share in associates' other comprehensive income (loss):		
Balance at beginning of period	**519,273**	(34,147,169)
Unrealized mark-to-market (MTM) gain on AFS financial assets	**–**	125,063,735
Remeasurement gain on pension liability	**–**	523,527
Remeasurement gain on life insurance reserves	**–**	226,977
Reclassification to noncurrent asset held for sale (Notes 9 and 18)	**–**	(91,147,797)
Balance at end of period	**519,273**	519,273
Share in associates' other equity reserves:		
Balance at beginning of period	**–**	728,649
Reclassification to noncurrent asset held for sale	**–**	(728,649)
Balance at end of period	**–**	–
	513,829,767	514,904,349
Advances	**37,868,986**	37,868,986
Less allowance for impairment loss	**37,868,986**	37,868,986
	–	–
	₱513,829,767	₱514,904,349

Movements in the allowance for impairment of investments and advances are as follows:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Balance at beginning of period	**₱37,868,986**	₱37,277,147
Provision for impairment	**–**	591,839
Balance at end of period	**₱37,868,986**	₱37,868,986

The equity in net losses amounting to ₱218.2 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 (see note 9). 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:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Associates:		
STI Holdings	**₱472,842,763**	₱473,032,695
STI Alabang	**23,225,758**	23,225,758
GROW	**14,975,398**	15,199,031
STI Accent	**37,868,986**	37,868,986
Joint venture -		
PHEI	**2,785,848**	3,446,865
	551,698,753	552,773,335
Allowance for impairment loss	**37,868,986**	37,868,986
	₱513,829,767	₱514,904,349

As at June 30, 2018 and March 31, 2018, the carrying amount of the investments in STI Marikina, Synergia, and PHNS amounted to nil.

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

13. Goodwill, Intangible and Other Noncurrent Assets

This account consists of:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Goodwill	**₱225,554,342**	₱225,554,342
Deposits for asset acquisitions	**97,626,667**	76,270,833
Advances to suppliers	**97,452,617**	153,539,908
Rental and utility deposits	**49,411,869**	44,272,574
Intangible assets	**10,658,631**	12,965,479
Others	**1,975,184**	1,975,185
	₱482,679,310	₱514,578,321

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.

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.

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 Notes 10 and 21). These will be reclassified to the "Property and equipment" account when the goods are received or the services are rendered.

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.

14. Accounts Payable and Other Current Liabilities

This account consists of:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Accounts payable (see Note 19)	**₱519,535,003**	₱175,383,459
Accrued expenses:		
Contracted services	**19,139,454**	22,052,704
Rent	**24,720,927**	34,956,490
Salaries, wages and benefits	**17,682,971**	16,610,057
Interest	**17,470,272**	9,283,548
School-related expenses	**17,446,775**	41,154,594
Utilities	**4,161,397**	5,133,738
Advertising and promotion	**2,385,070**	3,537,635
Others	**7,758,183**	6,159,565

Forward

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Statutory payables	**₱16,877,503**	₱20,737,780
Dividends payable	**12,380,581**	13,813,740
Network events fund	**10,538,751**	9,756,557
Current portion of payable to STI Diamond (see Note 17)	**9,532,681**	7,053,619
Student organization fund	**6,312,349**	5,398,120
Current portion of refundable deposits (see Note 17)	**4,336,918**	5,432,332
Others	**16,527,660**	10,111,060
	₱706,806,495	₱386,574,998

The terms and conditions of the 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 financial year.

c. Statutory payables primarily include taxes payable and remittances to government agencies. These are normally settled within 30 days.

d. Dividends payable pertains to dividend declared and are due on demand.

e. Refundable deposits pertain to security deposits received from existing lease agreements and are expected to be settled within the next financial year.

f. For terms and conditions of payable to related parties, refer to Note 19.

15. **Interest-bearing Loans and Borrowings**

This account consists of:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Current portion:		
Corporate notes facility	**₱134,400,000**	₱134,400,000
Noncurrent	**600,000,000**	600,000,000
	₱734,400,000	₱734,400,000

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 ₱3,000.0 million with a term of either 5 or 7 years. The facility is available in two tranches of ₱1,500.0 million 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, the Parent Company availed a total of ₱1,200.0 million loans with interest ranging from 4.34% to 4.75%. The Parent Company 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.

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

Fiscal Year	Amount
2019	₱134,400,000
2020	240,000,000
2021	240,000,000
2022	120,000,000
	₱734,400,000

An Accession Agreement to the Credit Facility Agreement was executed on December 16, 2014 among STI ESG, STI West Negros University, Inc. (STI WNU), a company under common control of STI Holdings 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.

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. The Parent Company 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 the Group's Credit Facility Agreement are as follows:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Balance at beginning of period	**₱734,400,000**	₱775,200,000
Repayments	**–**	40,800,000
Balance at end of period	**734,400,000**	734,400,000
Less current portion	**134,400,000**	134,400,000
Noncurrent portion	**₱600,000,000**	₱600,000,000

On January 19, 2017, STI ESG 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.

As at June 30, 2018 and March 31, 2018, STI ESG complied with the above covenants (see Note 16).

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.

On January 31, 2017, STI ESG 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 incurred on the loans amounted to ₱8.2 million and ₱12.6 million for the three-month periods ended June 30, 2018 and 2017, respectively.

16. **Bonds Payable**

This account consists of:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Principal:		
Fixed rate bonds due 2024	**₱2,180,000,000**	₱2,180,000,000
Fixed rate bonds due 2027	**820,000,000**	820,000,000
	3,000,000,000	3,000,000,000
Less: unamortized debt issuance costs	**46,637,230**	48,120,866
	₱2,953,362,770	₱2,951,879,134

On March 23, 2017, the Parent Company 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 PDEx. 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 rating of 'PRS Aa' by Philippine Rating Services Corporation (PhilRatings). Proceeds of the issuance are used to finance the campus expansion projects, and refinancing of the short-term loans incurred for the acquisition of land, and for other general corporate requirements of the Group.

The bonds include an embedded derivative in the form of an early redemption option that gives the Parent Company 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 the Parent Company's issued bonds is as 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	**₱2,146,727,800**	₱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	**806,634,970**	806,354,364	Callable from the 7th anniversary issue and every year thereafter until the 9th anniversary issue date
				₱3,000,000,000	**₱2,953,362,770**	₱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 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. The Parent Company 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.

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

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

* *Excluding unearned tuition and other school fees*

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
EBITDA (Note 4)**	**₱1,145,386,940**	₱1,219,382,693
Total interest-bearing liabilities	**353,107,824**	353,487,492
Debt service cover	**3.24:1.00**	3.45:1.00

***EBITDA for the last twelve months*

Bond Issuance Cost

The Parent Company 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 ₱1.5 million and ₱1.3 million for the three-month periods ended June 30, 2018 and 2017, respectively, were 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 statement of comprehensive income amounted to ₱42.7 million and ₱45.7 million for the three-month periods ended June 30, 2018 and 2017, respectively.

17. Other Noncurrent Liabilities

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Payable to STI Diamond - net of current portion	**₱47,074,791**	₱50,063,693
Advance rent	**38,129,663**	34,999,909
Refundable deposit - net of current portion	**17,646,673**	16,081,797
Deferred lease liability	**2,426,489**	2,426,489
	₱105,277,616	₱103,571,888

18. Equity

Capital Stock

The details of the number of common shares and amount are as follows:

	June 30, 2018	March 31, 2018
Authorized - ₱1 par value	**5,000,000,000**	₱5,000,000,000
Issued and outstanding	**₱3,087,829,443**	₱3,087,829,443

Treasury shares
Out of the total issued shares, 5,952,273 and nil shares pertain to treasury shares amounting to ₱10.8 million as at June 30, 2018 and March 31, 2018.

Other Comprehensive Income (loss) and Other Equity Reserves associated with Noncurrent Asset Held for Sale (Notes 9 and 12)

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

Share in associates':	
Unrealized mark-to-market gain on AFS financial assets	₱108,558,621
Remeasurement loss on life insurance reserves	(18,096,674)
Cumulative actuarial gain	685,850
Other equity reserve	728,649
	₱91,876,446

Retained Earnings

On September 19, 2017, the Parent Company's BOD approved the cash dividends declaration of ₱0.08 per share for a total amount of ₱246.5 million, in favor of the stockholders of record as at September 30, 2017. Such dividends were paid on October 19, 2017.

Policy on Dividends Declaration
On September 19, 2017, the BOD of STI ESG adopted a policy on the declaration of dividends starting with Fiscal Year 2017-2018.

The BOD approved a dividend declaration policy equivalent to 25% to 40% 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 tax derived from the Parent Company's main business- 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 Parent 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:

	Amount of Transactions During the Period		**Outstanding Receivable (Payable)**			
Related Party	**June 2018 (Unaudited)**	June 2017 (Unaudited)	**June 2018 (Unaudited)**	March 2018 (Audited)	**Terms**	**Conditions**
Associates						
STI Accent						
Advances for various expenses and other charges	**₱–**	₱335,704	**₱37,868,986**	₱37,868,986	30 days upon receipt of billings; noninterest-bearing	Unsecured; impaired
GROW						
Rental income and other charges	**–**	–	**6,921,016**	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
STI Holdings						
Advisory fees	**3,600,000**	3,600,000	**–**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Advances for various expenditures	**8,543**	–	**–**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
STI Alabang						
Educational services and sale of educational materials and supplies	**5,774,736**	5,377,654	**1,490,696**	435,759	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
STI Marikina Educational services and sale of educational materials and supplies	**4,370,322**	5,680,081	**1,601,277**	84,956	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Affiliates*						
PhilCare						
Rental income and other charges	**4,105,777**	3,845,000	**3,719,085**	4,031,857	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
HMO coverage	**3,705,341**	3,623	**(4,069,228)**	(28,449)	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Refundable deposits	–	–	(1,820,984)	(1,820,984)	Refundable upon end of contract	Unsecured; no impairment

Forward

Related Party	Amount of Transactions During the Period June 2018 (Unaudited)	June 2017 (Unaudited)	Outstanding Receivable (Payable) June 2018 (Unaudited)	March 2018 (Audited)	Terms	Conditions
Phil First Insurance Co., Inc.						
Utilities and other charges	**₱34,134**	₱42,622	**₱2,248**	₱27,732	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Insurance	**2,131,568**	184,531	**(196,313)**	(19,829)	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Philippines First Condominium Corporation						
Association dues, utilities and other charges	**2,508,927**	2,665,535	**(530,964)**	(1,295,754)	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
STI WNU						
Educational services and sale of educational materials and supplies	**6,972,443**	1,208,423	**–**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**1,140,322**	546,067	**–**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
iACADEMY						
Advances for various expenses	**2,855,000**	–	**–**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Officers and employees						
Advances for various expenses	**2,798,175**	7,794,709	**20,198,974**	20,389,150	Liquidated within one month; noninterest-bearing	Unsecured; no impairment
Others						
Rental income and other charges	**1,327,357**	150,677	**1,321,035**	2,043,402	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
			₱66,505,828	₱68,791,413		

**Affiliates are entities under common control of a majority Shareholder*

Related party receivables and payables are generally settled in cash.

Outstanding receivables, before any allowance for impairment, and payables arising from these transactions are summarized below:

	June 30, 2018 (Unaudited)	March 31, 2018 (Audited)
Educational services and sale of educational materials and supplies (see Note 6)	**₱3,091,973**	₱520,715
Current portion of advances to associates, joint ventures and other related parties (see Note 6)	**–**	143,571
Advances to officers and employees (see Note 6)	**20,198,974**	20,389,150
Rent, utilities and other related receivables (see Note 6)	**11,963,384**	13,034,007
Advances to associates and joint ventures (see Note 12)	**37,868,986**	37,868,986
Accounts payable (see Note 14)	**(6,617,489)**	(3,165,016)
	₱66,505,828	₱68,791,413

The following are the balances and transactions among related parties which are eliminated during consolidation.

	Amount of Transactions During the Quarter		Outstanding Receivable (Payable)			
Related Party	**June 2018 (Unaudited)**	June 2017 (Audited)	**June 2018 (Unaudited)**	March 2018 (Audited)	**Terms**	**Conditions**
Subsidiaries						
STI Caloocan						
Educational services, sale of educational materials and supplies, management fees, and other charges	**₱37,512,587**	₱18,760,135	**₱18,131,113**	₱–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**2,433,133**	741,89	**(245,927,214)**	(236,271,389)	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Rental income and other related charges	**12,572,400**	12,572,400	–	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
*STI Dagupan**						
Educational services, sale of educational materials and supplies, management fees, and other charges	**–**	1,051,515	**–**	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**–**	182,679	**–**	(327,655)	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI Novaliches						
Educational services, sale of educational materials and supplies, management fees, and other charges	**28,043,203**	19,018,392	**2,089,865**	5,398,721	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**994,307**	671,560	**(163,484,421)**	(160,495,253)	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Rental income and other related charges	**7,680,000**	7,680,000	**–**	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
*STI Taft**						
Educational services, sale of educational materials and supplies, management fees, and other charges	**–**	3,787,043	**–**	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**–**	3,751,370	**–**	(6,190,658)	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI Tuguegarao						
Educational services, sale of educational materials and supplies, management fees, and other charges	**143,350**	494,450	**11,799,418**	12,556,544	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**92,678**	100,894	**1,336,944**	1,328,925	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI QA						
Educational services, sale of educational materials and supplies, management fees, and other charges	**3,601,731**	2,982,669	**785,505**	1,651,658	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**–**	–	**14,251,548**	14,251,548	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI Batangas						
Educational services, sale of educational materials and supplies , management fees and other charges	**16,591,289**	6,955,921	**13,024,374**	9,259,570	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**1,835,839**	1,664,823	**1,835,839**	11,006,688	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Rental income and other related charges	**3,742,200**	3,742,200	**36,082,029**	23,613,620	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment

Forward

Related Party	Amount of Transactions During the Quarter June 2018 (Unaudited)	June 2017 (Audited)	Outstanding Receivable (Payable) June 2018 (Unaudited)	March 2018 (Audited)	Terms	Conditions
STI Iloilo						
Educational services, sale of educational materials and supplies,	**₱823,957**	₱1,107,890	**₱4,354,363**	₱4,013,036	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**22,815**	184,830	**7,101,971**	7,079,156	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI Pagadian						
Educational services, sale of educational materials and supplies,	**589,726**	355,849	**2,654,191**	2,451,353	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**344,487**	223,080	**6,163,055**	5,922,799	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Subscription of common stock	**–**	–	**(15,000,000)**	(15,000,000)	Due and demandable, noninterest-bearing	Unsecured; no impairment
STI Tanauan						
Educational services , sale of educational materials and supplies,	**2,159,064**	2,541,698	**–**	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**145,479**	186,067	**(16,101,015)**	(15,573,659)	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI Lipa						
Educational services , sale of educational materials and supplies,	**3,717,184**	2,319,995	**1,463,475**	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**426,776**	653,085	**1,037,969**	711,192	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI Sta. Maria						
Educational services , sale of educational materials and supplies,	**6,530,185**	4,801,536	**–**	–	–30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**17,757,622**	48,613,034	**53,402,982**	58,252,912	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment

**Merged with the Parent Company on August 30, 2017.*

20. Basic and Diluted EPS on Net Loss Attributable to Equity Holders of the Parent Company

The table below shows the summary of net loss and weighted average number of common shares outstanding used in the calculation of EPS for the three-month periods ended June 30, 2018 and 2017:

	For the three months ended June 30 2018 (Unaudited)	2017 (Unaudited)
Net loss attributable to equity holders of the Parent Company	**(₱73,983,083)**	(₱235,225,969)
Weighted average number of common shares outstanding	**3,087,829,443**	3,081,871,859
Basic and diluted EPS on net loss attributable to equity holders of the Parent Company	**(₱0.024)**	(₱0.076)

The basic and diluted loss per share are the same for the three-month periods ended June 30, 2018 and 2017 as there are no dilutive potential common shares.

21. **Contingencies and Commitments**

Contingencies

a. *Tax Assessment Case.* The Parent Company 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 the Parent Company 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, the Parent Company 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 the Parent Company'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, the Parent Company received a copy of the Commissioner of Internal Revenue's (CIR) Motion for Reconsideration dated May 8, 2013. The Parent Company 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, the Parent Company 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 the Parent Company'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, the Parent Company 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, the Parent Company 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, the Parent Company 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, the Parent Company 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, the Parent Company, 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 ten (10) days from receipt of notice. On November 25, 2016, the CIR filed its reply to the Parent Company's comment.

   On October 4, 2017, the Parent Company 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 Parent Company 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, the Parent Company received the Entry of Judgment issued by the Supreme Court dated May 7, 2018 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.

b. *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 the Parent Company. On August 13, 2014, the Parent Company received the Supreme Court's decision dated July 9, 2014 annulling the decision of the Court of Appeals and ordered that the Parent Company 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 the Parent Company's Motion for Reconsideration.

As a result of the decision, the Parent Company 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 Parent Company'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 the Parent Company'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 13th 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, the Parent Company 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, the Parent Company 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. The Parent Company averred that an order of separation pay in lieu of reinstatement should be issued in favor of the former employee.

On October 28, 2015, the Parent Company 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, the Parent Company alleged that the actions of the labor arbiter showed partiality and bias in favor of the former employee.

On October 29, 2015, the Parent Company filed a Motion to Consolidate with the NLRC. In the said Motion, the Parent Company 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 the Parent Company. 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 the Parent Company, 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 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 Labor Arbiter'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 we 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 our 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 "3rd 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 22nd 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 the Company as guilty of illegal dismissal; and ordering the Company 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 the Company.

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 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. 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 4th 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 4th 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 was 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.

c. *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 bases 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.

d. *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.

e. *Criminal Case.* A complaint for qualified theft was filed by the Parent Company against its former school accounting supervisor and acting school accountant (former supervisor/accountant). In the complaint, the Parent Company 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 13th 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 the Company 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.

f. *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.

g. Due to the nature of the Parent Company's business, it is 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 the Parent Company by reason of their faculty and employment contracts. Management and its legal counsels believe that the Parent Company has substantial legal and factual bases for its position and is of the opinion that losses arising from these legal actions and proceedings, if any, will not have a material adverse impact on the Parent Company's consolidated financial position and results of operations.

h. 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.

<u>Commitments</u>

a. Financial Commitments

   The Parent Company has domestic bills purchase lines from various local banks amounting to ₱165.0 million as at June 30, 2018, 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.

b. Capital Commitments

   As at June 30, 2018 and March 31, 2018, the Group 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.

c. 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 on 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 funded 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 13). 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.

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, bonds payable and other current liabilities, obligations under finance lease and other noncurrent liabilities. The primary purpose of these financial instruments 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, 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 are determined by reference to market bid quotes as at financial reporting date. AFS financial assets 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 its fair value because of recent and regular repricing based on market conditions.

Management believes that the fair values of deposits, obligations under finance lease, bonds payable 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.

23. **Changes in Liabilities Arising from Financing Activities**

	April 1, 2018	Cash flows	Interest Expense	Others	June 30, 2018
Current interest-bearing loans and borrowings	₱134,400,000	₱–	₱–	₱–	₱134,400,000
Current obligations under finance leases	6,360,503	(1,810,060)	–	1,430,392	5,980,835
Bonds payable	2,951,879,134	–	1,483,636	–	2,953,362,770
Noncurrent interest-bearing loans and borrowings	600,000,000	–	–	–	600,000,000
Noncurrent obligations under finance leases	14,079,817	–		(1,670,392)	12,409,425
Dividends payable	13,813,740	(1,433,159)	–	–	12,380,581
Interest Payable	9,283,548	(45,481,228)	53,667,952	–	17,470,272
Total liabilities from financing activities	₱3,729,816,742	(₱48,724,447)	₱55,151,588	(₱240,000)	₱3,736,003,883

**Others include reclassification of obligations under finance leases from non-current to current and the reversal of finance lease obligation due to disposal of a transportation equipment.*

24. **Notes to the Unaudited Interim Condensed Consolidated Statements of Cash Flows**

The Group's material noncash investing and financing activities pertain to the following:

a. Unpaid progress billing for construction in-progress amounting to ₱318.1 million and ₱3.2 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.

STI EDUCATION SERVICES GROUP, INC.
AGING OF ACCOUNTS RECEIVABLES
AS OF JUNE 30, 2018

TYPE OF ACCOUNTS RECEIVABLE	TOTAL	1-30 Days	31-60 days	61-90 days	over 90 days
Current Receivables	₱1,107,541,730	₱924,997,184	₱6,554,048	₱37,428,217	₱138,562,281

TYPE OF ACCOUNTS RECEIVABLE	NATURE/DESCRIPTION	NATURE/DESCRIPTION
Current Receivables	Tuition fees and other current receivables	Monthly

ANNEX "B"

STI EDUCATION SERVICES GROUP, INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

STI Education Services Group, Inc. (STI ESG 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). The Parent Company was incorporated on June 2, 1983 and 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. The Group 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'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.

STUDENT POPULATION

The enrollment at the start of the School Year (SY) are as follows:

	SY 2018-2019	SY 2017-2018	Decrease	
			Enrollees	**Percentage**
STI Network				
Owned schools	43,269	54,366	(11,097)	-20%
Franchised schools	32,054	42,165	(10,111)	-24%
Total Enrollees	**75,323**	**96,531**	**(21,208)**	**-22%**

Grouping the students in terms of government regulatory agencies supervising the programs, wherein Commission on Higher Education (CHED) pertains to students enrolled in tertiary programs, Technical Education and Skills Development Authority (TESDA) students are those enrolled in technical-vocational programs while Department of Education (DepEd) pertains to SHS students, following are the numbers:

	SY 2018-2019	%	SY 2017-2018	%
CHED	37,044	49%	40,147	42%
TESDA	1,719	2%	2,191	2%
DEPED	36,560	49%	54,193	56%
TOTAL	**75,323**	100%	**96,531**	100%

In line with STI ESG's thrust to continue providing opportunity to 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 this 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 the 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 which is 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 of the Group as at June 30, 2018 and March 31, 2018 of STI Education Services Group, Inc. and its subsidiaries (hereafter collectively referred to as "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-month period ended June 30, 2018 vs. three-month period ended June 30, 2017

For the three-month period ended June 30, 2018, the Group generated gross revenues of ₱356.6 million, lower by 9% or ₱33.9 million from same period last year of ₱390.5 million.

STI ESG recorded an operating loss for the three-month period ended June 30, 2018 amounting to ₱67.4 million as against an operating income for the same period last year of ₱7.3 million due to decline in the number of students while net loss this quarter amounted to ₱75.2 million as against ₱236.0 million for the same period last year due to the equity in net losses of an associate recognized for the period ended June 30, 2017.

Earnings before interest, taxes, depreciation and amortization or EBITDA, computed as net income excluding benefit from income tax, depreciation and amortization, equity in net losses of associates and joint ventures, interest expense and interest income decreased by ₱74.0 million to ₱39.3 million from the same period last year of ₱113.3 million. EBITDA margin for the three-month period, decreased from 29% last year to 11% this year.

II. FINANCIAL CONDITION

The Group's total assets as at June 30, 2018 amounted to ₱12,157.1 million, 12% or ₱1,266.2 million higher than the balance as at March 31, 2018. This was largely due to ₱694.2 million increase in receivables, mostly pertaining to receivables from students and from DepEd for tuition and other school fees and the ₱410.1 million increase in property and equipment as construction projects continued in full swing.

Cash and cash equivalents increased by 11% or ₱184.0 million as collections were received from students for tuition and other school fees.

Total receivables amounted to ₱1,107.5 million, up by ₱694.2 million from ₱413.3 million as at 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 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.

Property and equipment, net of accumulated depreciation, increased by ₱410.1 million from the March 31, 2018 balance of ₱6,197.6 million to ₱6,607.7 million as at June 30, 2018 as construction projects continued.

Total current liabilities increased by ₱1,360.8 million to ₱1,955.9 million as at June 30, 2018 from ₱595.1 million as at March 31, 2018, mainly due to ₱1,038.2 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 attributable to equity holders of the Parent Company decreased by 1% or ₱94.9 million from ₱6,612.2 million as at March 31, 2018 to ₱6,517.3 million as at June 30, 2018.

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-month period ended June 30		
		2018	**2017**	**Remarks**
EBITDA margin	Net income (loss) excluding benefit from income tax, depreciation and amortization, equity in net losses of associates and joint ventures, interest expense and interest income (EBITDA) divided by total revenues	11%	29%	EBITDA margin substantially declined in 2018 as compared to same period in 2017 mainly due to lower revenues and increased costs and expenses.
Gross profit margin	Gross profit divided by total revenues	48%	55%	Gross profit margin declined with lower revenues and higher direct costs.
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	(5%)	(15%)	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.

		Three-month period ended June 30		
		2018	2017	Remarks
Debt service cover ratio	EBITDA for the last twelve months divided by total principal and interest due for the next twelve months	3.24	1.59	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 1.05 of cash income (EBITDA) for every peso of loans and interest due within the next 12 months.
Debt-to-equity ratio	Total liabilities, net of unearned tuition and school fees, divided by total equity	0.70	0.78	Debt-to-equity ratio improved due to payments of short-term borrowings and current portion of long-term loans.

IV. MATERIAL CHANGES IN BALANCE SHEET ACCOUNTS

Cash and cash equivalents increased by 11% or ₱184.0 million from ₱1,617.4 million to ₱1,801.4 million as at March 31, 2018 and June 30, 2018, respectively, as collections were received from students for tuition and other school fees and were placed on short-term investments earning interest at respective short-term investment rates.

Receivables increased by ₱694.2 million or 168%. Receivables from students increased by ₱417.1 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 is ₱367.1 million as at June 30, 2018. The vouchers are expected to be collected within 8-12 weeks from date of submission of billing statements.

Inventories increased by 15% or ₱20.4 million. This is mainly attributed to the build-up of the inventory of textbooks for SHS students and the new sets of tertiary uniforms in preparation for SY 2018-2019.

Prepaid expenses increased by 6% or ₱5.4 million due to prepayment of insurance which mostly covers 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 ₱410.1 million from the March 31, 2018 balance of ₱6,197.6 million to ₱6,607.7 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 up to fourth floor of the STI Lipa building was completed in July 2018 while the remaining works from 5th 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.

Deferred tax assets rose more than twice as much as the March 31, 2018 balance or by ₱16.7 million substantially due to taxes applicable to tuition and other school fees collected in advance. Following statutory regulations, tuition and other school fees are taxed at the time of collection.

Pension assets as at June 30, 2018 amounting to ₱29.1 million is lower by ₱24.3 million compared to same period last year largely due to the decline in value of equity shares forming part of pension assets.

Goodwill, intangible and other noncurrent assets decreased by ₱31.9 million from ₱514.6 million to ₱482.7 million as at March 31, 2018 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 significantly increased by ₱320.2 million or 83% substantially due to obligations to contractors in relation to construction works in various STI ESG campuses.

Unearned tuition and other school fees increased substantially by ₱1,038.2 million from ₱54.0 million as at March 31 to ₱1,092.2 million as at June 30, 2018. This will be recognized as income over the remaining months of the related school term.

Income tax payable increased by ₱2.8 million to ₱16.5 million as at June 30, 2018 from ₱13.7 million last March 31, 2018 reflecting the increase in taxable income as tuition fees and rent collected in advance are taxable in full upon receipt.

Current and Noncurrent portion of obligations under finance lease declined by ₱.4 million and ₱1.7 million, respectively, due to payments made during the period.

Pension liabilities slightly increased by ₱29.5 thousand to ₱4.7 million as at June 30, 2018 due to recognition of additional retirement obligations by STI ESG's subsidiaries.

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

STI ESG's cumulative actuarial gain decreased by ₱20.8 million from ₱82.6 million to ₱61.8 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.

STI ESG's unrealized mark-to-market gain on its available-for-sale financial assets amounting to ₱0.4 million as at March 31, 2018 registered ₱0.2 million as at June 30, 2018, substantially due to the lower market value of the Manulife shares held by STI ESG.

Retained earnings decreased by ₱74.0 million from ₱3,003.9 million to ₱2,929.9 million due to net loss for the three-month period ended June 30, 2018.

V. MATERIAL CHANGES IN INCOME STATEMENT ACCOUNTS

Total revenues reached ₱356.6 million during the three-month period ended June 30, 2018, a decrease of ₱33.9 million from same period last year.

Tuition and other school fees for the period declined by ₱33.2 million. 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 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.

Sale of educational materials and supplies slightly increased compared to same period last year from ₱80.7 million to ₱81.6 million for the three-month period June 30, 2018. On the other hand, the cost of educational materials and supplies sold increased by 14% due to increase in the price of textbooks and the promotional campaign to dispose old sets of tertiary uniforms.

Other revenues, which substantially are fees for the use of e-Learning Management System (eLMS), decreased to ₱14.8 million for the three-month period ended June 30, 2018 as compared to ₱16.0 million for the same period last year due to lower number of students.

The cost of educational services for the three-month period ended June 30, 2018 is almost at par with the same period last year. While the cost of instructors' salaries and benefits decreased by ₱3.4 million due to reduced number of faculty members concomitant with the lower turn out of enrollees as discussed in the preceding paragraphs, the same was offset by the increase in rent and depreciation expense resulting from escalated rates on renewed lease agreements and amortization expense of leasehold improvements recognized by STI Malaybalay and STI Sta. Maria, respectively. The building renovation of STI Sta. Maria and the fit out works on a newly constructed building which was leased to be the new site of STI Malaybalay were completed in August 2017.

General and administrative expenses significantly increased by 16% or ₱33.2 million from ₱206.3 million to ₱239.5 million for the three-month period this year. The highest increase was registered by advertising and promotions costs which increased year-on-year by ₱36.0 million due to increase in advertising and promotions expense as the marketing campaign for both SHS and Tertiary programs were intensified in time for the opening of classes for SY 2018-2019.

The Group's operating income, that is, income before other income and expenses and income tax, decreased to ₱67.4 million loss for the three-month period ended June 30, 2018 from same period last year's income of ₱7.3 million. The academic cycle, which is one academic year, starts in the month of June and ends in the month of March. The revenue 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. For this quarter, the revenue is equivalent to only one month or the month of June which is the start of the SY. Accordingly, the revenue is expected to be lower during the first quarter of the fiscal year as compared to the other quarters.

Equity in net losses of associates and joint ventures amounting to ₱222.1 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.

Equity in net losses of associates amounting to ₱1.1 million pertains to STI ESG's share in the net loss of associates for the three-month period ended June 30, 2018. This amount 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 ₱59.0 million to ₱51.4 million as short-term loans were fully settled as at March 31, 2018 and amortization payments on long-term loans aggregating ₱40.8 million were made in July 2017 and January 2018.

Interest income amounted to ₱8.9 million for the three-month period ended June 30, 2018 mainly from interest earned from short-term placements of the proceeds of bonds which are not deployed to date.

Benefit from income tax amounting to ₱9.0 million was recognized as at June 30, 2018 associated with the net loss recognized for the period.

Net loss of ₱75.2 million was recorded for the three-month period ended June 30, 2018, as against a net loss for the same period last year of ₱236.0 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 interest-bearing loans and borrowings the debt service cover ratio is also monitored on a regular basis. The debt service cover ratio is equivalent to the consolidated EBITDA for the last twelve months 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, the lender bank and its bondholders. The Group's policy is to keep the debt service cover ratio not lower than 1.05:1.00.

As at June 30, 2018 and June 30, 2017, the Group's debt service cover ratio is 3.24:1.00 and 1.59:1.00, 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 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.

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 Company'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 interest-bearing loans and bonds. While the Company's long-term debt has a floating interest rate, the Company 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.

Capital risk –The Group's objectives when managing capital are to provide returns for stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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, the lender bank and its 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 June 30, 2017, the Group's debt-to-equity ratio is 0.70:1.00 and 0.78:1.00, respectively. As at March 31, 2018, the Group's debt-to-equity ratio is 0.64:1.00.

VII. AGREEMENTS/COMMITMENTS AND CONTINGENCIES/OTHER MATTERS

a. There are no changes in accounting estimates used in the preparation of Unaudited Interim Condensed Consolidated Financial Statements 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 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 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 is 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. 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 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.

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 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 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
(in millions except margins, financial ratios and earnings per share)

	June 2018 (Unaudited)	March 2018 (Audited)	Increase (Decrease) Amount	%
Condensed Statements of Financial Position				
Total assets	12,157.1	10,890.9	1,266.2	12
Current assets	3,882.8	2,978.7	904.1	30
Cash and cash equivalents	1,801.4	1,617.4	184.0	11
Equity attributable to equity holders of the parent company	6,517.3	6,612.2	(94.9)	(1)
Total liabilities	5,631.6	4,269.2	1,362.4	32
Current liabilities	1,955.9	595.1	1,360.8	229
Financial Ratios				
Debt to equity ratio (1)	0.70	0.64	0.06	9
Current ratio (2)	1.99	5.01	(3.02)	(60)
Asset to equity ratio (3)	1.86	1.64	0.22	13

	Three months ended June 30 2018	2017	Increase (Decrease) Amount	%
Condensed Statements of Income				
Revenues	356.6	390.5	(33.9)	(9)
Direct costs (4)	184.5	176.9	7.6	4
Gross profit	172.1	213.6	(41.5)	(19)
Operating expenses	239.5	206.3	33.2	16
Operating profit (loss)	(67.4)	7.3	(74.7)	(1,023)
Other expenses- net	(16.8)	(245.6)	228.8	(93)
Loss before income tax	(84.2)	(238.3)	154.1	(65)
Net loss	(75.2)	(236.0)	160.8	(68)
EBITDA (5)	39.3	113.3	(74.0)	(65)
Core income (loss) (6)	(74.1)	(13.9)	(60.2)	432
Net loss attributable to equity holders of the parent company	(74.0)	(235.2)	161.2	(69)
Loss per share (7)	(0.024)	(0.076)	0.1	(132)
Consolidated Condensed Statements of Cash Flows				
Net cash from operating activities	362.0	310.8	51.2	16
Net cash used in investing activities	(129.3)	(64.5)	(64.8)	100
Net cash used in financing activities	(48.7)	(67.7)	19.0	(28)

Financial Soundness Indicators

	Three months ended June 30		Increase (Decrease)	
	2018	2017	Amount	%
Liquidity Ratios				
Current ratio (2)	1.99	2.38	(0.39)	(16)
Quick ratio (8)	1.49	1.94	(0.45)	(23)
Cash ratio (9)	0.92	1.34	(0.42)	(31)
Solvency ratios				
Debt to equity ratio (1)	0.70	0.78	(0.08)	(10)
Asset to equity ratio (3)	1.86	1.99	(0.13)	(7)
Debt service cover ratio (10)	3.24	1.59	1.65	104
Interest coverage ratio (11)	(0.64)	(3.04)	2.40	(79)
Profitability ratios				
EBITDA margin (12)	11%	29%	(18)	(62)
Gross profit margin (13)	48%	55%	(7)	(13)
Operating profit (loss) margin (14)	(19%)	2%	(21)	(1,050)
Net loss margin (15)	(21%)	(60%)	39	(65)
Return on equity (annualized)(16)	(5%)	(15%)	10	(67)
Return on assets (annualized)(17)	(3%)	(6%)	3	(5,000)

(1) *Debt-to-equity ratio is measured as total liabilities, net of unearned tuition and other school fees, divided by total equity.*

(2) *Current ratio is measured as current assets divided by current liabilities.*

(3) *Asset to equity ratio is measured as total assets divided by total equity.*

(4) *Direct costs is calculated by adding the costs of educational services and educational materials and supplies sold.*

(5) *EBITDA is net income (loss) excluding benefit from 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 after 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 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 (loss) margin is measured as operating profit 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 loss [annualized] divided by average total assets.*

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SECURITIES AND EXCHANGE COMMISSION
RECEIVED
AUG 14 2018
MARKET REGULATION DEPT.
BY: TIME:

August 14, 2018

Vicente Graciano P. Felizmenio, Jr.
Director – Markets and Securities Regulations Department
Securities and Exchange Commission
Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City

Dear Mr. Felizmenio:

We transmit herewith the following documents:

1. STI ESG Quarterly Progress Report on Application of Proceeds from Bond Offering as of June 30, 2018 (3 original copies).
2. SGV Report of Factual Findings on the Quarterly Progress Report (3 original copies).

Many Thanks!

Ma. Jovie P. Camartin
STI Education Services Group, Inc.
E:jovie.camartin@sti.edu
T:812-1784 L602

Received by:

____
Signature over Printed Name/Date

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

REPORT OF FACTUAL FINDINGS

The Stockholders and the Board of Directors
STI Education Services Group, Inc.
STI Academic Center Ortigas-Cainta
Ortigas Avenue Extension, Cainta, Rizal
Philippines

We have performed the procedures agreed with you and enumerated below with respect to the attached Quarterly Progress Report as of June 30, 2018 on the application of proceeds from the Bond Offering (the "Offering") of STI Education Services Group, Inc. (the "Company") on March 23, 2017. The procedures were performed solely to assist you in complying with the Security and Exchange Commission's (SEC) requirement relating to the application of proceeds from the Offering. Our engagement was undertaken in accordance with the Philippine Standard on Related Services 4400, "*Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*" applicable to agreed-upon procedures engagements. These agreed-upon procedures and results thereof are summarized as follows:

1. Obtain the Company's Quarterly Progress Report on Application of Proceeds from Bond Offering (the "Report") as of June 30, 2018 and check its mathematical accuracy.

2. Agree the amounts in the Report with the related schedule of use of proceeds and check the mathematical accuracy of the schedule.

3. Agree the Company's remaining proceeds balance as of March 31, 2018 (i.e., beginning balance) indicated in the Report as of June 30, 2018 with the balance as of March 31, 2018, as disclosed in the Company's Report as of March 31, 2018 submitted to the SEC, dated May 17, 2018.

4. Verify the Company's additional disbursements from April 1, 2018 to June 30, 2018, for (i) payment for the construction of school buildings of ₱51.9 million (resulting to accumulated disbursements for construction of school buildings of ₱856.9 million), (ii) payment for the design and other interior and exterior works on school buildings of ₱3.9 million (resulting to accumulated disbursements for design and other interior and exterior works on school buildings of ₱10.2 million), (iii) payment for the purchase of schools' furniture and fixtures of ₱1.8 million (resulting to accumulated disbursements for schools' furniture and fixtures of ₱3.2 million), (iv) payment for the purchase of schools' software and equipment of ₱24.5 million, and (v) payment for the purchase of schools' supplied items of ₱0.1 million, by checking amounts and details to supporting documents such as invoice or statement of account, official receipts, Company's bank passbook and vouchers.

5. Verify that there are no additional amounts disbursed by the Company for the quarter, as indicated in the Report as of June 30, 2018, for (i) documentary stamp tax on bond issuance amounting to ₱15.0 million, (ii) professional fees and other expenses amounting to ₱19.9 million, (iii) underwriting fees amounting to ₱19.2 million, (iv) acquisition of Lipa properties, registration and other fees amounting to ₱99.0 million, (v) payment of loans used to acquire EDSA properties and payment of related taxes and other fees amounting to ₱387.2 million, (vi) acquisition of Legazpi property including taxes amounting to ₱76.4 million, and (vii) payment of loans incurred for working capital requirements amounting to ₱410.0 million.

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We report our findings below from the performance of the agreed-upon procedures enumerated above:

1. With respect to item 1, we found the Company's Report to be mathematically correct.

2. With respect to item 2, amounts in the Report agreed with the related schedule and we found the schedule to be mathematically correct.

3. With respect to item 3, the remaining proceeds indicated in the Report as of March 31, 2018 agreed with balance in the Report as of June 30, 2018.

4. With respect to item 4, the amounts of the additional disbursements from April 1, 2018 to June 30, 2018 agreed with the supporting documents.

5. With respect to item 5, we noted no exceptions.

Because the above procedures do not constitute either an audit or a review made in accordance with Philippine Standards on Auditing (PSA) or Philippine Standards on Review Engagements (PSRE), we do not express any assurance on the use of proceeds from the Offering based on the said standards.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with PSA or PSRE, other matters might have come to our attention that would have been reported to you.

We have no responsibility to update this report for events or circumstances occurring after the date of this report.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This report relates only to the updated report on the Company's application of proceeds from the Offering and items specified above do not extend to any financial statements of the Company, taken as a whole.

SYCIP GORRES VELAYO & CO.

Benjamin N. Villacorte

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

August 14, 2018

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

0	0	0	0	0	1	1	3	1	5	6

COMPANY NAME

STI EDUCATION SERVICES GROUP, INC. (A Private Educational Institution) AND SUBSIDIARIES

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

STI Academic Center Ortigas-Cainta, Ortigas Avenue Extension, Cainta, Rizal

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A	CRMD	NA

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
–	(632) 812-1784	–

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
64	1st Thursday of September	March 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
Arsenio C. Cabrera Jr.	accabrera@htc-law.com.ph	(632) 813-7111	–

CONTACT PERSON's ADDRESS

5/F, SGV II Building, 6758 Ayala Avenue, Makati City

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

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

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of **STI Education Services Group, Inc.** and its subsidiaries (collectively referred to as "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 and 2017 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements including the schedules attached therein, and submits the same to the stockholders.

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

JESLI A. LAPUS	**MONICO V. JACOB**	**YOLANDA M. BAUTISTA**
Chairman of the Board	*Vice Chairman and CEO*	*Chief Finance Officer*

Subscribed and Sworn to before me this JUL 1 3 2018, 2018 affiant(s) exhibiting to me their SSS ID/Passport, as follows:

Mr. Jesli A. Lapus	Passport No. EB9885998	26 Dec 2013, DFA Manila
Mr. Monico V. Jacob	Passport No. EC7728486	17May 2016 DFA NCR East
Ms. Yolanda M. Bautista	SSS No. 03-2678038-9	

DOC. NO 66
PAGE NO. 14
BOOK NO. X
SERIES OF 2018

ANDREW V. FERRER
NOTARY PUBLIC UNTIL DEC. 31, 2019
PTR NO. A 02576331; 01/03/18
IBP OR NO. 022569; 01/03/18
Rizal Chapter / MCLE Compliance
No. V-0026182, December 27, 2017
Roll No. 39812 / Appointment No. 18-09

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November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
STI Education Services Group, Inc.
STI Academic Center Ortigas - Cainta,
Ortigas Avenue Extension,
Cainta, Rizal

Opinion

We have audited the consolidated financial statements of STI Education Services Group, 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.

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 7% of the consolidated total assets, involves significant management judgment. The Group's share in the net losses of Maestro Holdings Group is significantly affected by the valuation of pre-need and other reserve liabilities which involves significant judgment and use of assumptions.

The disclosures on the investment in Maestro Holdings are included in Notes 9 and 12 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 ₱225.6 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 4 and 15 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) for the year ended March 31, 2018 which is 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 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 accounting principles generally accepted in the Philippines, 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

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

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STI EDUCATION SERVICES GROUP, INC.
(A Private Educational Institution)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 33 and 34)	**₱1,617,391,465**	₱2,880,282,731
Receivables (Notes 6, 33 and 34)	**413,284,908**	351,582,872
Inventories (Note 7)	**134,865,713**	116,996,843
Prepaid expenses and other current assets (Note 8)	**96,528,454**	109,928,549
	2,262,070,540	3,458,790,995
Noncurrent asset held for sale (Notes 9 and 12)	**716,586,558**	–
Total Current Assets	**2,978,657,098**	3,458,790,995
Noncurrent Assets		
Property and equipment-net (Note 10)	**6,197,605,958**	5,265,472,706
Investment properties-net (Note 11)	**550,225,012**	578,855,139
Investments in and advances to associates and joint ventures (Notes 12, 13 and 34)	**514,904,349**	1,335,509,410
Available-for-sale financial assets (Notes 14, 33 and 34)	**67,399,715**	50,870,755
Deferred tax assets - net (Note 28)	**14,063,366**	15,567,668
Pension assets - net (Note 26)	**53,474,883**	2,763,398
Goodwill, intangible and other noncurrent assets (Notes 15, 33 and 34)	**514,578,321**	378,240,903
Total Noncurrent Assets	**7,912,251,604**	7,627,279,979
TOTAL ASSETS	**₱10,890,908,702**	₱11,086,070,974
LIABILITIES AND EQUITY		
Current Liabilities		
Current portion of interest-bearing loans and borrowings (Notes 16, 33 and 34)	**₱134,400,000**	₱585,800,000
Accounts payable and other current liabilities (Notes 17, 33 and 34)	**386,574,998**	379,232,249
Unearned tuition and other school fees	**53,985,019**	29,583,559
Current portion of obligations under finance lease (Notes 27, 33 and 34)	**6,360,503**	4,912,919
Income tax payable	**13,736,650**	14,253,404
Total Current Liabilities	**595,057,170**	1,013,782,131
Noncurrent Liabilities		
Interest-bearing loans and borrowings - net of current portion (Notes 16, 33 and 34)	**600,000,000**	734,400,000
Bonds payable (Notes 18, 33 and 34)	**2,951,879,134**	2,947,028,638
Pension liabilities - net (Note 26)	**4,661,347**	6,087,953
Obligations under finance lease - net of current portion (Notes 27, 33 and 34)	**14,079,817**	6,473,749
Other noncurrent liabilities (Notes 19, 33 and 34)	**103,571,888**	116,206,632
Total Noncurrent Liabilities	**3,674,192,186**	3,810,196,972
Total Liabilities *(Carried Forward)*	**4,269,249,356**	4,823,979,103

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	March 31	
	2018	2017
Total Liabilities *(Brought Forward)*	**₱4,269,249,356**	₱4,823,979,103
Equity Attributable to Equity Holders of the Parent Company		
Capital stock (Notes 1 and 20)	**3,087,829,443**	3,081,871,859
Additional paid-in capital (Note 20)	**386,916,479**	379,937,290
Treasury stock (Note 20)	**(10,833,137)**	–
Cumulative actuarial gain (Note 26)	**82,577,422**	35,771,624
Other comprehensive income associated with noncurrent asset held for sale (Notes 12 and 20)	**91,876,446**	–
Unrealized mark-to-market gain (loss) on available-for-sale financial assets (Note 14)	**404,391**	(24,569)
Other equity reserve (Notes 2 and 20)	**(30,941,455)**	(28,837,819)
Share in associates':		
Unrealized mark-to-market loss on available-for-sale financial assets (Note 12)	**(32,023)**	(16,537,137)
Cumulative actuarial gain (Note 12)	**551,296**	713,619
Remeasurement loss on life insurance reserves (Note 12)	**–**	(18,323,651)
Other equity reserves (Note 12)	**–**	728,649
Retained earnings (Notes 12 and 20)	**3,003,879,555**	2,818,372,090
Total Equity Attributable to Equity Holders of the Parent Company	**6,612,228,417**	6,253,671,955
Equity Attributable to Non-Controlling Interests	**9,430,929**	8,419,916
Total Equity	**6,621,659,346**	6,262,091,871
TOTAL LIABILITIES AND EQUITY	**₱10,890,908,702**	₱11,086,070,974

See accompanying Notes to the Consolidated Financial Statements.

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STI EDUCATION SERVICES GROUP, INC.
(A Private Educational Institution)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended March 31		
	2018	2017	2016
REVENUES			
Sale of services:			
Tuition and other school fees	**₱2,146,448,575**	₱2,218,526,769	₱2,054,990,042
Educational services (Note 1)	**208,333,217**	199,155,782	184,262,754
Royalty fees	**20,545,886**	19,148,926	15,935,475
Others	**58,819,746**	19,547,436	24,729,695
Sale of educational materials and supplies	**161,870,856**	146,855,223	70,590,636
	2,596,018,280	2,603,234,136	2,350,508,602
COSTS AND EXPENSES			
Cost of educational services (Note 22)	**694,025,004**	685,074,007	654,788,812
Cost of educational materials and supplies sold (Note 23)	**119,292,191**	115,422,737	51,534,700
General and administrative expenses (Note 24)	**983,427,424**	928,632,504	977,376,605
	1,796,744,619	1,729,129,248	1,683,700,117
INCOME BEFORE OTHER INCOME (EXPENSES) AND INCOME TAX	**799,273,661**	874,104,888	666,808,485
OTHER INCOME (EXPENSES)			
Equity in net losses of associates and joint ventures (Note 12)	**(218,245,327)**	(242,075,502)	(134,509,026)
Interest expense (Note 21)	**(210,506,049)**	(65,759,044)	(50,446,616)
Rental income (Note 27)	**98,457,745**	101,342,301	62,185,211
Interest income (Note 21)	**27,201,134**	2,926,266	4,742,536
Dividend income (Note 14)	**4,431,657**	3,251,497	2,830,674
Effect of derecognition of a subsidiary (Note 19)	**–**	(60,829,455)	–
Gain (loss) on:			
Sale of property and equipment	**14,790**	(33,838)	5,375
Sale of investment in an associate (Note 12)	–	154,260	–
Miscellaneous income	**117,000**	–	–
	(298,529,050)	(261,023,515)	(115,191,846)
INCOME BEFORE INCOME TAX	**500,744,611**	613,081,373	551,616,639
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 28)			
Current	**71,370,917**	93,582,485	73,765,249
Deferred	**(3,694,533)**	(88,803)	(6,877,612)
	67,676,384	93,493,682	66,887,637
NET INCOME (Note 12)	**433,068,227**	519,587,691	484,729,002

(Carried Forward)

	Years Ended March 31		
	2018	2017	2016
NET INCOME *(Brought Forward)*	**₱433,068,227**	₱519,587,691	₱484,729,002
OTHER COMPREHENSIVE INCOME (LOSS)			
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 12)	**125,063,735**	(148,425,599)	(292,945,908)
Unrealized mark-to-market gain (loss) on available-for-sale financial assets (Note 14)	**428,960**	847,120	(339,904)
Share in associates' remeasurement gain (loss) on life insurance reserves (Note 12)	**226,977**	(4,022,703)	11,269,319
	125,719,672	(151,601,182)	(282,016,493)
Items not to be reclassified to profit or loss in subsequent years:			
Remeasurement gain (loss) on pension liability (Note 26)	**52,004,633**	31,083,105	(7,042,946)
Tax effect (Note 28)	**(5,198,835)**	(3,108,311)	710,887
Share in associates' remeasurement gain on pension liability (Note 12)	**523,527**	19,065,456	636,789
	47,329,325	47,040,250	(5,695,270)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**173,048,997**	(104,560,932)	(287,711,763)
TOTAL COMPREHENSIVE INCOME	**₱606,117,224**	₱415,026,759	₱197,017,239
Net Income Attributable To			
Equity holders of the Parent Company (Note 12)	**₱432,057,214**	₱518,282,758	₱482,512,457
Non-controlling interest	**1,011,013**	1,304,933	2,216,545
	₱433,068,227	₱519,587,691	₱484,729,002
Total Comprehensive Income Attributable To			
Equity holders of the Parent Company (Note 12)	**₱605,106,211**	₱413,721,826	₱194,800,694
Non-controlling interests	**1,011,013**	1,304,933	2,216,545
	₱606,117,224	₱415,026,759	₱197,017,239
Basic/Diluted Earnings Per Share on Net Income Attributable to Equity Holders of the Parent Company (Notes 12 and 30)	**₱0.14**	₱0.17	₱0.16

See accompanying Notes to the Consolidated Financial Statements.

STI EDUCATION SERVICES GROUP, INC.
(A Private Educational Institution)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED MARCH 31, 2018, 2017 AND 2016

	Capital Stock (Notes 1 and 20)	Additional Paid-in Capital (Note 20)	Treasury Stock (Note 20)	Other comprehensive income associated with noncurrent asset held for sale (Note12)	Cumulative Actuarial Gain (Note 26)	Unrealized Mark-to-market Gain (Loss) on Available-for-sale Financial Assets (Note 14)	Other Equity Reserve (Notes 2 and 20)	Share in Associates' Unrealized Mark-to-market Gain (Loss) on Available-for-sale Financial Assets (Note 12)	Share in Associates' Cumulative Actuarial Gain (Loss) (Note 12)	Share in Associate's - Rem. on Life Insurance Reserves (Note 12)	Share in Associates' Other Equity Reserves (Note 12)	Retained Earnings (Note 20)	Total	Equity Attributable to Non-controlling Interests	Total Equity
Balance as at April 1, 2017, as previously stated	**₱3,081,871,859**	**₱379,937,290**	**₱–**	**₱–**	**₱35,771,624**	**(₱24,569)**	**(₱28,837,819)**	**(₱49,355,567)**	**₱733,002**	**₱–**	**₱728,649**	**₱3,062,770,493**	**₱6,483,594,962**	**₱8,419,916**	**₱6,492,014,878**
Prior period adjustments (see Note 12)	–	–	–	–	–	–	–	**32,818,430**	**(19,383)**	**(18,323,651)**	–	**(244,398,403)**	**(229,923,007)**	–	**(229,923,007)**
Balance as at April 1, 2017, as restated	**3,081,871,859**	**379,937,290**	–	–	**35,771,624**	**(24,569)**	**(28,837,819)**	**(16,537,137)**	**713,619**	**(18,323,651)**	**728,649**	**2,818,372,090**	**6,253,671,955**	**8,419,916**	**6,262,091,871**
Net income	–	–	–	–	–	–	–	–	–		–	**432,057,214**	**432,057,214**	**1,011,013**	**433,068,227**
Other comprehensive income	–	–	–	–	**46,805,798**	**428,960**	–	**125,063,735**	**523,527**	**226,977**	–	–	**173,048,997**	–	**173,048,997**
Total comprehensive income	–	–	–	–	**46,805,798**	**428,960**	–	**125,063,735**	**523,527**	**226,977**	–	**432,057,214**	**605,106,211**	**1,011,013**	**606,117,224**
Dividend declaration	–	–	–	–	–	–	–	–	–	–	–	**(246,549,749)**	**(246,549,749)**	–	**(246,549,749)**
Reclassification to noncurrent assets held for sale	–	–	–	**91,876,446**	–	–	–	**(108,558,621)**	**(685,850)**	**18,096,674**	**(728,649)**	–	–	–	–
Issuance of shares as a result of the merger (see Note 20)	**5,957,584**	**6,979,189**	**(10,833,137)**	–	–	–	**(2,103,636)**	–	–	–	–	–	–	–	–
Balance as at March 31, 2018	**₱3,087,829,443**	**₱386,916,479**	**(₱10,833,137)**	**₱91,876,446**	**₱82,577,422**	**₱404,391**	**(₱30,941,455)**	**(₱32,023)**	**₱551,296**	**₱–**	**₱–**	**₱3,003,879,555**	**₱6,612,228,417**	**₱9,430,929**	**₱6,621,659,346**
Balance as at April 1, 2016, as previously stated	₱3,081,871,859	₱379,937,290	₱–	₱–	₱7,796,830	(₱871,689)	(₱6,738,707)	₱122,577,096	(₱18,246,722)	₱–	₱–	₱3,539,890,986	₱7,106,216,943	(₱4,221,815)	₱7,101,995,128
Prior period adjustments (see Note 12)	–	–	–	–	–	–	–	9,311,366	(105,115)	(14,300,948)	–	(161,146,504)	(166,241,201)	–	(166,241,201)
Balance as at April 1, 2016, as restated	3,081,871,859	379,937,290	–	–	7,796,830	(871,689)	(6,738,707)	131,888,462	(18,351,837)	(14,300,948)–	–	3,378,744,482	6,939,975,742	(4,221,815)	6,935,753,927
Net income	–	–	–	–	–	–	–	–	–	–	–	518,282,758	518,282,758	1,304,933	519,587,691
Other comprehensive income (loss)	–	–	–	–	27,974,794	847,120	–	(148,425,599)	19,065,456	(4,022,703)	–	–	(104,560,932)	–	(104,560,932)
Total comprehensive income	–	–	–	–	27,974,794	847,120	–	(148,425,599)	19,065,456	(4,022,703)	–	518,282,758	413,721,826	1,304,933	415,026,759
Dividend declaration	–	–	–	–	–	–	–	–	–	–	–	(1,078,655,150)	(1,078,655,150)	–	(1,078,655,150)
Acquisition of non-controlling interest through dilution (Note 20)	–	–	–	–	–	–	(11,336,798)	–		–	–		(11,336,798)	11,336,798	–
Effect of derecognition of a subsidiary under common control (Note 20)	–	–	–	–	–	–	(10,762,314)	–	–	–	–	–	(10,762,314)	–	(10,762,314)
Share in associates' other equity reserves (Note 20)	–	–	–	–	–	–	–	–	–	–	728,649	–	728,649	–	728,649
Balance at March 31, 2017	₱3,081,871,859	₱379,937,290	₱–	₱–	₱35,771,624	(₱24,569)	(₱28,837,819)	(₱16,537,137)	₱713,619	(₱18,323,651)	₱728,649	₱2,818,372,090	₱6,253,671,955	₱8,419,916	₱6,262,091,871

	Capital Stock (Notes 1 and 20)	Additional Paid-in Capital (Note 20)	Treasury Stock (Note 20)	Other comprehensive income associated with noncurrent asset held for sale (Note 12)	Cumulative Actuarial Gain (Note 26)	Unrealized Mark-to-market Gain (Loss) on Available-for-sale Financial Assets (Note 14)	Other Equity Reserve (Note 20)	Share in Associates' Unrealized Mark-to-market Gain (Loss) on Available-for-sale Financial Assets (Note 12)	Share in Associates' Cumulative Actuarial Gain (Loss) (Note 12)	Share in Associate's - Rem. on Life Insurance Reserves (Note 20)	Share in Associates' Other Equity Reserves (Note 12)	Retained Earnings (Note 20)	Total	Equity Attributable to Non-controlling Interests	Total Equity
Balance as at April 1, 2015, as previously stated	₱3,081,871,859	₱379,937,290	₱–	₱–	₱14,128,889	(₱531,785)	(₱1,899,137)	₱424,682,258	(₱18,808,165)	₱–	₱–	₱3,118,843,169	₱6,998,224,378	(₱11,277,930)	₱6,986,946,448
Prior-period adjustments (see Note 12)	–	–	–	–	–	–	–	152,112	(180,461)	(25,570,267)	–	27,388,856	1,790,240	–	1,790,240
Balance as at April 1, 2015, as restated	3,081,871,859	379,937,290	–	–	14,128,889	(531,785)	(1,899,137)	424,834,370	(18,988,626)	(25,570,267)	–	3,146,232,025	7,000,014,618	(11,277,930)	6,988,736,688
Net income	–	–	–	–		–	–	–	–		–	482,512,457	482,512,457	2,216,545	484,729,002
Other comprehensive income (loss)	–	–	–	–	(6,332,059)	(339,904)	–	(292,945,908)	636,789	11,269,319	–		(287,711,763)	–	(287,711,763)
Total comprehensive loss	–	–	–	–	(6,332,059)	(339,904)	–	(292,945,908)	636,789	11,269,319	–	482,512,457	194,800,694	2,216,545	197,017,239
Dividend declaration	–	–	–	–	–	–	–	–	–	–	–	(250,000,000)	(250,000,000)	–	(250,000,000)
Acquisition of non-controlling interest through dilution (Note 19)	–	–	–	–	–	–	(4,839,570)	–	–	–	–	–	(4,839,570)	4,839,570	–
Balance at March 31, 2016	₱3,081,871,859	₱379,937,290	₱–	₱–	₱7,796,830	(₱871,689)	(₱6,738,707)	₱ 131,888,462	(₱18,351,837)	(₱14,300,948)	₱–	₱3,378,744,482	₱6,939,975,742	(₱4,221,815)	₱6,935,753,927

See accompanying Notes to the Consolidated Financial Statements.

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STI EDUCATION SERVICES GROUP, INC.
(A Private Educational Institution)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended March 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱500,744,611**	₱613,081,373	₱551,616,639
Adjustments to reconcile income before income tax to net cash flows:			
Equity in net loss of associates and joint ventures (Note 12)	**218,245,327**	242,075,502	134,509,026
Depreciation and amortization (Notes 22 and 24)	**317,087,840**	319,508,317	319,744,658
Interest expense (Note 21)	**210,506,049**	65,759,044	50,446,616
Provision for impairment loss on investments in and advances to associates and joint ventures (Note 12)	**591,839**	1,643,844	519,414
Movements in pension (Note 26)	**162,938**	3,890,928	3,562,165
Dividend income (Note 14)	**(4,431,657)**	(3,251,497)	(2,830,674)
Interest income (Note 21)	**(27,201,134)**	(2,926,266)	(4,742,536)
Effect of derecognition of a subsidiary (Note 19)	**–**	60,829,455	–
Loss (gain) on:			
Sale of property and equipment (Note 10)	**(14,790)**	33,838	(5,375)
Sale of investment in an associate (Note 12)	**–**	(154,260)	–
Operating income before working capital changes	**1,215,691,023**	1,300,490,278	1,052,819,933
Decrease (increase) in:			
Receivables	**(53,218,948)**	(111,270,588)	(17,114,562)
Inventories	**(17,194,516)**	(80,779,629)	(4,804,840)
Prepaid expenses and other current assets	**10,135,145**	(25,467,209)	1,652,317
Increase (decrease) in:			
Accounts payable and other current liabilities (Notes 17 and 34)	**(25,503,952)**	39,358,871	(223,164,953)
Unearned tuition fees and other school fees	**24,401,460**	(23,642,337)	32,643,086
Other noncurrent liabilities (Notes 19 and 34)	**(12,634,744)**	27,724,525	31,364,795
Net cash generated from operations	**1,141,675,468**	1,126,413,911	873,395,776
Income and other taxes paid	**(66,562,540)**	(90,044,686)	(65,692,767)
Interest received	**27,201,134**	2,926,266	4,742,536
Net cash from operating activities	**1,102,314,062**	1,039,295,491	812,445,545
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property and equipment (Notes 10 and 36)	**(1,140,906,137)**	(964,438,679)	(281,345,489)
Subsidiaries, net of cash received (Note 37)	**5,828,110**	–	–
Investment properties (Note 36)	**–**	–	(6,360,205)
Increase in:			
Investments in and advances to associates and joint ventures (Note 12)	**(548,839)**	(275,461,706)	(52,956,812)
Intangible assets and other noncurrent assets (Notes 15 and 34)	**(178,405,802)**	(38,107,197)	(44,659,186)
Dividends received (Notes 12)	**15,976,072**	15,434,470	12,484,104
Proceeds from derecognition of a subsidiary, net of cash disposed (Note 19)	–	13,752,793	–
Proceeds from sale of investment in an associate (Notes 12 and 14)	–	1,914,250	–
Proceeds from sale of property and equipment (Note 10)	**16,000**	51,000	21,500
Net cash used in investing activities	**(1,298,040,596)**	(1,246,855,069)	(372,816,088)

(Forward)

	Years Ended March 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid (Note 20)	**(₱245,101,585)**	(₱1,078,655,151)	(₱250,000,000)
Payments of:			
Long-term debt under interest-bearing loans and borrowings (see Note 16)	**(40,800,000)**	(100,800,000)	(216,000,000)
Obligations under finance lease	**(6,146,905)**	(4,875,483)	(9,438,557)
Short-term loans under interest-bearing loans and borrowings (see Note 16)	**(785,000,000)**	(1,248,000,000)	–
Interest (see Notes 16 and 18)	**(229,270,485)**	(61,905,517)	(51,698,435)
Proceeds from:			
Stock subscription (Note 20)		100,000,000	–
Issuance of bonds (Note 18)	–	3,000,000,000	–
Proceeds from availments of short-term loans under interest-bearing loans and borrowings (see Note 16)	**240,000,000**	1,993,000,000	–
Payment of bond issuance costs	**(845,757)**	(53,092,612)	–
Net cash from (used in) financing activities	**(1,067,164,732)**	2,545,671,237	(527,136,992)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,262,891,266)**	2,338,111,659	(87,507,535)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,880,282,731**	542,171,072	629,678,607
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱1,617,391,465**	₱2,880,282,731	₱542,171,072

See accompanying Notes to the Consolidated Financial Statements.

SGVFS031547

1. Corporate Information

a. General

STI Education Services Group, Inc. (STI ESG 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). The Parent Company was incorporated on June 2, 1983 and 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. The Group 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.

On March 23, 2017, the Parent Company issued the first tranche amounting to ₱3,000.0 million 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. (PDEx) (see Note 18).

STI ESG is 98.47%-owned by STI Education Systems Holdings, Inc. (STI Holdings) which is the ultimate parent company of the Group. STI Holdings is a company incorporated in the Philippines and is listed in the Philippine Stock Exchange (PSE).

The Parent Company has investments in several entities which own and operate STI schools. STI schools may be operated either by: (a) the Parent Company; (b) its subsidiaries; or (c) independent entrepreneurs (referred to as the "franchisees") under the terms of licensing agreements with the Parent Company. 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.

b. Merger with Several Majority and Wholly-Owned Subsidiaries

On December 9, 2010, the Parent Company's stockholders approved the following mergers:

- Phase 1: The merger of three (3) majority-owned schools and fourteen (14) wholly-owned schools with the Parent Company, with the Parent Company 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 the Parent Company, with the Parent Company 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, the Board of Directors (BOD) of the Parent Company approved an amendment to the Phase 1 and 2 mergers whereby the Parent Company 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 Parent Company approved the Phase 3 merger whereby STI College Taft, Inc. (STI Taft) and STI College Dagupan, Inc. (STI Dagupan) will be merged with the Parent Company as the surviving entity. On August 5, 2016, the Parent Company filed its application for merger with the SEC with endorsement from 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, 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, the Company's request for confirmatory ruling on the tax-free merger from the Philippine Bureau of Internal Revenue (BIR) is still pending.

The establishment, operation, administration and management of schools are subject to the existing laws, rules and regulations, policies, and standards of the Department of Education (DepEd), Technical Education and Skills Development Authority (TESDA) and 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 registered office address of the Parent Company is STI Academic Center Ortigas-Cainta, Ortigas Avenue Extension, Cainta Rizal.

The accompanying consolidated financial statements were approved and authorized for issue by the Executive Committee, as authorized by the BOD, on July 12, 2018.

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 have been 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 (PFRS) 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 the Parent Company.

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 PFRS that became effective beginning on April 1, 2017. The adoption of these new standards and amendments did not have any significant impact on the consolidated statements except otherwise stated:

- Amendment 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 12.

- 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 35 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
The standards and interpretations 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. Adoption of these standards and interpretations are not expected to have any significant impact on the consolidated financial statements except otherwise stated:

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 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.

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 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 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.

  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 non-monetary 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. 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.

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 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 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.

<u>Current versus Noncurrent Classification</u>
The Group presents assets and liabilities in the consolidated statements 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 certain financial instruments, such as quoted AFS financial assets, at fair value at each reporting date. Also, the fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 34 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 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.

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 the Parent Company 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 other comprehensive income (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 OCI 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
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

The subsidiaries of the Parent Company, which are all incorporated in the Philippines, are as follows:

		Effective Percentage of Ownership					
		2018		2017		2016	
Subsidiaries	**Principal Activities**	**Direct**	**Indirect**	Direct	Indirect	Direct	Indirect
STI College Tuguegarao, Inc. (STI Tuguegarao)	Educational Institution	**100**	**–**	100	–	100	–
STI Caloocan [a]	Educational Institution	**100**	**–**	100	–	100	–
STI College Batangas, Inc. (STI Batangas)	Educational Institution	**100**	**–**	100	–	100	–
STI College Iloilo, Inc. (STI Iloilo)	Educational Institution	**100**	**–**	100	–	100	–
STI College Tanauan, Inc. (STI Tanauan)	Educational Institution	**100**	**–**	100	–	100	–
STI Lipa, Inc. (STI Lipa)	Educational Institution	**100**	**–**	100	–	100	–
STI College Pagadian, Inc. (STI Pagadian)	Educational Institution	**100**	**–**	100	–	100	–
STI College Novaliches, Inc. (STI Novaliches)	Educational Institution	**100**	**–**	100	–	100	–
STI College of Santa Maria (STI Sta. Maria) [b]	Educational Institution	**100**	**–**	–	–	–	–
De Los Santos-STI College, Inc. (De Los Santos-STI College) [ce]	Educational Institution	**52**	**–**	52	–	52	–
STI Dagupan[d]	Educational Institution	**–**	**–**	100	–	100	–
STI Taft[d]	Educational Institution	**–**	**–**	100	–	75	–
STI College Quezon Avenue, Inc. (STI QA)[e]	Educational Institution	**–**	**52**	–	52	–	52
iACADEMY [f]	Educational Institution	**–**	**–**	–	–	100	–
STI Diamond [f]	Educational Institution	**–**	**–**	–	–	100	–

[a] *A subsidiary through a management contract (see Note 4)*
[b] *A subsidiary starting April 2017 (see Note 15)*
[c] *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.*
[d] *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).*
[e] *A wholly-owned subsidiary of De Los Santos-STI College*
[f] *Ceased to be a subsidiary in September 2016 (see Notes 19 and 20)*

Accounting Policies of Subsidiaries. The separate financial statements of the 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, STI Tuguegarao, STI Diamond (consolidated until August 2016), STI Caloocan and STI Iloilo, 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 profit or loss and within equity in the consolidated statement 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 "Other equity reserve" within the equity section of the consolidated statement of financial position.

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 interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share in the acquiree's identifiable net assets. Acquisition-related costs are expensed 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 in the acquiree is remeasured 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, *Financial Instruments: Recognition and Measurement* is measured at fair value with changes in fair value recognized in 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 is accounted for within equity upon settlement.

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 unit (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 operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

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 Assets

Initial Recognition. Financial assets are classified as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates the designation of such assets at each financial year-end.

Financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group does not have financial assets at FVPL, HTM investments or derivatives.

Subsequent Measurement

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate, or EIR, method. This method uses an EIR that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognized in the consolidated statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned is recognized as "Interest income" in consolidated statements of comprehensive income. Assets in the category are included in the current assets except for maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

The Group's cash and cash equivalents, receivables, and deposits (included under the "Goodwill, intangible and other noncurrent assets" account) are classified in this category.

AFS Financial Assets. AFS financial assets are those non-derivative financial assets that are not classified as financial assets at FVPL, loans and receivables or HTM investments. They are purchased and held indefinitely, and maybe 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 OCI until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in OCI is included in 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 the consolidated statements of comprehensive income 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 market closing quotes as at 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.

Derecognition. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- 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 ownership of the asset, or (b) the Group 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 rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of Financial Assets Carried at Amortized Cost. The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred '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. 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statements of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, any amounts formerly charged are credited to profit or loss.

Impairment of 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 OCI under the "Unrealized mark-to-market gain (loss) 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 OCI.

Impairment of 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.

<u>Financial Liabilities</u>

Initial Recognition. Financial liabilities are classified as financial liabilities at FVPL, or as other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of other financial liabilities, net of directly attributable transaction costs which include the Parent Company's bond issuance costs, such as, taxes and various fees paid to investment banks, law firms, auditors, regulators, and so on.

The Group does not have financial liabilities at FVPL.

Subsequent Measurement

Other Financial Liabilities. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in the consolidated statements of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR. The EIR amortization is included in the consolidated statements of comprehensive income.

Other financial liabilities include interest-bearing loans and borrowings, bonds payable, accounts payable and other current liabilities (excluding unearned tuition and other school fees, government and other statutory liabilities), obligations under finance lease, and other noncurrent liabilities (excluding advance rent and deferred lease liability).

Offsetting of Financial Instruments

Financial assets and liabilities are offset with the net amount reported in the consolidated statements 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. Cost is determined using the weighted average method. Net realizable value of educational materials is the selling price in the ordinary course of business, less estimated costs necessary to make the sale. Net realizable value 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.

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 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 statements of financial position. CWT is stated at its estimated net realizable value.

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 purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property, plant 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 the consolidated statements of comprehensive income 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	5 years
Office furniture and fixtures	5 years
Leasehold improvements	5 years or terms of the lease agreement, whichever is shorter
Transportation equipment	5 years or terms of the lease agreement, whichever is shorter
Computer equipment and peripherals	3 years
Library holdings	5 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 less any impairment in value. 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 the consolidated statements of comprehensive income 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 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.

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 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 is 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 their 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 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 the Group, which are all incorporated in the Philippines, are as follows:

		Effective Percentage of Ownership					
		2018		2017		2016	
Associate	**Principal Activities**	**Direct**	**Indirect**	Direct	Indirect	Direct	Indirect
Accent Healthcare/STI-Banawe, Inc. (STI Accent) [(a)]	Medical and related services	**49**	**–**	49	–	49	–
STI College Alabang, Inc. (STI Alabang)	Educational Institution	**40**	**–**	40	–	40	–
Synergia[(a)]	Management Consulting Services	**30**	**–**	30	–	30	–
STI Marikina	Educational Institution	**24**	**–**	24	–	24	–
Maestro Holdings[(b)]	Holding Company	**20**	**–**	20	–	20	–
GROW	Recruitment Agency	**17**	**2**	17	2	17	2
STI Holdings (see Note 4)	Holding Company	**5**	**–**	5	–	5	–

[(a)] *Dormant entities*
[(b)] *Reclassified as asset held for sale on June 30, 2017.*

<u>Intangible Assets</u>
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 CGU 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 the consolidated statements of comprehensive income 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 CGU 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 CGU). 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 (in the case of property and equipment, investment properties and intangible assets), 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 by assessing the recoverable amount of the CGUs to which the 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 statements 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 statements 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 the consolidated statements of comprehensive income, 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.

Treasury shares
Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized as additional paid-in capital.

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 stocks are recognized as liability and deducted from equity when approved by the BOD of the Parent Company. Dividends 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 net 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 (VAT).

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 statements 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 the "Other revenues" account in the consolidated statements 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.

Rental Income. Rental income is recognized on a straight-line basis over the term of the lease agreement.

Dividend Income. Revenue is recognized when the Group's right to receive the payment is established.

Interest Income. Interest income is recognized as the interest accrues considering the effective yield on the asset.

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

The Group has the following pension plans (Plan) covering substantially all of its regular and permanent employees:

Entity	Type of Plan
Parent Company	Funded, noncontributory defined benefit plan
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

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 the consolidated statements of comprehensive income. 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 RA 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 account 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 OCI.

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 asset 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), and to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of NOLCO 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 statements 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 3.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to the 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 the 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 the consolidated financial statements when material.

3. 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 interest expense, interest income, provision for income tax, depreciation and amortization, equity in net loss of associates and joint ventures and nonrecurring gains or losses such as effect of derecognition of a subsidiary.

The following table shows the reconciliation of the consolidated net income to consolidated EBITDA:

	2018	2017	2016
Consolidated net income (see Note 12)	**₱433,068,227**	₱519,587,691	₱484,729,002
Equity in net loss of associates and joint ventures (see Note 12)	**218,245,327**	242,075,502	134,509,026
Depreciation and amortization	**317,087,840**	319,508,317	319,744,658
Interest expense	**210,506,049**	65,759,044	50,446,616
Provision for income tax	**67,676,384**	93,493,682	66,887,637
Interest income	**(27,201,134)**	(2,926,266)	(4,742,536)
Effect of derecognition of a subsidiary	**–**	60,829,455	–
Consolidated EBITDA	**₱1,219,382,693**	₱1,298,327,425	₱1,051,574,403

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 and certain assets and liabilities information regarding geographical segments:

	2018					
	Metro Manila	**Northern Luzon**	**Southern Luzon**	**Visayas**	**Mindanao**	**Consolidated**
Revenues						
External revenue	**₱1,644,220,234**	**₱137,130,546**	**₱682,081,346**	**₱44,627,481**	**₱87,958,673**	**₱2,596,018,280**
Results						
Income (loss) before other income and income tax	**526,114,822**	**17,897,080**	**257,182,223**	**2,990,272**	**(4,910,736)**	**799,273,661**
Equity in net loss of associates and joint ventures	**(218,245,327)**	**–**	**–**	**–**	**–**	**(218,245,327)**
Interest expense	**(210,496,885)**	**–**	**(9,164)**	**–**	**–**	**(210,506,049)**
Interest income	**26,906,076**	**71,317**	**167,874**	**28,518**	**27,349**	**27,201,134**
Other income	**101,534,100**	**60,000**	**1,243,528**	**61,060**	**122,504**	**103,021,192**
Income tax	**(67,676,384)**	**–**	**–**	**–**	**–**	**(67,676,384)**
Net Income	**₱158,136,402**	**₱18,028,397**	**₱258,584,461**	**₱3,079,850**	**(₱4,760,883)**	**₱433,068,227**
EBITDA						**₱1,219,382,693**
Assets and Liabilities						
Segment assets[(a)]	**₱8,106,603,160**	**₱132,951,846**	**₱922,464,706**	**₱52,590,632**	**₱151,714,860**	**₱9,366,325,204**
Goodwill	**225,554,342**	**–**	**–**	**–**	**–**	**225,554,342**
Investments in and advances to associates and joint ventures	**514,904,349**	**–**	**–**	**–**	**–**	**514,904,349**
Pension assets	**53,474,883**	**–**	**–**	**–**	**–**	**53,474,883**
Noncurrent asset held for sale	**716,586,558**	**–**	**–**	**–**	**–**	**716,586,558**
Deferred tax assets	**12,652,738**	**916,408**	**345,862**	**105,387**	**42,971**	**14,063,366**
Total Assets	**₱9,629,776,030**	**₱133,868,254**	**₱922,810,568**	**₱52,696,019**	**₱151,757,831**	**₱10,890,908,702**
Segment liabilities[(b)]	**₱360,051,353**	**₱50,474,180**	**₱100,258,912**	**₱9,541,223**	**₱37,542,887**	**₱557,868,555**
Interest-bearing loans and borrowings	**734,400,000**	**–**	**–**	**–**	**–**	**734,400,000**
Bonds payable	**2,951,879,134**	**–**	**–**	**–**	**–**	**2,951,879,134**
Pension liabilities	**4,157,813**	**39,293**	**400,120**	**53,514**	**10,607**	**4,661,347**
Obligations under finance lease	**20,440,320**	**–**	**–**	**–**	**–**	**20,440,320**
Total Liabilities	**₱4,070,928,620**	**₱50,513,473**	**₱100,659,032**	**₱9,594,737**	**₱37,553,494**	**₱4,269,249,356**
Other Segment Information						
Capital expenditures for property and equipment						**₱1,209,647,204**
Depreciation and amortization						**317,087,840**
Noncash expenses other than depreciation and amortization						**89,749,101**

(a) *Segment assets exclude goodwill, investments in and advances to associates and joint ventures and deferred tax assets.*

(b) *Segment liabilities exclude interest-bearing loans and borrowings, bonds payable, pension liabilities and obligations under finance lease.*

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	2017					
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
Revenues						
External revenue	₱1,734,939,538	₱97,241,868	₱634,017,925	₱43,147,661	₱93,887,144	₱2,603,234,136
Results						
Income before other income and income tax	₱581,025,420	₱26,150,744	₱247,047,951	₱5,785,167	₱14,095,606	₱874,104,888
Equity in net loss of associates and joint ventures (Note 12)	(242,075,502)	–	–	–	–	(242,075,502)
Interest expense	(65,724,096)	–	(24,993)	(9,955)	–	(65,759,044)
Effect of derecognition of a subsidiary	(60,829,455)	–	–	–	–	(60,829,455)
Interest income	2,646,792	72,610	145,047	23,551	38,266	2,926,266
Other income	103,820,586	78,310	766,625	20,536	28,163	104,714,220
Income tax	(93,493,682)	–	–	–	–	(93,493,682)
Net Income (Note 12)	₱225,370,063	₱26,301,664	₱247,934,630	₱5,819,299	₱14,162,035	₱ 519,587,691
EBITDA						₱1,298,327,425
Assets and Liabilities						
Segment assets[(a)]	₱8,385,870,648	₱49,589,935	₱900,604,541	₱51,206,683	₱121,181,045	₱9,508,452,852
Goodwill	223,777,646	–	–	–	–	223,777,646
Investments in and advances to associates and joint ventures (Note 12)	1,335,509,410	–	–	–	–	1,335,509,410
Pension assets	2,763,398	–	–	–	–	2,763,398
Deferred tax assets	14,806,095	316,278	342,397	47,851	55,047	15,567,668
Total Assets	₱9,962,727,197	₱49,906,213	₱900,946,938	₱51,254,534	₱121,236,092	₱11,086,070,974
Segment liabilities[(b)]	₱450,172,483	₱17,560,937	₱42,558,090	₱5,501,049	₱23,483,285	₱539,275,844
Interest-bearing loans and borrowings	1,320,200,000	–	–	–	–	1,320,200,000
Bonds payable	2,947,028,638	–	–	–	–	2,947,028,638
Pension liabilities	4,801,402	666,374	429,565	149,779	40,833	6,087,953
Obligations under finance lease	11,214,647	–	172,021	–	–	11,386,668
Total Liabilities	₱4,733,417,170	₱18,227,311	₱43,159,676	₱5,650,828	₱23,524,118	₱4,823,979,103
Other Segment Information						
Capital expenditures for property and equipment						₱983,453,678
Depreciation and amortization						319,508,317
Noncash expenses other than depreciation and amortization						80,718,164

(a) *Segment assets exclude goodwill, investments in and advances to associates and joint ventures and deferred tax assets.*
(b) *Segment liabilities exclude interest-bearing loans and borrowings, pension liabilities and obligations under finance lease.*

	2016					
	Metro Manila	Northern Luzon	Southern Luzon	Visayas	Mindanao	Consolidated
Revenues						
External revenue	₱1,626,031,600	₱97,832,577	₱502,632,346	₱37,825,223	₱86,186,856	2,350,508,602
Results						
Income before other income and income tax	₱459,430,973	₱22,486,144	₱174,459,222	₱2,038,673	₱8,393,473	₱666,808,485
Equity in net loss of associates and joint ventures (Note 12)	(134,509,026)	–	–	–	–	(134,509,026)
Interest expense	(49,946,774)	(2,700)	(405,822)	(91,320)	–	(50,446,616)
Interest income	4,458,614	49,067	161,569	29,234	44,052	4,742,536
Other income	64,449,354	7,300	532,642	31,964	–	65,021,260
Income tax	(66,887,637)	–	–	–	–	(66,887,637)
Net Income (Note 12)	₱276,995,504	₱22,539,811	₱174,747,611	₱2,008,551	₱8,437,525	₱484,729,002
EBITDA						₱1,051,574,403
Assets and Liabilities						
Segment assets[(a)]	₱5,252,463,207	₱57,699,104	₱878,231,390	₱51,218,478	₱117,409,166	₱6,357,021,345
Goodwill	223,777,646	–	–	–	–	223,777,646
Investments in and advances to associates and joint ventures (Note 12)	1,740,313,059	–	–	–	–	1,740,313,059
Deferred tax assets	21,827,948	336,835	508,392	68,270	80,687	22,822,132
Total Assets	₱7,238,381,860	₱58,035,939	₱878,739,782	₱51,286,748	₱117,489,853	₱ 8,343,934,182
Segment liabilities[(b)]	₱398,165,158	₱24,127,746	₱36,852,985	₱5,885,854	₱15,962,474	₱480,994,217
Interest-bearing loans and borrowings	876,000,000	–	–	–	–	876,000,000
Pension liabilities	17,034,422	5,864,394	10,543,625	1,369,863	3,331,062	38,143,366
Obligations under finance lease	12,519,964	–	297,393	225,315	–	13,042,672
Total Liabilities	₱1,303,719,544	₱29,992,140	₱47,694,003	₱7,481,032	₱19,293,536	₱1,408,180,255
Other Segment Information						
Capital expenditures for property and equipment						₱300,595,557
Depreciation and amortization						319,744,658
Noncash expenses other than depreciation and amortization						83,674,892

[(a)] *Segment assets exclude goodwill, investments in and advances to associates and joint ventures and deferred tax assets.*
[(b)] *Segment liabilities exclude interest-bearing loans and borrowings, pension liabilities and obligations under finance lease.*

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4. **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 notes. The estimate 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 an 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 Management Contracts. The Parent Company has management contracts with STI Diamond and STI Caloocan. Management has concluded that the Parent Company, in substance, has the power to direct their 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 of 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 the Parent Company 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 19).

Significant Influence on an Associate. The Parent Company has an equity interest of 5.05% in STI Holdings (see Note 12). Management has assessed that it has significant influence by virtue of its pooling agreement with other stockholders of STI Holdings owning 31.12% of the voting stock of STI Holdings resulting in a total voting power of 36.19%. Under this agreement, the Parent Company and the stockholder will pool their shares in STI Holdings and vote as a block in all matters that would require a vote of the shareholders and the BOD. Accordingly, the Parent Company has the power to participate in the financial and operating policy decisions of STI Holdings and accounts for the said investment as an associate.

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 the 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 ₱716.6 million (see Notes 9 and 12).

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. Condensed financial information of Maestro Holdings as at and for the three months ended June 30, 2017 are disclosed in the Note 12.

Contingencies. The Group is currently a party in a number of cases involving claims and disputes related to collection of receivables and labor cases. 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 32).

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 statements 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 ₱413.3 million and ₱351.6 million as at March 31, 2018 and 2017, respectively. Provision for impairment loss on receivables recognized in the consolidated financial statements amounted to ₱76.9 million, ₱66.1 million and ₱70.6 million in 2018, 2017 and 2016, respectively (see Note 6).

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 economic useful benefit 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 was no change 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:

	2018	2017
Property and equipment (see Note 10)	**₱3,137,685,997**	₱3,152,009,843
Investment properties (see Note 11)	**526,238,588**	554,868,715
Intangible assets (see Note 15)	**12,965,479**	22,395,838

Impairment of Nonfinancial Assets. PFRS 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 10, 11, 12 and 15, 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 four-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 pre-tax discount rate of 11.5% to 12.3% was used as at March 31, 2018. The Group uses growth rates used in extrapolating its cash flows beyond the period covered by its recent budgets was 5%.

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 during the years ended March 31, 2018 and 2017 that would eliminate such difference, hence, no provision for impairment in value was recognized in 2018 and 2017. Goodwill amounted to ₱225.6 million and ₱223.8 million as at March 31, 2018 and 2017, respectively (see Note 15).

Reazability 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 deductible temporary differences and carryforward benefits of NOLCO and MCIT can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Deferred tax assets recognized as at March 31, 2018 and 2017 are disclosed in Note 28 to the consolidated financial statements. Unrecognized deferred tax assets on NOLCO and other losses of certain subsidiaries amounted to ₱66.6 million and ₱107.4 million as at March 31, 2018 and 2017, respectively.

Pension Cost. 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 26 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 ₱4.7 million and ₱6.1 million as at March 31, 2018 and 2017, respectively (see Note 26).

5. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand and in banks	**₱593,902,397**	₱2,172,952,624
Cash equivalents	**1,023,489,068**	707,330,107
	₱1,617,391,465	₱2,880,282,731

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

Interest earned from cash in banks and cash equivalents amounted to ₱26.5 million, ₱1.4 million and ₱2.8 million in 2018, 2017 and 2016, respectively (see Note 21).

6. **Receivables**

This account consists of:

	2018	2017
Tuition and other school fees	**₱381,792,196**	₱298,640,754
Educational services (see Note 29)	**40,014,195**	47,862,238
Rent, utilities and other related receivables (see Note 29)	**32,483,536**	41,014,358
Advances to officers and employees (see Note 29)	**20,389,150**	19,497,646
Current portion of advances to associates, joint ventures and other related parties (see Note 29)	**143,571**	143,571
Others	**24,647,005**	23,958,533
	499,469,653	431,117,100
Less allowance for doubtful accounts	**86,184,745**	79,534,228
	₱413,284,908	₱351,582,872

The terms and conditions of the receivables are as follows:

a. Tuition and other school fees 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 21).

c. Rent, utilities and other related receivables are normally collected within the next financial year.

d. Advances to officers and employees are normally liquidated within one month (see Note 29).

e. For terms and conditions relating to advances to associates, joint ventures and other related parties, refer to Note 29.

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	**₱76,886,691**	**₱2,647,537**	**₱79,534,228**
Provisions (see Note 24)	**76,800,914**	**112,913**	**76,913,827**
Write-off	**(70,263,310)**	**–**	**(70,263,310)**
Balance at end of year	**₱83,424,295**	**₱2,760,450**	**₱86,184,745**

	2017		
	Tuition and Other School Fees	Others	Total
Balance at beginning of year	₱74,199,787	₱10,883,524	₱85,083,311
Provisions (reversals) (see Note 24)	72,555,129	(6,451,000)	66,104,129
Effect of derecognition of a subsidiary (see Note 19)	(7,012,178)	–	(7,012,178)
Write-off	(62,856,047)	(1,784,987)	(64,641,034)
Balance at end of year	₱76,886,691	₱2,647,537	₱79,534,228

As at March 31, 2018 and 2017, allowance for doubtful accounts amounting to ₱2.8 million and ₱2.6 million, respectively, relates to individually significant accounts under "Others" that were assessed as impaired. The remaining balance of ₱83.4 million and ₱76.9 million as at March 31, 2018 and 2017, respectively, relates to accounts under "Tuition and other school fees" that were collectively assessed as impaired.

7. Inventories

This account consists of:

	2018	2017
At net realizable value:		
Educational materials	**₱122,417,691**	₱106,836,523
Promotional materials	**11,048,596**	8,040,073
School materials and supplies	**1,399,426**	2,120,247
	₱134,865,713	₱116,996,843

The cost of inventories amounted to ₱145.8 million and ₱127.7 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 24).

Inventory items amounting to ₱0.8 million were written-off in 2018 and nil in 2017 and 2016.

Inventories charged to cost of educational materials and supplies sold amounted to ₱119.3 million, ₱115.4 million and ₱51.5 million in 2018, 2017 and 2016, respectively (see Note 23).

Educational materials include inventory of school uniforms amounting to ₱113.0 million and ₱96.5 million as at March 31, 2018 and 2017, respectively. This also includes textbooks and other educational-related materials amounting to ₱9.4 million and ₱10.3 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 ₱7.4 million, respectively, as at March 31, 2018 and ₱1.7 million and ₱6.3 million, respectively, as at March 31, 2017.

8. Prepaid Expenses and Other Current Assets

This account consists of:

	2018	2017
Prepaid taxes	**₱73,111,195**	₱91,019,868
Prepaid subscriptions and licenses	**9,006,827**	875,469
Prepaid rent	**6,383,872**	8,460,801
Excess contributions to CEAP (see Note 26)	**3,518,596**	3,603,282
Software maintenance cost	**2,205,737**	3,289,983
Prepaid insurance	**514,357**	498,519
Others	**1,787,870**	2,180,627
	₱96,528,454	₱109,928,549

Prepaid taxes represent input VAT, prepaid business and real property taxes. Most of the input VAT as at March 31, 2017, arose from the acquisition of properties in EDSA, Pasay City which will be the site of the new STI Academic Center Pasay-EDSA while input VAT recognized as at March 31, 2018 mostly are from purchase of uniforms and acquisition of a lot in Iloilo City. On August 30, 2017, STI ESG reclassified ₱46.8 million from "Prepaid Taxes" to "Land" under "Property and Equipment" with the SEC approval of the merger of STI Taft and STI ESG, with STI ESG as the surviving entity (see Note 10). 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 of coverage.

Prepaid subscriptions and licenses pertain substantially to Microsoft license subscriptions 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 terms 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 or STI QA 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 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 the coverage, which is normally within one year.

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. 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, there was no write-down of the non-current asset held for sale as the carrying amount did not fall below its fair value less cost to sell.

Condensed financial information of Maestro Holdings as at and for the three months ended June 30, 2017 are disclosed in Note 12.

10. **Property and Equipment**

The rollforward analyses of this account follows:

	2018									
	Land	**Buildings**	**Office and School Equipment**	**Office Furniture and Fixtures**	**Leasehold Improvements**	**Transportation Equipment** (see Note 27)	**Computer Equipment and Peripherals**	**Library Holdings**	**Construction in-Progress**	**Total**
Cost, Net of Accumulated Depreciation and Amortization										
Balance at beginning of year	**₱2,083,048,682**	**₱2,890,942,852**	**₱107,761,154**	**₱67,315,803**	**₱21,512,031**	**₱10,655,437**	**₱39,605,444**	**₱14,217,122**	**₱30,414,181**	**₱5,265,472,706**
Additions	**220,013,635**	**69,549,139**	**33,460,371**	**12,826,325**	**53,110,899**	**18,602,166**	**39,725,156**	**5,501,869**	**756,857,644**	**1,209,647,204**
Disposal	–	–	**(1,205)**	–	–	**(330,000)**	**(5)**	–	–	**(331,210)**
Addition as a result of business combination (Note 37)	–	–	**462,403**	**14,750**	–	–	**923,020**	**129,718**	–	**1,529,891**
Reclassification	–	**27,976,631**	**291,650**	–	**2,171,867**	–	**16,200**	**(42,167)**	**(30,414,181)**	–
Depreciation and amortization (see Notes 22 and 24)	–	**(155,228,264)**	**(43,680,320)**	**(26,794,173)**	**(11,115,678)**	**(7,552,202)**	**(27,567,020)**	**(6,774,976)**	–	**(278,712,633)**
Balance at end of year	**₱2,303,062,317**	**₱2,833,240,358**	**₱98,294,053**	**₱53,362,705**	**₱65,679,119**	**₱21,375,401**	**₱52,702,795**	**₱13,031,566**	**₱756,857,644**	**₱6,197,605,958**
At March 31, 2018										
Cost	**₱2,303,062,317**	**₱3,668,272,709**	**₱457,341,957**	**₱243,371,160**	**₱322,430,354**	**₱65,142,560**	**₱338,926,996**	**₱107,851,076**	**₱756,857,644**	**₱8,263,256,773**
Accumulated depreciation and amortization	–	**835,032,351**	**359,047,904**	**190,008,455**	**256,751,235**	**43,767,159**	**286,224,201**	**94,819,510**	–	**2,065,650,815**
Net book value	**₱2,303,062,317**	**₱2,833,240,358**	**₱98,294,053**	**₱53,362,705**	**₱65,679,119**	**₱21,375,401**	**₱52,702,795**	**₱13,031,566**	**₱756,857,644**	**₱6,197,605,958**

The cost of fully depreciated property and equipment still being used by the Group as at March 31, 2018 amounted to ₱781.4 million. There were no idle assets as at March 31, 2018.

	2017									
	Land	Buildings	Office and School Equipment	Office Furniture and Fixtures	Leasehold Improvements	Transportation Equipment (see Note 27)	Computer Equipment and Peripherals	Library Holdings	Construction in-Progress	Total
Cost, Net of Accumulated Depreciation and Amortization										
Balance at beginning of year	₱1,530,686,496	₱2,611,973,240	₱123,477,116	₱72,634,888	₱77,283,217	₱15,971,780	₱32,238,826	₱18,980,898	₱162,252,047	₱4,645,498,508
Additions	552,362,186	256,295,159	44,292,692	25,690,175	12,183,886	6,313,596	40,107,689	4,324,570	41,883,725	983,453,678
Disposal	–	–	(75,257)	(9,680)	–	(132,300)	–	–	–	(217,237)
Effect of derecognition of a subsidiary	–	–	(12,714,559)	(4,737,699)	(43,474,010)	(3,400,068)	(6,018,477)	(1,508,141)	(9,949,456)	(81,802,410)
Reclassification	–	170,903,140	–	–	(7,131,005)	–	–	–	(163,772,135)	–
Depreciation and amortization (see Notes 22 and 24)	–	(148,228,687)	(47,218,838)	(26,261,881)	(17,350,057)	(8,097,571)	(26,722,594)	(7,580,205)	–	(281,459,833)
Balance at end of year	₱2,083,048,682	₱2,890,942,852	₱107,761,154	₱67,315,803	₱21,512,031	₱10,655,437	₱39,605,444	₱14,217,122	₱30,414,181	₱5,265,472,706
At March 31, 2017										
Cost	₱2,083,048,682	₱3,570,815,102	₱426,472,115	₱233,817,629	₱292,975,343	₱58,650,955	₱379,252,649	₱103,244,292	₱30,414,181	₱7,178,690,948
Accumulated depreciation and amortization	–	679,872,250	318,710,961	166,501,826	271,463,312	47,995,518	339,647,205	89,027,170	–	1,913,218,242
Net book value	₱2,083,048,682	₱2,890,942,852	₱107,761,154	₱67,315,803	₱21,512,031	₱10,655,437	₱39,605,444	₱14,217,122	₱30,414,181	₱5,265,472,706

The cost of fully depreciated property and equipment still being used by the Group as at March 31, 2017 amounted to ₱826.6 million. There were no idle assets as at March 31, 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.

Property and Equipment under Construction. As at March 31, 2018, 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 related contract costs amounted to ₱2,676.8 million, inclusive of materials, cost of labor and overhead and all other costs necessary for the completion of the projects. 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, 2017, the construction in-progress account includes costs incurred for the construction of classrooms and faculty rooms in STI Batangas and the renovation works in STI Novaliches. The related contract costs amounted to ₱38.8 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”, 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, 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. (see Note 8)

Capitalized Borrowing Costs. Total borrowing costs capitalized as part of property and equipment amounted to ₱22.9 million and nil in 2018 and 2017, respectively. The average interest capitalization rates were 5.96% and nil in 2018 and 2017, respectively, which were the effective rate of the borrowings.

Finance Leases
Certain transportation equipment were acquired under finance lease agreements. The net book value of these equipment amounted to ₱18.8 million and ₱10.4 million as at March 31, 2018 and 2017, respectively (see Note 27).

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.

11. Investment Properties

The rollforward analyses of this account are as follows:

	2018		
	Land	**Buildings**	**Total**
Cost:			
Balance at beginning and end of year	**₱23,986,424**	**₱636,233,550**	**₱660,219,974**
Accumulated depreciation:			
Balance at beginning of year	**–**	**81,364,835**	**81,364,835**
Depreciation (see Note 24)	**–**	**28,630,127**	**28,630,127**
Balance at end of year	**–**	**109,994,962**	**109,994,962**
Net book value	**₱23,986,424**	**₱526,238,588**	**₱550,225,012**

	2017		
	Land	Buildings	Total
Cost:			
Balance at beginning and end of year	₱23,986,424	₱636,233,550	₱660,219,974
Accumulated depreciation:			
Balance at beginning of year	–	52,734,708	52,734,708
Depreciation (see Note 24)	–	28,630,127	28,630,127
Balance at end of year	–	81,364,835	81,364,835
Net book value	₱23,986,424	₱554,868,715	₱578,855,139

The fair values of investment properties were determined by an independent professionally qualified appraiser accredited by the 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.

Land
Level 3 fair value of land was derived using the market approach. The market approach is a comparative approach to value which 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 techniques used in measuring the fair value of the land as well as the significant unobservable inputs used:

	As at March 31, 2018	As at March 31, 2017
Fair value	**₱118,072,000**	₱46,860,000
Valuation technique	**Market approach**	Market approach
Unobservable input	**Net price per square meter**	Net price per square meter
Relationship of unobservable inputs to fair value	**The higher the price per square meter, the higher the fair value**	The higher the price per square meter, the higher the fair value

The highest and best use of the land is commercial utility.

Buildings
Level 3 fair values of condominium units have also been derived using the market approach.

The following shows the valuation techniques used in measuring the fair value of the building as well as the significant unobservable inputs used:

	As at March 31, 2018	As at March 31, 2017
Fair value	**₱1,252,843,000**	₱920,858,000
Valuation technique	**Market approach**	Market approach
Unobservable input	**Net price per square meter**	Net price per square meter
Relationship of unobservable inputs to fair value	**The higher the price per square meter, the higher the fair value**	The higher the price per square meter, the higher the fair value

The highest and best use of the condominium units 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 27). 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.

12. Investments in and Advances to Associates and Joint Ventures

The details and movements of this account are as follows:

	2018	2017 (As restated)
Investments at Equity		
Acquisition cost:		
Balance at beginning of year	**₱723,985,378**	₱743,245,137
Reversal	**(43,000)**	–
Cancellation of subscription to Maestro Holdings	**–**	(17,499,769)
Disposal	**–**	(1,759,990)
Reclassification to noncurrent asset held for sale (Note 9)	**(174,075,126)**	–
Balance at end of year	**549,867,252**	723,985,378
Accumulated equity in net earnings (loss):		
Balance at beginning of year	**644,942,552**	897,832,246
Equity in net loss	**(218,245,327)**	(242,075,502)
Reclassification to noncurrent asset held for sale	**(450,634,986)**	–
Dividends received	**(11,544,415)**	(10,814,192)
Balance at end of year	**(35,482,176)**	644,942,552
Accumulated share in associates' other comprehensive income (loss):		
Balance at beginning of year	**(34,147,169)**	99,235,677
Unrealized mark-to-market (MTM) gain (loss) on AFS financial assets	**125,063,735**	(148,425,599)
Remeasurement gain on pension liability	**523,527**	19,065,456
Remeasurement gain (loss) on life insurance reserves	**226,977**	(4,022,703)
Reclassification to noncurrent asset held for sale (Notes 9 and 20)	**(91,147,797)**	–
Balance at end of year	**519,273**	(34,147,169)
Share in associates' other equity reserves:		
Balance at beginning of year	**728,649**	–
Share in associates' other equity reserves	**–**	728,649
Reclassification to noncurrent asset held for sale (Note 20)	**(728,649)**	–
Balance at end of year	**–**	728,649
	514,904,349	1,335,509,410
Advances (see Note 29)	**37,868,986**	37,277,147
Less allowance for impairment loss	**37,868,986**	37,277,147
	–	–
	₱514,904,349	₱1,335,509,410

Movements in the allowance for impairment of investments and advances are as follows:

	2018	2017
Balance at beginning of year	**₱37,277,147**	₱35,633,303
Provision for impairment (see Note 24)	**591,839**	1,643,844
Balance at end of year	**₱37,868,986**	₱37,277,147

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:

	2018	2017 (As restated)
Associates:		
STI Holdings	**₱473,032,695**	₱478,807,967
STI Alabang	**23,225,758**	20,864,819
GROW	**15,199,031**	15,507,703
STI Accent	**37,868,986**	37,277,147
Maestro Holdings	**–**	814,846,444
Joint venture -		
PHEI (see Note 13)	**3,446,865**	5,482,477
	552,773,335	1,372,786,557
Allowance for impairment loss	**37,868,986**	37,277,147
	₱514,904,349	₱1,335,509,410

As at March 31, 2018 and 2017, the carrying amount of the investments in STI Marikina, Synergia, and PHNS amounted to nil.

Information about associates and indirect 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 of 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, the Parent Company subscribed to an additional 87,479 shares of Maestro Holdings amounting to ₱70.0 million. As at March 31, 2016, the Parent Company'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 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 has 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 for 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
Consolidated statement of financial position			
Assets			
Investments in and advances to associates and joint ventures	₱1,565,432,417	(₱229,923,007)	₱1,335,509,410
Equity attributable to equity holders of the Parent Company			
Share in associates':			
Unrealized mark-to-market loss on available-for-sale financial assets	(49,355,567)	32,818,430	(16,537,137)
Remeasurement loss on life insurance reserves	–	(18,323,651)	(18,323,651)
Cumulative actuarial gain	733,002	(19,383)	713,619
Retained earnings	3,062,770,493	(244,398,403)	2,818,372,090

	March 31, 2016		
	As previously reported	Increase (Decrease)	As restated
Consolidated statement of financial position			
Assets			
Investments in and advances to associates and joint ventures	₱1,906,554,260	(₱166,241,201)	₱1,740,313,059
Equity attributable to equity holders of the Parent Company			
Share in associates':			
Unrealized mark-to-market gain on available-for-sale financial assets	122,577,096	9,311,366	131,888,462
Remeasurement loss on life insurance reserves	–	(14,300,948)	(14,300,948)
Cumulative actuarial loss	(18,246,722)	(105,115)	(18,351,837)
Retained earnings	3,539,890,986	(161,146,504)	3,378,744,482

	April 1, 2015		
	As previously reported	Increase (Decrease)	As restated
Consolidated statement of financial position			
Assets			
Investments in and advances to associates and joint ventures	₱2,095,160,653	₱1,790,240	₱2,096,950,893
Equity attributable to equity holders of the Parent Company			
Share in associates':			
Unrealized mark-to-market gain on available-for-sale financial assets	424,682,258	152,112	424,834,370
Remeasurement loss on life insurance reserves	–	(25,570,267)	(25,570,267)
Cumulative actuarial loss	(18,808,165)	(180,461)	(18,988,626)
Retained earnings	3,118,843,169	27,388,856	3,146,232,025

	For the year ended March 31, 2017		
	As previously reported	Increase (Decrease)	As restated
Consolidated statement of comprehensive income			
Other income - net			
Equity in net loss of associates and joint ventures	(₱158,823,602)	(₱83,251,900)	(₱242,075,502)
Net income	602,839,591	(83,251,900)	519,587,691
Net income attributable to Parent Company	601,534,658	(83,251,900)	518,282,758
Other comprehensive income (loss)			
Share in associates' unrealized mark-to-market loss on available-for-sale financial assets	(171,932,663)	23,507,064	(148,425,599)
Share in associates' remeasurement loss on life insurance reserves	–	(4,022,703)	(4,022,703)
Share in associates' remeasurement gain on pension liability	18,979,724	85,732	19,065,456
Total comprehensive income attributable to Parent Company	477,403,633	(63,681,807)	413,721,826

	For the year ended March 31, 2016		
	As previously reported	Increase (Decrease)	As restated
Consolidated statement of comprehensive income			
Other income - net			
Equity in net income (loss) of associates and joint ventures	₱54,026,334	(₱188,535,360)	(₱134,509,026)
Net income	673,264,362	(188,535,360)	484,729,002
Net income attributable to Parent Company	671,047,817	(188,535,360)	482,512,457
Other comprehensive income (loss)			
Share in associates' unrealized mark-to-market loss on available-for-sale financial assets	(302,105,162)	9,159,254	(292,945,908)
Share in associates' remeasurement gain on life insurance reserves	–	11,269,319	11,269,319
Share in associates' remeasurement gain on pension liability	561,443	75,346	636,789
Total comprehensive income attributable to Parent Company	362,832,135	(168,031,441)	194,800,694

	For the years 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	₱0.03	₱0.06

Condensed financial information of Maestro Holdings is as follows:

		March 31	
	June 30, 2017	2017 (As restated)	2016 (As restated)
Current assets	**₱5,324,841,521**	₱5,359,021,990	₱4,713,777,468
Noncurrent assets	**38,954,994,859**	39,365,900,062	40,716,957,434
Current liabilities	**(3,822,814,937)**	(4,699,748,798)	(3,965,246,744)
Noncurrent liabilities	**(36,416,273,771)**	(35,593,250,762)	(35,061,508,143)
Total equity	**4,040,747,672**	4,431,922,492	6,403,980,015
Less equity attributable to equity holders of non-controlling interests	**458,421,345**	358,379,894	322,433,706
Equity attributable to equity holders of the parent company	**3,582,326,327**	4,073,542,598	6,081,546,309
Proportion of the Group's ownership	**20%**	20%	20%
Carrying amount of the investment	**₱716,586,558**	₱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	**₱1,530,208,762**	₱9,074,321,307	₱9,031,836,809
Expenses	**(2,538,092,480)**	(9,301,746,619)	(8,717,690,036)
Provision for income tax	**(4,384,215)**	(991,651,559)	(1,094,433,038)
Loss from operations	**(1,012,267,933)**	(1,219,076,871)	(780,286,265)
Other comprehensive income (loss)	**624,885,148**	(665,834,942)	(1,407,188,375)
Total comprehensive loss	**(387,382,785)**	(1,884,911,813)	(2,187,474,640)
Less total comprehensive income attributable to equity holders of non-controlling interests	**103,625,679**	36,996,581	18,390,859
Total comprehensive loss attributable to equity holders of the parent company	**(491,008,464)**	(1,921,908,394)	(2,205,865,499)
Proportion of the Group’s ownership	**20%**	20%	20%
Share in total comprehensive loss	**(₱98,201,693)**	(₱384,381,679)	(₱441,067,218)

STI Holdings. STI Holdings is a holding company whose primary purpose 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. In 2017, the Group disposed of a portion of its investment in STI Holdings, or 0.02% interest, resulting in a gain of ₱0.2 million. Condensed financial information of STI Holdings is as follows:

	March 31 2018	2017	2016
Current assets	**₱3,378,708,853**	₱3,914,385,487	₱1,104,161,280
Noncurrent assets	**11,045,334,618**	10,147,320,903	9,232,305,782
Current liabilities	**(1,190,253,558)**	(1,465,466,905)	(886,717,473)
Noncurrent liabilities	**(4,422,644,311)**	(4,274,552,054)	(1,383,215,647)
Total equity	**8,811,145,602**	8,321,687,431	8,066,533,942
Less:			
Equity attributable to holders of noncontrolling interests	**(100,648,270)**	(94,444,400)	(91,649,812)
STI ESG's cumulative total comprehensive income taken up by STI Holdings	**(3,888,525,411)**	(3,290,964,411)	(2,863,780,691)
Total equity, net of cumulative total comprehensive income taken up by STI Holdings	**4,821,971,921**	4,936,278,620	5,111,103439
Proportion of the Group’s ownership	**5.05%**	5.05%	5.07%
Equity attributable to equity holders of the parent company	**243,626,978**	249,402,250	259,202,702
Excess of acquisition cost over carrying value of net assets	**229,405,717**	229,405,717	229,405,717
Carrying amount of the investment	**₱473,032,695**	₱478,807,967	₱488,608,419

	For the Years Ended March 31		
	2018	2017	2016
Revenues	**₱3,082,670,946**	₱2,932,959,957	₱2,576,721,868
Expenses	**(2,518,930,204)**	(2,341,582,213)	(1,740,747,148)
Income from operations	**563,740,742**	591,377,744	835,974,720
Other comprehensive income (loss)	**125,622,640**	(151,498,733)	(287,312,932)
Total comprehensive income	**689,363,382**	439,879,011	548,661,788
Less:			
Comprehensive income attributable to equity holders of non-controlling interest	**(8,013,337)**	(7,702,140)	(7,240,527)
STI ESG's total comprehensive income taken up by STI holdings	**(597,561,000)**	(392,479,257)	(146,960,863)
Total comprehensive income attributable to equity holders of the parent company net of ESG's total comprehensive income taken up by STI Holdings	**83,789,045**	39,697,614	394,460,398
Proportion of the Group's ownership	**5.05%**	5.05%	5.07%
Share in total income comprehensive income	**₱4,233,387**	₱2,005,696	₱20,004,526

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	**₱151,461,875**	₱124,099,948	₱97,898,857
Noncurrent assets	**37,978,667**	34,475,792	40,206,299
Current liabilities	**(132,038,222)**	(112,396,042)	(91,631,271)
Noncurrent liabilities	**(10,022,871)**	(5,400,271)	(13,170,177)
	₱47,379,449	₱40,779,427	₱33,303,708

	For the Years Ended March 31		
	2018	2017	2016
Revenues	**₱393,216,180**	₱331,404,510	₱144,896,937
Expenses	**391,963,354**	303,618,688	122,266,369
Total comprehensive income	**₱1,252,826**	27,785,822	22,630,568
Share in comprehensive income	**₱457,389**	₱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 the Parent Company'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 29.

13. Interests in Joint Ventures

PHEI
On March 19, 2004, the Parent Company, together with the University of Makati (UMak) and another shareholder, incorporated PHEI in the Philippines. The Parent Company 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 the Parent Company and UMak:

a. The Parent Company 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.

c. Parent Company 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 regard 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 losses of its joint ventures amounted to ₱2.7 million in 2018 and share in net earnings amounted to ₱0.5 million and ₱0.7 million in 2017 and 2016, respectively, which are individually immaterial. The unrecognized share in the net losses of the joint ventures, which are individually immaterial, amounted to ₱4.1 million as at March 31, 2018 and 2017.

14. Available-for-sale Financial Assets

This account consists of:

	2018	2017
Quoted equity shares - at fair value	**₱4,237,200**	₱3,808,240
Unquoted equity shares - at cost	**63,162,515**	47,062,515
	₱67,399,715	₱50,870,755

a. Quoted Equity Shares

The quoted equity shares above pertain to listed shares in the PSE, as well as traded club shares. These are carried at fair value with the cumulative changes in fair values presented as a separate component of equity under the "Unrealized mark-to-market gain (loss) 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 (loss) on available-for-sale financial assets" account as shown in the equity section of the consolidated statements of financial position follows:

	2018	2017
Balance at beginning of year	**(₱24,569)**	(₱871,689)
Unrealized MTM gain on AFS financial assets	**428,960**	847,120
Balance at end of year	**₱404,391**	(₱24,569)

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 stock. 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 a 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 STI ESG (see Note 15).

c. Pledged Shares

On June 3, 2013, the Parent Company executed a deed of pledge on all of its De Los Santos 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 the Parent Company 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 the Group effective June 2013. Consequently, the Parent Company's effective percentage ownership in De Los Santos Medical Center and De Los Santos - STI Megaclinic 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.

15. **Goodwill, Intangible and Other Noncurrent Assets**

This account consists of:

	2018	2017
Goodwill	**₱225,554,342**	₱223,777,646
Advances to suppliers	**153,539,908**	17,258,087
Deposits for asset acquisitions	**76,270,833**	72,764,000
Rental and utility deposits (see Note 27)	**44,272,574**	39,555,558
Intangible assets	**12,965,479**	22,395,838
Others	**1,975,185**	2,489,774
	₱514,578,321	₱378,240,903

Goodwill

Goodwill acquired through business combinations have been allocated to the following schools which are considered separate CGUs:

	2018	2017
STI Caloocan	**₱64,147,877**	₱64,147,877
STI Cubao	**28,327,670**	28,327,670
STI Novaliches (see Note 19)	**21,803,322**	21,803,322
STI Taft	**19,030,844**	19,030,844
STI Tuguegarao	**13,638,360**	13,638,360
STI Global City	**11,360,085**	11,360,085
STI Shaw	**11,213,342**	11,213,342
STI Lipa	**8,857,790**	8,857,790
STI Tanauan	**4,873,058**	4,873,058
STI Iloilo	**3,806,173**	3,806,173
STI Pagadian	**3,396,880**	3,396,880
STI Batangas	**2,585,492**	2,585,492
STI Dagupan	**6,835,818**	6,835,818
STI Ortigas-Cainta	**7,476,448**	7,476,448

(Forward)

	2018	2017
STI Meycauayan	**₱5,460,587**	₱5,460,587
STI Makati	**3,261,786**	3,261,786
STI Las Piñas	**2,922,530**	2,922,530
STI Kalibo	**2,474,216**	2,474,216
STI Naga	**2,305,368**	2,305,368
STI Sta Maria (Note 37)	**1,776,696**	–
	₱225,554,342	₱223,777,646

As a result of the deconsolidation of STI Diamond as discussed in Note 19, 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 margin - 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 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
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 37).

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	**₱22,395,838**	₱34,131,854
Additions	**314,721**	1,104,037
Effect of derecognition of a subsidiary	**–**	(3,421,696)
Amortization (see Notes 22 and 24)	**(9,745,080)**	(9,418,357)
Balance at end of year	**₱12,965,479**	₱22,395,838
Cost	**₱38,874,083**	₱38,559,362
Accumulated amortization	**(25,908,604)**	(16,163,524)
Net carrying amount	**₱12,965,479**	₱22,395,838

16. **Interest-bearing Loans and Borrowings**

This account consists of:

	2018	2017
Current portion:		
Corporate notes facility	**₱134,400,000**	₱40,800,000
Short-term loans	**–**	545,000,000
	134,400,000	585,800,000
Noncurrent	**600,000,000**	734,400,000
	₱734,400,000	₱1,320,200,000

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 ₱3,000.0 million with a term of either 5 or 7 years. The facility is available in two tranches of ₱1,500.0 million 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, the Parent Company availed a total of ₱1,200.0 million loans with interest ranging from 4.34% to 4.75%. The Parent Company has made payments totaling to ₱40.8 million, ₱100.8 million and ₱216.0 million in 2018, 2017 and 2016, respectively.

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

Fiscal Year	Amount
2019	₱134,400,000
2020	240,000,000
2021	240,000,000
2022	120,000,000
	₱734,400,000

An Accession Agreement to the Credit Facility Agreement was executed on December 16, 2014 among STI ESG, STI West Negros University (STI WNU), a company under common control of STI Holdings 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.

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. The Parent Company 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 the Group's Credit Facility Agreement follows:

	2018	2017
Balance at beginning of year	**₱775,200,000**	₱876,000,000
Repayments	**40,800,000**	100,800,000
Balance at end of year	**734,400,000**	775,200,000
Less current portion	**134,400,000**	40,800,000
Noncurrent portion	**₱600,000,000**	₱734,400,000

On January 19, 2017, STI ESG 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 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.

As at March 31, 2018 and 2017, STI ESG complied with the above covenants (see Note 18).

Short-term Loans
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 in October 2017 and made payments aggregating to ₱785.0 million for the year ended March 31, 2018. 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.

On January 31, 2017, STI ESG 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 incurred on the loans amounted to ₱46.0 million, ₱58.8 million and ₱49.0 million in 2018, 2017 and 2016, respectively (see Note 21).

17. Accounts Payable and Other Current Liabilities

This account consists of:

	2018	2017
Accounts payable (see Note 29)	**₱175,383,459**	₱211,384,379
Accrued expenses:		
Rent	**34,956,490**	30,413,260
School-related expenses	**41,154,594**	24,709,631
Contracted services	**22,052,704**	18,525,456
Salaries, wages and benefits	**16,610,057**	13,630,726
Interest	**9,283,548**	10,877,429
Utilities	**5,133,738**	4,469,615
Advertising and promotion	**3,537,635**	3,929,632
Others	**6,159,565**	9,151,419
Statutory payables	**20,737,780**	8,044,859
Dividends payable	**13,813,740**	12,365,576
Network events fund	**9,756,557**	7,801,487
Current portion of payable to STI Diamond (see Note 19)	**7,053,619**	3,712,143
Current portion of refundable deposits (see Note 29)	**5,432,332**	1,413,374
Student organization fund	**5,398,120**	3,691,824
Others	**10,111,060**	15,111,439
	₱386,574,998	₱379,232,249

The terms and conditions of the 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 financial year.

c. Statutory payables primarily include taxes payable and 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 financial year.

e. Dividends payable pertains to dividend declared and are due on demand.

f. For terms and conditions of payable to related parties, refer to Note 29.

18. **Bonds Payable**

On March 23, 2017, the Parent Company 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 rating of ‘PRS Aa’ by Philippine Rating Services Corporation (PhilRatings). Proceeds of the issuance are used to finance the campus expansion projects, and refinancing of the short-term loans incurred for the acquisition of land, and for other general corporate requirements of the Group.

The bonds include an embedded derivative in the form of an early redemption option that gives the Parent Company 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 the Parent Company’s issued bonds is as 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	**₱2,145,524,770**	₱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	**806,354,364**	805,510,851	Callable from the 7th anniversary issue and every year thereafter until the 9th anniversary issue date
				₱3,000,000,000	**₱2,951,879,134**	₱2,947,028,638	

<u>Covenants</u>
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. The Parent Company 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.

The Group's debt-to-equity and debt service cover ratios as at March 31, 2018 and 2017 are as follows:

	2018	2017
Total liabilities *	**4,215,264,337**	4,794,395,544
Total equity (see Note 12)	**6,621,659,346**	6,262,091,871
Debt-to-equity	**0.64:1.00**	0.77:1.00

* *Excluding unearned tuition and other school fees*

	2018	2017
EBITDA (Note 3)	**1,219,382,693**	1,298,327,425
Total interest-bearing liabilities	**353,487,492**	828,360,516
Debt service cover	**3.45:1.00**	1.57:1.00

Bond Issuance Cost

The Parent Company 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 recognized as at March 31, 2018 and ₱53.0 million as at March 31, 2017. Amortization of bond issuance costs amounting to ₱5.7 million and ₱0.1 million for the year ended March 31, 2018 and 2017, respectively, were recognized as part of the "Interest expense" account in the consolidated statements of comprehensive income (see Note 21).

Interest Expense

Interest expense, net of amount capitalized as property and equipment, associated with the bonds payable recognized in the consolidated statement of comprehensive income amounted to ₱162.0 million and ₱4.6 million in 2018 and 2017, respectively (see Notes 10 and 21).

19. Other Noncurrent Liabilities

	2018	2017
Payable to STI Diamond - net of current portion	**₱50,063,693**	₱57,117,312
Advance rent	**34,999,909**	38,033,539
Refundable deposit - net of current portion	**16,081,797**	17,821,827
Deferred lease liability	**2,426,489**	3,233,954
	₱103,571,888	₱116,206,632

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 the Parent Company 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 Diamond was derecognized as a subsidiary of the Parent Company. 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. The total carrying value of the unpaid purchase price amounted to ₱57.1 million and ₱60.8 million as at March 31, 2018 and 2017, respectively. The current portion of the payable amounted 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.

20. Equity

Capital Stock

The details of the number of common shares and amount are as follows:

	2018		2017	
	No. of Shares	**Amount**	No. of Shares	Amount
Authorized - ₱1 par value	**5,000,000,000**	**₱5,000,000,000**	5,000,000,000	₱5,000,000,000
Issued:				
Balance at beginning of year	**3,081,871,859**	**3,081,871,859**	3,081,871,859	3,081,871,859
Issuance during the year	**5,957,584**	**5,957,584**	–	–
Balance at end of year	**3,087,829,443**	**₱3,087,829,443**	3,081,871,859	₱3,081,871,859

Treasury shares

Out of the total issued shares, 5,952,273 and nil shares pertain to treasury shares amounting to ₱10.8 million and nil as at March 31, 2018 and 2017, respectively.

Other Comprehensive Income and Other Equity Reserves associated with Noncurrent Asset Held for Sale (Note 12)

As of March 31, 2018, cumulative balance of other comprehensive income and other equity reserves associated with noncurrent asset held for sale consists of:

Share in associates':	
Unrealized mark-to-market gain on AFS financial assets	₱108,558,621
Remeasurement loss on life insurance reserves	(18,096,674)
Cumulative actuarial gain	685,850
Other equity reserve	728,649
	₱91,876,446

Retained Earnings

a. On September 19, 2017, the Parent Company's BOD approved the cash dividends declaration of ₱0.08 per share for a total amount of ₱246.5 million, in favor of the stockholders of record as at September 30, 2017. Such dividends were paid on October 19, 2017.

b. On September 9, 2016, the BOD approved the cash dividends declaration amounting to ₱246.5 million, or ₱0.08 per share, in favor of the stockholders of record as at September 9, 2016. Such dividends were paid on September 15, 2016. On September 20, 2016, the BOD also approved the cash dividends declaration amounting to ₱832.1 million, or ₱0.27 per share, in favor of stockholders of record as at September 20, 2016. The Company paid ₱431.5 million and ₱400.6 million dividends to its stockholders on September 23, 2016 and November 3, 2016, respectively.

c. On September 4, 2015, the Parent Company's BOD approved the cash dividends declaration amounting to ₱250.0 million, or ₱0.08 per share, in favor of the stockholders of record as at August 31, 2015. Such dividends were paid on September 16, 2015.

d. Consolidated retained earnings, as restated, include undeclared retained earnings of subsidiaries and associates amounting to ₱945.4 million, ₱993.8 million and ₱1,252.5 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 series 2008, amounted to ₱2,058.4 million, ₱1,824.5 million and ₱2,126.2 million as at March 31, 2018, 2017 and 2016, respectively.

Policy on Dividends Declaration
On September 19, 2017, the BOD of STI ESG adopted a policy on the declaration of dividends starting with Fiscal Year 2017-2018.

The BOD approved a dividend declaration policy equivalent to 25% to 40% 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 tax derived from the Parent Company's main business- 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.

Additional-Paid-in-Capital/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 is 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.

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, the Parent Company 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 the Parent Company 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. The Parent Company's ownership over STI Dagupan increased from 77% to 99.9%.

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.

Phase 2 merger. In 2018, the Parent Company recognized ₱2.1 million adjustment to "other equity reserve" account related to the issuance of shares to the non-controlling interest of the merged entity during the Phase 2 merger.

iACADEMY. On September 27, 2016, the Parent Company entered into a deed of sale with STI Holdings wherein the Parent Company sells, assigns, transfer and delivers in full its absolute title over the shares of iACADEMY. The difference between the consideration of ₱113.5 million and the carrying value of net assets of iACADEMY of ₱124.3 million, or equivalent to ₱10.8 million, is recognized under the "Other equity reserve" account in the consolidated statements of financial position as at March 31, 2017.

21. Interest Income and Interest Expense

Sources of interest income are as follows:

	2018	2017	2016
Cash and cash equivalents (see Note 5)	**₱26,480,632**	₱1,403,947	₱2,753,538
Past due accounts receivable (see Note 6)	**602,352**	1,472,985	1,406,303
Others	**118,150**	49,334	582,695
	₱27,201,134	₱2,926,266	₱4,742,536

Sources of interest expense are as follows:

	2018	2017	2016
Bonds payable (see Note 18)	**₱161,995,040**	₱4,593,881	₱–
Interest-bearing loans and borrowings (see Note 16)	**45,953,211**	58,785,842	48,984,156
Obligations under finance lease (see Note 27)	**845,252**	2,036,422	1,161,535
Others	**1,712,546**	342,899	300,925
	₱210,506,049	₱65,759,044	₱50,446,616

22. Cost of Educational Services

This account consists of:

	2018	2017	2016
Faculty salaries and benefits (see Note 25)	**₱287,473,573**	₱271,080,196	₱250,747,384
Depreciation and amortization (see Notes 10 and 15)	**168,380,798**	168,327,086	162,440,199
Student activities and programs	**113,131,942**	121,682,251	117,964,371
Rental (see Note 27)	**89,784,387**	93,126,841	91,951,494
School materials and supplies	**13,577,041**	14,594,294	13,710,777
Software maintenance	**14,202,681**	9,432,849	7,171,434
Courseware development costs	**1,285,625**	1,520,966	4,038,111
Others	**6,188,957**	5,309,524	6,765,042
	₱694,025,004	₱685,074,007	₱654,788,812

23. **Cost of Educational Materials and Supplies Sold**

This account consists of:

	2018	2017	2016
Educational materials and supplies	**₱104,733,552**	₱102,029,585	₱37,535,662
Promotional materials	**13,249,399**	12,049,699	12,565,817
Others	**1,309,240**	1,343,453	1,433,221
	₱119,292,191	₱115,422,737	₱51,534,700

24. **General and Administrative Expenses**

This account consists of:

	2018	2017	2016
Salaries, wages and benefits (see Notes 25 and 26)	**₱252,625,249**	₱255,378,490	₱261,488,568
Depreciation and amortization (see Notes 10, 11 and 15)	**148,707,042**	151,181,231	157,304,459
Light and water	**104,473,851**	98,246,671	95,573,938
Outside services	**79,641,808**	75,898,762	73,405,009
Provision for impairment loss on:			
Receivables (see Note 6)	**76,913,827**	66,104,129	70,576,140
Investments in and advances to associates and joint ventures (see Note 12)	**591,839**	1,643,844	519,414
Professional fees	**75,864,723**	60,091,566	64,690,552
Rental (see Note 27)	**51,548,688**	49,367,253	48,163,542
Taxes and licenses	**40,129,627**	29,782,373	22,327,299
Transportation	**25,740,842**	27,405,277	25,988,621
Advertising and promotions	**21,995,944**	9,696,496	57,429,955
Repairs and maintenance	**19,293,757**	19,011,030	16,194,971
Meetings and conferences	**16,621,372**	17,540,659	16,525,716
Entertainment, amusement and recreation	**16,315,646**	15,823,078	13,145,577
Office supplies	**12,957,325**	12,076,308	12,731,947
Insurance	**10,725,595**	9,714,872	10,013,303
Communication	**7,893,780**	9,284,957	10,363,335
Software maintenance	**2,773,560**	2,203,386	1,666,137
Provision for inventory write-down (see Note 7)	**1,074,439**	–	–
Association dues	**560,117**	235,457	311,242
Others	**16,978,393**	17,946,665	18,956,880
	₱983,427,424	₱928,632,504	₱977,376,605

25. **Personnel Costs**

This account consists of:

	2018	2017	2016
Salaries and wages	**₱477,251,298**	₱463,303,974	₱448,959,749
Pension expense (see Note 26)	**11,168,996**	12,970,192	12,579,338
Other employee benefits	**51,678,528**	50,184,520	50,696,865
	₱540,098,822	₱526,458,686	₱512,235,952

26. **Pension Plans**

Defined Benefit Plans

The Group (except 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.

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.

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 asset/liability recognized in the consolidated statements of financial position as at March 31:

	2018	2017	2016
Pension expense (recognized under the "Salaries, wages and benefits" account):			
Current service cost	**₱11,309,240**	₱11,079,632	₱11,208,413
Net interest cost (income)	**(436,686)**	1,652,579	1,310,745
	₱10,872,554	₱12,732,211	₱12,519,158

	2018	2017	2016
Net pension liabilities (assets) (recognized in the consolidated statements of financial position):			
Pension liabilities	**₱4,661,347**	₱6,087,953	₱38,143,366
Pension assets	**(53,474,883)**	(2,763,398)	–
	(₱48,813,536)	₱3,324,555	₱38,143,366
Present value of defined benefit obligations	**₱114,079,602**	₱133,237,145	₱122,032,569
Fair value of plan assets	**(162,893,138)**	(129,912,590)	(83,889,203)
	(₱48,813,536)	₱3,324,555	₱38,143,366

	2018	2017	2016
Changes in the present value of defined benefit obligations:			
Balance at beginning of year	**₱133,237,145**	₱122,032,569	₱112,415,012
Current service cost	**11,309,240**	11,079,632	11,208,413
Interest cost	**6,062,572**	6,258,996	5,482,809
Benefits paid	**(5,165,344)**	(2,156,395)	(1,877,286)
Actuarial loss (gain) on pension obligation from change in:			
Demographic assumptions	**17,662**	–	370,406
Financial assumptions	**(25,168,330)**	(203,357)	(2,321,495)
Deviations of experience from assumptions.	**(6,213,343)**	2,297,605	(3,245,290)
Effect of derecognition of a subsidiary (see Note 19)	**–**	(6,071,905)	–
Balance at end of year	**₱114,079,602**	₱133,237,145	₱122,032,569

	2018	2017	2016
Changes in the fair value of plan assets:			
Balance at beginning of year	**₱129,912,590**	₱83,889,203	₱84,876,757
Contributions	**11,006,012**	10,396,012	8,956,993
Interest income	**6,499,258**	4,606,417	4,172,064
Benefits paid	**(5,165,344)**	(2,156,395)	(1,877,286)
Actuarial gain (loss) on pension plan assets	**20,640,622**	33,177,353	(12,239,325)
Balance at end of year	**₱162,893,138**	₱129,912,590	₱83,889,203
Actual return (loss) on plan assets	**₱27,139,880**	₱37,783,770	(₱8,067,261)

The principal assumptions used in determining pension liabilities are shown below:

	March 31, 2018	March 31, 2017	March 31, 2016
Discount rate	**6.77%**	5.00%	5.02%
Future salary increases	**5.00%**	5.00%	5.00%

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:

	2018	2017
Cash and cash equivalents	**–%**	9%
Short-term fixed income	**35%**	29%
Investments in:		
Equity securities	**63%**	59%
Debt securities	**2%**	3%
	100%	100%

The plan assets of the Group are maintained by Union Bank of the Philippines and United Coconut Planters Bank.

Details of the Group's net assets available for plan benefits and their related market values are as follows:

	2018	2017
Cash	**₱1,257**	₱12,054,721
Short-term fixed income	**57,397,026**	37,375,570
Investments in:		
Equity securities	**102,011,760**	76,885,722
Government securities	**3,483,095**	3,596,577
	₱162,893,138	₱129,912,590

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 investment in shares of STI Holdings, the ultimate 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 an 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 consists of 63% equity instruments, 35% short-term fixed income and 2% debt instruments while cash and cash equivalents are kept at minimum level.

The average duration of the defined benefit obligation as of March 31, 2018 is 17 years.

Shown below is the maturity analysis of the undiscounted benefit payments as of March 31:

	2018	2017
Less than one year	**₱7,597,217**	₱19,368,664
More than one year to five years	**31,749,439**	16,070,625
More than five years to 10 years	**88,066,238**	74,591,335
More than 10 years to 15 years	**129,185,619**	111,982,810
More than 15 years to 20 years	**169,344,086**	142,555,468
More than 20 years	**380,560,387**	386,406,168

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming all other assumptions are held constant:

	Effect on Present Value of Define Benefit Obligation		
	2018	2017	2016
Discount rates			
Increase by 1%	**(₱11,796,570)**	(₱12,536,721)	(₱13,421,569)
Decrease by 1%	**13,798,539**	15,079,321	16,258,710
Future salary increases			
Increase by 1%	**13,936,174**	14,862,020	16,032,261
Decrease by 1%	**(12,210,599)**	(12,711,470)	(13,581,775)
Employee turnover			
Increase by 10%	**1,760,831**	2,083,508	(2,575,973)
Decrease by 10%	**(1,760,831)**	(2,083,508)	2,575,973

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, 2018, 2017 and 2016, 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 8).

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 amounted to ₱0.3 million, ₱0.2 million and ₱0.1 million in 2018, 2017 and 2016, respectively.

Total pension expense recognized in profit or loss follows:

	2018	2017	2016
Defined benefit plans	**₱10,872,554**	₱12,732,211	₱12,519,158
Defined contribution plans	**296,442**	237,981	60,180
	₱11,168,996	₱12,970,192	₱12,579,338

27. **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 minimum lease payments under the lease agreements, together with the present value of the minimum lease payments follow:

	2018	2017
Within one year	**₱7,691,153**	₱5,508,520
After one year but not more than five years	**14,832,409**	6,958,783
Total minimum lease payments	**22,523,562**	12,467,303
Less amount representing interest	**2,083,242**	1,080,635
Present value of lease payments	**20,440,320**	11,386,668
Less current portion of obligations under finance lease	**6,360,503**	4,912,919
Noncurrent portion of obligations under finance lease	**₱14,079,817**	₱6,473,749

Interest expense incurred from finance lease amounted to ₱0.8 million, ₱2.0 million and ₱1.2 million in 2018, 2017 and 2016, respectively (see Note 21).

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.

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.

Total rental income amounted to ₱98.5 million, ₱101.3 million and ₱62.2 million in 2018, 2017 and 2016, respectively (see Notes 11 and 29).

Future minimum rental receivable for the remaining lease terms as of March 31 are as follow:

	2018	2017
Within one year	**₱87,063,780**	₱95,191,676
After one year but not more than five years	**158,761,490**	281,130,922
More than five years	**–**	–
	₱245,825,270	₱376,322,598

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, the Parent Company 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 shall be subject to a 3% escalation every three years starting on the fourth year of the lease term. Under the terms of the lease agreement, the Parent Company is required to make an upfront payment of ₱7.4 million as well as one (1) year advance rent.

Total rental expense charged to operations amounted to ₱141.3 million, ₱142.5 million and ₱140.1 million in 2018, 2017 and 2016, respectively (see Notes 22 and 24).

Certain subsidiaries also paid their lessors rental 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 Note 15).

Future minimum rental payables under the lease agreements follow:

	March 31	
	2018	2017
Within one year	**₱108,426,181**	₱106,923,531
After one year but not more than five years	**252,946,128**	160,473,611
More than five years	**303,850,519**	240,226,634
	₱665,222,828	₱507,623,776

28. **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:

	2018	2017
Deferred tax assets:		
Allowance for doubtful accounts	**₱8,532,597**	₱7,867,546
Unearned tuition and other school fees	**5,398,502**	2,958,355
Pension liabilities	**457,736**	608,795
Excess of:		
Rental under operating lease computed on a straight-line basis	**1,978,594**	1,246,057
Cost over net realizable value of inventories	**1,089,096**	1,065,590
Advance rent	**3,499,990**	3,803,354
	20,956,515	17,549,697
Deferred tax liabilities:		
Excess of fair values of net assets acquired over acquisition cost from a business combination	**(209,144)**	(209,144)
Pension assets	**(5,347,488)**	(276,340)
Unamortized debt issue costs	**(1,336,517)**	(1,496,545)
	(6,893,149)	(1,982,029)
Net deferred tax assets	**₱14,063,366**	₱15,567,668

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 for which no deferred tax assets were recognized:

	2018	2017
NOLCO	**₱27,834,918**	₱69,184,383
Allowance for:		
Advances to associate (see Note 12)	**37,868,986**	37,277,147
Doubtful accounts (see Note 6)	**858,771**	858,771
Pension liability (see Note 26)	**83,985**	100,000
	₱66,646,660	₱107,420,301

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 associate 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 are as follows:

Year Incurred	Expiry Dates	Amount
March 31, 2015	March 31, 2018	₱39,486,643
March 31, 2016	March 31, 2019	24,933,693
March 31, 2017	March 31, 2020	4,764,047
March 31, 2018	March 31, 2021	1,775,711
		70,960,094
Less:		
Expired in 2018		39,486,643
Applied in 2018		3,638,533
		₱27,834,918

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	**₱50,074,461**	₱61,308,137	₱55,161,664
Income tax effects of:			
Equity in net loss of associates and joint ventures	**21,824,533**	24,207,550	13,450,903
Royalty fees subjected to final tax	**(2,054,589)**	(1,914,893)	(1,593,548)
Dividend income	**(443,166)**	(325,150)	(283,067)
Interest income already subjected to final tax	**(2,648,063)**	(140,395)	(275,354)
Effect of derecognition of a subsidiary	**–**	6,082,946	–
Others	**923,208**	4,275,487	427,039
	₱67,676,384	₱93,493,682	₱66,887,637

Others pertain to the income tax effects of change in unrecognized deferred tax assets, expired NOLCO 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.

29. 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 Parent 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:

	Amount of Transactions During the Year			Outstanding Receivable (Payable)			
Related Party	**2018**	2017	2016	**2018**	2017	**Terms**	**Conditions**
Associates							
STI Accent							
Advances for various expenses and other charges	**₱591,839**	₱1,643,844	₱519,414	**₱37,868,986**	₱37,277,147	30 days upon receipt of billings; noninterest-bearing	Unsecured; impaired
Maestro Holdings							
Subscription of common stock	**–**	–	69,983,200	**–**	–	Due and demandable; noninterest-bearin	Unsecured
GROW							
Rental income and other charges	**–**	–	–	**6,931,016**	7,139,094	30 days upon receipt of billings	Unsecured; no impairment
Advances for various expenses	**29,025**	27,418	54,539	**143,571**	143,571	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
STI Holdings							
Advisory fees	**14,400,000**	14,400,000	14,400,000	–	–	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Advances for various expenditures	**–**	324,615	1,272,004	**–**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
STI Alabang							
Educational services and sale of educational materials and supplies	**19,762,175**	17,015,977	14,272,901	**435,759**	1,124,509	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
STI Marikina Educational services and sale of educational materials and supplies	**20,889,990**	15,003,907	11,140,869	**84,956**	31,789	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Joint Venture							
PHEI							
Advances for various expenses	**–**	–	575,000	**–**	–	30 days upon receipt of billings; noninterestbearing	Unsecured; no impairment
Affiliates*							
PhilCare							
Rental income and other charges	**16,794,804**	16,356,067	17,284,807	**4,031,857**	3,562,049	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
HMO coverage	**3,180,588**	2,953,343	3,514,745	**(28,449)**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured
Refundable deposits	**–**	–	–	**(1,820,984)**	(1,820,984)	Refundable upon end of contract	Unsecured;
Phil First Insurance Co., Inc.							
Utilities and other charges	**216,552**	209,416	221,243	**27,732**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
Insurance	**4,541,733**	4,267,966	3,594,606	**(19,829)**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured

(Forward)

Related Party	Amount of Transactions During the Year 2018	2017	2016	Outstanding Receivable (Payable) 2018	2017	Terms	Conditions
Philippines First Condominium Corporation							
Association dues, utilities and other charges	**₱11,113,310**	₱11,137,234	₱11,317,782	**(₱1,295,754)**	₱–	30 days upon receipt of billings; noninterest-bearing	Unsecured
PhilLife							
Rental income and other charges	**110,525**	5,851,794	14,367,302	**–**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured
STI WNU							
Educational services and sale of educational materials and supplies	**8,895,083**	10,066,781	1,659,653	**–**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured
Advances for various expenses	**3,051,198**	2,653,983	21,236,416	**–**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured
iACADEMY							
Advances for various expenses	**9,454,076**	885,035	–	**–**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured
Officers and employees							
Advances for various expenses	**20,759,339**	16,954,041	12,753,872	**20,389,150**	19,497,646	Liquidated within one month; noninterest-bearing	Unsecured; no impairment
Others							
Rental income and other charges	**5,356,366**	3,247,121	641,286	**2,043,402**	2,002,582	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment
				₱68,791,413	₱68,957,403		

**Affiliates are entities under common control of a majority Shareholder*

Related party receivables and payables are generally settled in cash.

Outstanding receivables, before any allowance for impairment, and payables arising from these transactions are summarized below:

	2018	2017
Educational services and sale of educational materials and supplies (see Note 6)	**₱520,715**	₱1,156,298
Current portion of advances to associates, joint ventures and other related parties (see Note 6)	**143,571**	143,571
Advances to officers and employees (see Note 6)	**20,389,150**	19,497,646
Rent, utilities and other related receivables (see Note 6)	**13,034,007**	12,703,725
Advances to associates and joint ventures (see Note 12)	**37,868,986**	37,277,147
Accounts payable (see Note 17)	**(3,165,016)**	(1,820,984)
	₱68,791,413	₱68,957,403

The following are the balances and transactions among related parties which are eliminated during consolidation.

Related Party	Amount of Transactions During the Year 2018	2017	2016	Outstanding Receivable (Payable) 2018	2017	Terms	Conditions
Subsidiaries							
STI Caloocan							
Educational services, sale of educational materials and supplies, management fees, and other charges	**₱77,903,673**	₱84,847,586	₱74,056,344	**₱–**	₱9,664,653	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**41,184,083**	3,942,804	6,439,349	**(236,271,389)**	(173,976,567)	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Rental income and other related charges	**50,289,600**	50,289,600	50,289,600	**–**	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
*STI Dagupan**							
Educational services, sale of educational materials and supplies, management fees, and other charges	**1,911,850**	4,554,305	6,001,862	**–**	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**227,768**	2,227,525	3,325,984	**(327,655)**	(1,423,419)	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI Diamond							
Educational services, sale of educational materials and supplies, management fees, and other charges	–	–	48,139,753	–	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	–	–	3,016,680	–	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Rental income and other related charges	–	–	30,720,000	–	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI Novaliches							
Educational services, sale of educational materials and supplies, management fees, and other charges	**54,620,643**	64,313,937	–	**5,398,721**	6,699,025	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**6,622,888**	2,163,074	25,000	**(160,495,253)**	(93,464,930)	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Rental income and other related charges	**30,720,000**	30,720,000	–	**–**	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
*STI Taft**							
Educational services, sale of educational materials and supplies, management fees, and other charges	**6,262,273**	12,669,183	17,009,435	**–**	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**3,890,311**	895,884	2,399,740	**(6,190,658)**	(2,082,755)	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Deposits for future stock subscription	**–**	–	48,981,700	**–**	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment

(Forward)

Related Party	Amount of Transactions During the Year 2018	2017	2016	Outstanding Receivable (Payable) 2018	2017	Terms	Conditions
STI Tuguegarao							
Educational services, sale of educational materials and supplies, management fees, and other charges	**₱1,259,791**	₱951,568	₱1,480,879	**₱12,556,544**	₱11,478,500	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**₱668,043**	₱1,088,769	₱1,539,264	**₱1,328,925**	₱1,028,319	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI QA							
Educational services, sale of educational materials and supplies, management fees, and other charges	**10,500,868**	10,453,877	9,553,967	**1,651,658**	1,061,001	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	–	9,600	1,760	**14,251,548**	14,251,548	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI Batangas							
Educational services, sale of educational materials and supplies , management fees and other charges	**23,827,583**	27,652,920	7,328,884	**9,259,570**	13,310,316	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**11,006,688**	7,319,347	4,362,250	**11,006,688**	7,319,347	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Rental income and other related charges	**14,968,800**	14,968,800	14,968,800	**23,613,620**	37,255,600	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI Pagadian							
Educational services, sale of educational materials and supplies , management fees and other charges	**909,367**	1,085,334	1,407,103	**2,451,353**	1,322,611	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**2,811,758**	2,421,805	1,127,687	**5,922,799**	3,686,751	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Subscription of common stock	–	–	–	**(15,000,000)**	(15,000,000)	Due and demandable; noninterest-bearing	Unsecured; no impairment
STI Iloilo							
Educational services, sale of educational materials and supplies,	**4,069,589**	2,927,306	2,926,147	**4,013,036**	486,627	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**635,073**	277,553	108,309	**7,079,156**	6,444,083	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI Tanauan							
Educational services , sale of educational materials and supplies,	**8,946,759**	8,350,484	9,444,578	**–**	–	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**4,320,101**	11,474,151	2,637,981	**(15,573,659)**	(9,392,560)	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment

(Forward)

Related Party	Amount of Transactions During the Year 2018	2017	2016	Outstanding Receivable (Payable) 2018	2017	Terms	Conditions
STI Lipa							
Educational services , sale of educational materials and supplies,	**₱9,684,534**	₱8,025,616	₱6,358,940	**₱–**	₱1,125,305	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
Advances for various expenses	**686,247**	547,435	289,456	**711,192**	625,125	30 days from billing or cut-off date; noninterest-bearing	Unsecured; no impairment
STI Sta. Maria							
Advances for various expenses	**145,868,951**	–	–	**58,252,912**	–	30 days upon receipt of billings; noninterest-bearing	Unsecured; no impairment

**Merged with the Parent Company on August 30, 2017 (see Note 1)*

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	**₱46,376,741**	₱41,104,402	₱36,622,357
Post-employment benefits	**2,150,526**	2,053,780	1,724,890
	₱48,527,267	₱43,158,182	₱38,347,247

30. Basic and Diluted EPS on Net Income Attributable to Equity Holders of the Parent Company

The table below shows the summary of net income and weighted average number of common shares outstanding used in the calculation of EPS for the years ended March 31:

	2018	2017	2016
Net income attributable to equity holders of the Parent Company (Note 12)	**₱432,057,214**	₱518,282,758	₱482,512,457
Weighted average number of common shares outstanding:			
Weighted average outstanding common shares at beginning of the year	**2,311,403,894**	3,081,871,859	3,081,871,859
Weighted average outstanding common shares after merger (Note 20)	**770,469,293**	–	–
	3,081,873,187	3,081,871,859	3,081,871,859
Basic and diluted EPS on net income attributable to equity holders of the Parent Company (Note 12)	**₱0.14**	₱0.17	₱0.16

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.

31. STI Gift of Knowledge Certificates (GOKs)

On December 9, 2002, the BOD of the Parent Company 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 SY 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 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.

The Parent Company 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.

32. Contingencies and Commitments

Contingencies

a. *Tax Assessment Case.* The Parent Company 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 the Parent Company 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, the Parent Company 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 the Parent Company'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, the Parent Company received a copy of the Commissioner of Internal Revenue's (CIR) Motion for Reconsideration dated May 8, 2013. The Parent Company 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, the Parent Company 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 the Parent Company'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, the Parent Company 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, the Parent Company 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, the Parent Company 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, the Parent Company 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, the Parent Company, 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 ten (10) days from receipt of notice. On November 25, 2016, the CIR filed its reply to the Parent Company's comment.

On October 4, 2017, the Parent Company 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 Parent Company 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, the Parent Company received the Entry of Judgment issued by the Supreme Court dated May 7, 2018 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.

b. *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 the Parent Company. On August 13, 2014, the Parent Company received the Supreme Court's decision dated July 9, 2014 annulling the decision of the Court of Appeals and ordered that the Parent Company 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, the Parent Company filed its Motion for Reconsideration and on November 17, 2014, the Supreme Court issued a resolution which denied with finality the Parent Company's Motion for Reconsideration. On January 5, 2015, the Parent Company filed an Omnibus Motion and requested to move the case for review by the Supreme Court En Banc. On May 22, 2015, the Parent Company received a notice from the Supreme Court which denied the Parent Company's Omnibus Motion. As a result of the decision, the Parent Company 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 Parent Company'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 the Parent Company'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 13th 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, the Parent Company 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, the Parent Company 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. The Parent Company averred that an order of separation pay in lieu of reinstatement should be issued in favor of the former employee.

On October 28, 2015, the Parent Company 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, the Parent Company alleged that the actions of the labor arbiter showed partiality and bias in favor of the former employee.

On October 29, 2015, the Parent Company filed a Motion to Consolidate with the NLRC. In the said Motion, the Parent Company 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 the Parent Company. 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 the Parent Company, 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, the Parent Company 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, the Parent Company filed a Motion for Leave (To Admit Comment and/or Opposition with Manifestation). In the Comment and/or Opposition, the Parent Company 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. The Parent Company 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, the Parent Company received the Resolution of the NLRC, which denied the former employee's Motion for Reconsideration.

On September 6, 2016, the Parent Company 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, the Parent Company filed its Comment/Opposition Ad Cautelam. In the said Comment/Opposition, the Parent Company reiterated its arguments raised against the former employee's Motion for Reconsideration. In addition, the Parent Company raised that (a) the issue on annulment of the Writ of Execution should be deemed moot because the Parent Company 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 the Parent Company, 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, the Parent Company 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 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 Labor Arbiter’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 we 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 our 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 “3rd 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 22nd 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 the Company as guilty of illegal dismissal; and ordering the Company 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 the Company.

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 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. 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 4th 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 4th 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.

c. *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 bases 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, the Parent Company received the Plaintiffs' Comment/Opposition to Motion to Dismiss with Motion to Declare Defendant in Default (Motion). On April 8, 2016, the Court required the Parent Company 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, the Parent Company received the Plaintiff's Position Paper. The Parent Company, on April 13, 2016, filed its Position Paper.

On April 14, 2016, the Parent Company filed a Manifestation with an attached Position Paper.

On August 2, 2016, the Parent Company received the Plaintiffs' Motion to Resolve, which seeks for the resolution of all pending incidents.

On August 11, 2016, the Parent Company filed a Comment dated August 10, 2016 to the Plaintiffs' Motion to Resolve. In the Comment, the Parent Company also moved for the resolution of all pending incidents including the Motion to Dismiss filed by the Parent Company, and reiterated the propriety of the dismissal of the instant case.

On August 12, 2016, the hearing on the Motion to Resolve proceeded wherein the Parent Company 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 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.

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.

d. *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.

e. *Criminal Case.* A complaint for qualified theft was filed by the Parent Company against its former school accounting supervisor and acting school accountant (former supervisor/accountant). In the complaint, the Parent Company 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 13th 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 the Company 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 July 12, 2018, the Office of the City Prosecutor of Taguig City has yet to issue a resolution in the instant case.

f. *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.

g. Due to the nature of the Parent Company’s business, it is 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 the Parent Company by reason of their faculty and employment contracts. Management and its legal counsels believe that the Parent Company has substantial legal and factual bases for its position and is of the opinion that losses arising from these legal actions and proceedings, if any, will not have a material adverse impact on the Parent Company’s consolidated financial position and results of operations.

h. 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

The Parent Company has domestic bills purchase lines from various local banks amounting to ₱165.0 million as of March 31, 2018 and 2017, 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.

b. Capital Commitments

As at March 31, 2018, the Group 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, the Group 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, the Group 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.

c. 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 on 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 funded 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.

33. 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 and 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 Parent Company’s BOD and management reviews and agrees on the policies for managing each of these risks as summarized as follows.

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 tuition fee, DepEd 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 ₱2,978.7 million and ₱3,458.8 million, respectively, while current liabilities amounted to ₱595.1 million and ₱1,013.8 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 interest-bearing loans and borrowings the debt service coverage ratio is also monitored on a regular basis. The debt service coverage 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 coverage 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 coverage ratio not lower than 1.05:1.

The tables below summarize the maturity profile of the Group’s financial assets held for liquidity purposes and other financial liabilities based on undiscounted contractual payments.

	2018					
	Due and demandable	**Less than 2 Months**	**2 to 3 Months**	**3 to 12 Months**	**More than 1 Year**	**Total**
Financial Assets						
Loans and receivables:						
Cash and cash equivalents	₱1,617,391,465	₱–	₱–	₱–	₱–	₱1,617,391,465
Receivables*	375,404,363	17,491,395	–	–	–	392,895,758
Rental deposits (included as part of the “Goodwill, intangible and other noncurrent assets” account)	–	–	–	–	44,272,574	44,272,574
AFS financial assets	–	–	–	–	67,399,715	67,399,715
	₱1,992,795,828	₱17,491,395	₱–	₱–	₱111,672,289	₱2,121,959,512
Financial Liabilities						
Other financial liabilities:						
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	–	–	–	134,400,000	600,000,000	734,400,000
Interest	–	–	–	32,377,044	37,426,200	69,803,244
Accounts payable and other current liabilities**	136,835,633	14,960,609	16,098,802	197,942,174	–	365,837,218
Obligations under finance lease	98,100	95,639	92,713	7,076,331	15,160,779	22,523,562
Other noncurrent liabilities***	–	–	–	–	66,145,490	66,145,490
	₱136,933,733	₱15,056,248	₱16,191,515	₱550,700,769	₱4,770,098,329	₱5,488,980,594

	2017					
	Due and demandable	Less than 2 Months	2 to 3 Months	3 to 12 Months	More than 1 Year	Total
Financial Assets						
Loans and receivables:						
Cash and cash equivalents	₱2,880,282,731	₱–	₱–	₱–	₱–	₱2,880,282,731
Receivables*	313,010,171	19,075,055	–	–	–	332,085,226
Rental deposits (included as part of the “Goodwill, intangible and other noncurrent assets” account)	–	–	–	–	39,555,558	39,555,558
AFS financial assets	–	–	–	–	50,870,755	50,870,755
	₱3,193,292,902	₱19,075,055	₱–	₱–	₱ 90,426,313	₱3,302,794,270
Financial Liabilities						
Other financial liabilities:						
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	–	–	–	585,800,000	734,400,000	1,320,200,000
Interest	–	–	–	38,777,000	79,142,000	117,919,000

(Forward)

	2017					
	Due and demandable	Less than 2 Months	2 to 3 Months	3 to 12 Months	More than 1 Year	Total
Accounts payable and other current liabilities**	₱149,993,714	₱51,083,983	₱4,168,977	₱165,940,716	₱–	₱371,187,390
Obligations under finance lease	–	–	–	5,507,562	6,959,741	12,467,303
Other noncurrent liabilities***	–	–	–	–	74,939,139	74,939,139
	₱149,993,714	₱51,083,983	₱4,168,977	₱ 974,930,498	₱5,125,711,960	₱6,305,889,132

* Excluding advances to officers and employees amounting to ₱20.4 million and ₱19.5 million as at March 31, 2018 and 2017, respectively.
** Excluding government and other statutory liabilities amounting to ₱20.7 million and ₱8.0 million as at March 31, 2018 and 2017, respectively.
*** Excluding advance rent and deferred lease liability amounting to ₱37.4 million and ₱41.3 million as at March 31, 2018 and 2017, respectively

The Group's current ratios are as follows:

	2018	2017
Current assets	**₱2,978,657,098**	₱3,458,790,995
Current liabilities	**595,057,170**	1,013,782,131
Current ratios	**5.006:1.000**	3.412:1.000

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(1)	**Net Maximum Exposure(2)**	Gross Maximum Exposure(1)	Net Maximum Exposure(2)
Financial Assets				
Loans and receivables:				
Cash and cash equivalents (excluding cash on hand)	**₱1,616,589,973**	**₱1,600,089,973**	₱2,879,521,739	₱2,863,021,739
Receivables*	**392,895,758**	**392,895,758**	332,085,226	332,085,226
Rental deposits (included as part of the "Goodwill, intangible and other noncurrent assets" account)	**44,272,574**	**44,272,574**	39,555,558	39,555,558
AFS financial assets	**67,399,715**	**67,399,715**	50,870,755	50,870,755
	₱2,121,158,020	**₱2,104,658,020**	₱3,302,033,278	₱3,285,533,278

* *Excluding advances to officers and employees amounting to ₱ 20.4 million and ₱19.5 million as at March 31, 2018 and 2017, respectively.*
(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:

a. *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.
b. *Receivables*. These are current receivables with no default in payment.
c. *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:

	2018				
	Neither Past Due Nor Impaired	**Past Due but not Impaired 31 to 60 Days**	**61 to 90 Days**	**Impaired**	**Total**
Financial Assets					
Loans and receivables:					
Cash and cash equivalents (excluding cash on hand)	**₱1,616,589,973**	**₱–**	**₱–**	**₱–**	**₱1,616,589,973**
Receivables*	**181,387,078**	**56,171,941**	**155,336,739**	**86,184,745**	**479,080,503**
Rental deposits (included as part of the “Goodwill, intangible and other noncurrent assets” account)	**44,272,574**	**–**	**–**	**–**	**44,272,574**
AFS financial assets	**67,399,715**	**–**	**–**	**–**	**67,399,715**
	₱1,909,649,340	**₱56,171,941**	**₱155,336,739**	**₱86,184,745**	**₱2,207,342,765**

	2017				
	Neither Past Due Nor Impaired	Past Due but not Impaired 31 to 60 Days	61 to 90 Days	Impaired	Total
Financial Assets					
Loans and receivables:					
Cash and cash equivalents (excluding cash on hand)	₱2,879,521,739	₱–	₱–	₱–	₱2,879,521,739
Receivables*	120,120,873	54,938,381	157,025,972	79,534,228	411,619,454
Rental deposits (included as part of the “Goodwill, intangible and other noncurrent assets” account)	39,555,558	–	–	–	39,555,558
AFS financial assets	50,870,755	–	–	–	50,870,755
	₱ 3,090,068,925	₱ 54,938,381	₱ 157,025,972	₱79,534,228	₱3,381,567,506

** Excluding advances to officers and employees amounting to ₱20.4 million and ₱19.5 million as at March 31, 2017 and 2016 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 Company’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 interest-bearing loans and bonds. While the Company’s long term debt has a floating interest rate, the Company 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.

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:

	Effect on Income Before Income Tax		
Increase/decrease in Basis Points (bps)	**2018**	2017	2016
+100 bps	**(₱37,344,000)**	(₱37,752,000)	(₱8,760,000)
-100 bps	**37,344,000**	37,752,000	8,760,000

Capital Risk Management Policy

The Group's objectives when managing capital are to provide returns for stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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 1.5:1.

The Group considers its equity contributed by stockholders as capital.

	March 31	
	2018	2017
Capital stock	**₱3,087,829,443**	₱3,081,871,859
Additional paid-in capital	**386,916,479**	379,937,290
Retained earnings (see Note 12)	**3,003,879,555**	2,818,372,090
	₱6,478,625,477	₱6,280,181,239

The Group's debt-to-equity ratios are as follows:

	March 31	
	2018	2017
Total liabilities*	**₱4,215,264,337**	₱4,794,395,544
Total equity (see Note 12)	**6,621,659,346**	6,262,091,871
Debt-to-equity ratio	**0.637:1.000**	0.766:1.000

**Excluding unearned tuition and other school fees*

The Group's asset-to-equity ratios are as follows:

	March 31	
	2018	2017
Total assets	**₱10,890,908,702**	₱11,086,070,974
Total equity (see Note 12)	**6,621,659,346**	6,262,091,871
Asset-to-equity ratio	**1.645:1.000**	1.770:1.000

No changes were made in the objectives, policies or processes in 2018 and 2017.

34. Fair Value Information of Financial Instruments

The following tables set forth the carrying amounts and estimated fair values of consolidated financial assets and liabilities recognized as at March 31, 2018 and 2017. There are no material unrecognized financial assets and liabilities as at March 31, 2018 and 2017:

	2018				
	Carrying Amount	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets					
Loans and receivables:					
Rental deposits	**₱44,272,574**	**₱43,195,036**	**₱–**	**₱–**	**₱43,195,036**
AFS investments – quoted	**4,237,200**	**4,237,200**	**4,237,200**	**–**	**–**
	₱48,509,774	**₱47,432,236**	**₱4,237,200**	**₱–**	**₱43,195,036**
Financial Liabilities					
Other financial liabilities at amortized cost -					
Obligations under finance lease	**₱20,440,320**	**₱21,503,910**	**₱–**	**₱–**	**₱21,503,910**
Refundable deposits	**21,514,129**	**21,170,192**	**–**	**–**	**21,170,192**
	₱41,954,449	**₱42,674,102**	**₱–**	**₱–**	**₱42,674,102**

	2017				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Loans and receivables:					
Rental deposits	₱39,555,558	₱39,274,985	₱–	₱–	₱39,274,985
AFS investments – quoted	3,808,240	3,808,240	3,808,240	–	–
	₱43,363,798	₱43,083,225	₱3,808,240	₱–	₱39,274,985
Financial Liabilities					
Other financial liabilities at amortized cost -					
Obligations under finance lease	₱11,386,668	₱7,267,415	₱–	₱–	₱7,267,415
Refundable deposits	19,235,201	17,369,983	–	–	17,369,983
	₱30,621,869	₱24,637,398	₱–	₱–	₱24,637,398

Fair Value of Financial Instruments

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

Cash and Cash Equivalents, Receivables and Accounts Payable and Other Current Liabilities. Due to the short-term nature of transactions, the fair values of these instruments approximate the carrying amounts as of financial reporting date.

Rental Deposits. The fair values of these instruments are computed by discounting the face amount using PDST-R2 rate ranging from 3.29% to 7.16% and 2.68% to 5.01% 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 at financial reporting date. AFS financial assets 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 its fair value because of recent and regular repricing based on market conditions.

Obligations under Finance Lease. The fair values of obligations under finance are computed based on discounted present value of lease payments with discount rate ranging from 3.29% to 5.24% and 2.42% to 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 with discount rates ranging from 3.09% to 5.31% and 2.82% to 4.25% 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.

35. **Changes in Liabilities Arising from Financing Activities**

	April 1, 2017	Cash flows	Reversal of finance lease obligation (Note 27)	Reclassified as current (Note 16 and 27)	New leases (Note 27)	Interest Expense (Note 21)	Dividends declared	March 31, 2018
Current interest-bearing loans and borrowings	₱585,800,000	(₱585,800,000)	₱–	₱134,400,000	₱–	₱–	₱–	₱134,400,000
Current obligations under finance leases	4,912,919	(6,146,905)	–	7,594,489	–	–	–	6,360,503
Bonds payable	2,947,028,638	(845,757)	–	–	–	5,696,253	–	2,951,879,134
Non-current interest-bearing loans and borrowings	734,400,000	–	–	(134,400,000)	–	–	–	600,000,000
Non-current obligations under finance leases	6,473,749	–	(330,000)	(7,594,489)	15,530,556	–	–	14,079,816
Dividends payable	12,365,576	(245,101,585)	–	–	–	–	246,549,749	13,813,740
Interest Payable	10,877,429	(229,270,485)	–	–	–	227,676,604	–	9,283,548
Total liabilities from financing activities	₱4,301,858,311	(₱1,067,164,732)	(₱330,000)	₱–	₱15,530,556	₱233,372,857	₱246,549,749	₱3,729,816,741

36. **Notes to the Consolidated Statements of Cash Flows**

The Group's material non-cash investing and financing activities pertain to the following:

a. Acquisitions of property and equipment under finance lease recorded under the "Property and equipment" account in the consolidated statements of financial position amounting to ₱15.5 million, ₱4.6 million and ₱4.3 million in 2018, 2017 and 2016, respectively (see Note 10).

b. Unpaid progress billing for construction in-progress amounting to ₱30.3 million, ₱14.3 million and ₱15.0 million as at March 31, 2018, 2017 and 2016, respectively (see Note 10).

c. Unpaid additions to investment properties for the construction of school buildings amounting to ₱0.5 million as at March 31, 2016 (see Note 11).

d. Uncollected dividends from De Los Santos Medical Center in 2016, amounting to ₱1.4 million received in 2017 (see Note 14).

e. Unpaid liability related to the derecognition of STI Diamond as a subsidiary amounting to ₱60.8 million as at March 31, 2017.

f. Reversal of subscription payable associated with the subscription by STI ESG over Maestro Holdings shares amounting to ₱17.5 million in September 2016.

g. Derecognition of the net assets of iACADEMY amounting to ₱100.0 million in September 2016 (see Note 20).

37. **Business Combination**

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 15, was applied to the purchase price and the Parent Company 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:

Assets	
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
	20,872,019
Liabilities	
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
Goodwill	₱1,776,696

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
Net cash inflow on acquisition	₱5,828,110

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and Stockholders
STI Education Services Group, Inc.
STI Academic Center Ortigas - Cainta,
Ortigas Avenue Extension,
Cainta, Rizal

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of STI Education Services Group, Inc. (the Company) 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 presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and 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 state, 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

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

SGVFS031547

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES

Schedule A. Financial Assets

(e.g., Loans and Receivables, Fair Value Through Profit or Loss, Held to Maturity Investments, Available for Sale Securities). This schedule shall be filed in support of the caption of each class of Financial Assets if the greater of the aggregate cost or the aggregate market value of FVPL as of the end of reporting period constitute 5% percent or more of total current assets.

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	Valued based on market quotation at end of reporting period period	Income received and accrued
The Group has no financial assets at Fair Value Through Profit or Loss as at March 31, 2018				

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties)

This schedule shall be filed with respect to each person among the directors, officers, employees, and principal stockholders (other than related parties) from whom an aggregate indebtedness of more than P100,000 or one percent of total assets, whichever is less, is owed. For the purposes of this schedule, exclude in the determination of the amount of indebtedness all amounts receivable from such persons for purchases subject to usual terms, for ordinary travel and expense advances and for other such items arising in the ordinary course of business.

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	57,223	443,851	(217,014)	-	284,060	-	284,060
Bundoc, Restituto Odulio	VP-School Operations	393,541	473,868	(298,036)	-	569,373	-	569,373
Carbonel, Ana	HROD Head	228,550	21,324	(133,519)	-	116,355	-	116,355
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, Armel 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	121,807	483,709	(217,643)	-	387,873	-	387,873
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
Total		**4,498,562**	**5,659,732**	**(3,974,665)**	**-**	**6,183,629**	**-**	**6,183,629**

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES

Schedule C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements

This schedule shall be filed with respect to each related party (e.g., subsidiary) the balances of receivable from which are eliminated during the consolidation of the financial statements.

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
STI Batangas	57,885,263	49,803,070	(63,808,455)	-	9,259,570	34,620,308	43,879,878
STI Caloocan	9,664,653	169,377,357	(179,042,010)	-	-	-	-
STI Iloilo	6,930,710	4,704,662	(543,180)	-	4,013,036	7,079,156	11,092,192
STI Lipa	1,750,430	10,370,781	(11,410,019)	-	-	711,192	711,192
STI Novaliches	6,699,025	91,963,531	(93,263,835)	-	5,398,721	-	5,398,721
STI Pagadian	5,009,362	3,721,125	(356,335)	-	2,451,353	5,922,799	8,374,152
STI Quezon Avenue	15,312,549	10,500,868	(9,910,211)	-	1,651,658	14,251,548	15,903,206
STI Sta Maria	-	145,868,951	(87,616,039)		-	58,252,912	58,252,912
STI Tanauan	-	13,266,860	(13,266,860)	-	-	-	-
STI Tuguegarao	12,506,819	1,927,833	(549,183)	-	12,556,544	1,328,925	13,885,469

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES

Schedule D. Intangible Assets - Other Assets

This schedule shall be filed in support of the caption Intangible Assets in the balance sheet

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Goodwill	223,777,646	1,776,696	-	-	-	225,554,342
Refundable deposits	39,555,558	6,171,882	186,556	-	(1,268,311)	44,272,574
Deposits for asset acquisitions	72,764,000	76,270,833	-	- 72,764,000	-	76,270,833
Intangible assets	22,395,838	314,721	9,745,080	-	-	12,965,479
Advances to suppliers	17,258,087	528,914,496	-	- 392,632,675	-	153,539,908
Other noncurrent assets	2,489,774	-	-	-	(514,589)	1,975,185
Total	**378,240,903**	**613,448,628**	**9,931,636**	**- 465,396,675**	**(1,782,900)**	**514,578,321**

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES

Schedule E. Long Term Debt

This schedule shall be filed in support of the caption Long-Term Debt in the balance sheet.

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

**presented net of bond issue costs with carrying value of ₱48.1 million in the Statements of Financial Position*

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES

Schedule F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)

This schedule shall be filed to list the total of all noncurrent Indebtedness to Related Parties included in the balance sheet. This schedule may be omitted if:

(i) The total Indebtedness to Related Parties included in such balance sheet does not exceed five percent of total assets as shown in the related balance sheet at either the beginning or end of the period; or

(ii) There have been no changes in the information required to be filed from that last previously reported.

Name of related party	Balance at beginning of period	Balance at end of period
The Group has no long-term loans from related parties as at March 31, 2018		

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES

Schedule G. Guarantees of Securities of Other Issuers

This schedule shall be filed with respect to any guarantees of securities of other issuing entities by the issuer for which the statement is filed.

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
The Group does not have guarantees of securities of other issuing entities as at March 31, 2018				

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES

Schedule H. Capital Stock

This schedule shall be filed in support of caption Capital Stock in the balance sheet.

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Stock	5,000,000,000	3,081,877,170	-	3,081,877,155	15	-

Related Parties

STI EDUCATION SYSTEMS HOLDINGS, INC.	3,040,623,037
PRUDENT RESOURCES, INC.	13,382,275
GONZALES, FRANSCISCO B. JR. (DECEASEI	8,873,692
ROSSI, PURIFICACION G.	7,841,118
PRUDENCIO, TOMAS J.	3,732,400
SANTOS, MARIA LOURDES	1,725,000
YOUNG, CAROLINA	1,651,828
RAMOS, DULCE	1,155,447
BUSTOS, FELIXBERTO	792,283
DOMINGO, EMERITA R.	303,466
VALERIO, MIKEL M.S.	241,279
ZARASPE, ANACLETA C.	214,038
MONES, REYNALDO A.	201,901
HEIRS OF EDGAR SARTE	148,622
RELLEVE, ALVIN K.	137,338
PUBLICO, EDGARDO	122,080
DUJUA, JOCELYN	115,532
GARCIA, NOEL B.	83,190
MADRIGAL, VICTORIA P.	63,384
LAO, ERIENE C.	63,384
PAULINO, MA. LUZ LOURDES M.	55,061
ANSALDO, LYDIA V.	53,876
CANTOS, LOLITA	53,185
LIMJOCO, ALEX	47,603
ZAPANTA, PRISCILLA D.	37,500
HERBOSA, ARTURO ALFONSO J.	36,219
NANO, ANA BELEN N.	35,288
YU, ANNIE	30,434
BRAVO, MELINDA C.	16,517
DE LEON, AURORA F.	7,923
GOPALAN, MA. LOURDES	6,155
CAPAROS, VILMA	6,155
PASCUA, ARNOLD F.	3,648
BALAN, ARIEL KELLY D.	3,169
PANTALEON, SERAFIN M.	2,117
BASA, VIRGILIO T.	1,857
GAMBOA, HERMAN T.	1,429
DE LEON, MA. LOIDA	1,367
DE LEON, ROSANO	1,367
VILLASEÑOR, CELSO A.	1,330
TOLENTINO, RUFINO (DECEASED)	738
MONSOD, CHRISTIAN S.	714
ZETA, BENJAMIN D.	688
BALAGOT, WILFRED P.	466
BARTOLOME, ARSENIO M., III	410
MACHICA, RAMON G.	399
ANGELES, BERNARD DAN F.	106
SUAREZ, ROLANDO A.	106
DAYCO, ROLANDO P.	30
ABAYA, RAMON C.	1
ALFONSO, FELIPE B. (Trustee of E.H. Tanco)	1
CU ERNEST LAWRENCE (Trustee)	1
VILLA, JESUS S. (Trustee for AADC)	1
TOTAL	**3,081,877,155**

Directors, officers and employees

BORJA, RAINERIO M. (Trustee)	2
JACOB, MONICO V. (Trustee)	2
TANCO, JOSEPH AUGUSTIN L.	2
DE MESA, RAUL M.	2
TANCO, MARTIN K.	1
LAPUS, JESLI A.	1
TANCO, MA. VANESSA ROSE L.	1
TANCO, EUSEBIO H.	1
QUINTOS, JOAQUIN E. (Trustee)	1
FERNANDEZ, PETER K.	1
VERGARA, ROBERT G.	1
	15

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES

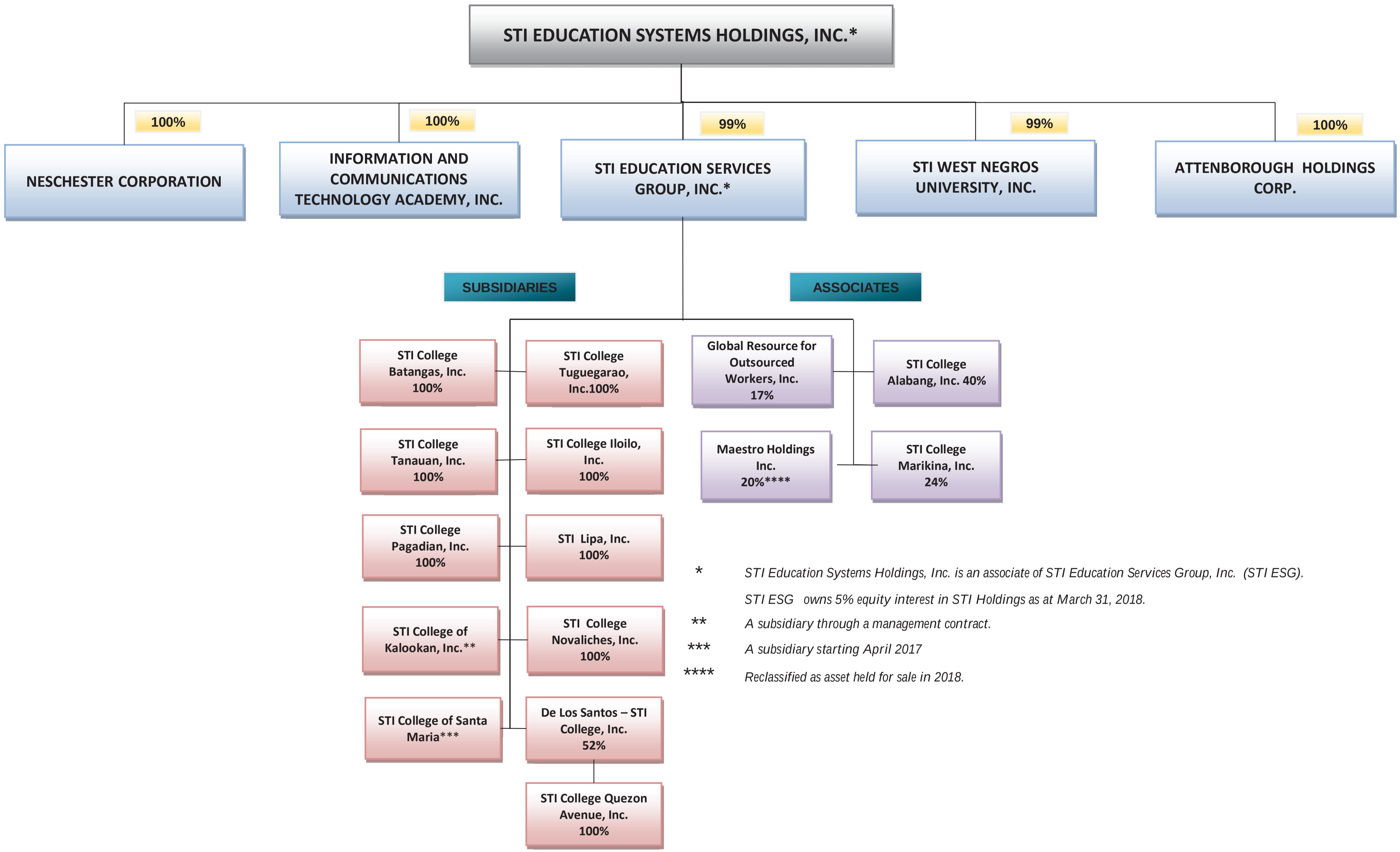
Schedule I – Retained Earnings Available For Dividend Declaration

Unappropriated retained earnings, beginning	1,840,342,663
Adjustment:	
Remeasurement loss on defined benefit plan from previous years	-
Deferred tax assets, beginning	(15,806,860)
Retained earnings, beginning, as adjusted to amount available for dividend declaration, beginning	1,824,535,803
Add: Net income actually realized during the year	
Net income during the year closed to retained earnings	492,490,319
Add (deduct):	
Effect of business combination	-
Unrealized foreign exchange loss – net of effects of cash and cash equivalents	-
Movement of recognized deferred tax assets for the year	(1,197,217)
Net income actually realized during the year	491,293,102
Add (deduct):	
Dividends declared during the year	(246,549,749)
Treasury shares	(10,833,137)
Retained earnings available for dividend declaration, end	2,058,446,019
Reversal of appropriations	-
Total RE, end available for dividend - Parent	**2,058,446,019**

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES

Schedule J. Map of Relationships 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. is an associate of STI Education Services Group, Inc. (STI ESG).*
STI ESG owns 5% equity interest in STI Holdings as at March 31, 2018.

** *A subsidiary through a management contract.*

*** *A subsidiary starting April 2017*

**** *Reclassified as asset held for sale in 2018.*

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES
(A Private Educational Institution)

SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS MARCH 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓			
PFRSs Practice Statement Management Commentary		✓			
Philippine Financial Reporting Standards					
	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			✓	
	Amendments to PFRS 1: Deletion of Short-term Exception for First-time Adopters			✓	
	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 of Share-based Transactions			✓	
	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
	Amendment to PFRS 3 and PFRS 11: Previously Held Interest in a Joint Operation			✓	
	Insurance Contracts			✓	
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓	
	Amendment to PFRS 4: Applying PFRS 9 with PFRS 4			✓	
	Noncurrent Assets Held for Sale and Discontinued Operations			✓	
	Changes in Method of Disposal			✓	
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓	
	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			✓	
	Operating Segments	✓			
	Amendments to PFRS 8: Aggregation of Operating Segments	✓			
	Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓			
	Financial Instruments				✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures				✓
	Amendments to PFRS 9: Prepayment Features with Negative Compensation				✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PFRS 10	Consolidated Financial Statements	✓			
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓	
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between and Investor and its Associate of Joint Venture			✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28 Investment Entities: Applying the Consolidation Exception			✓	
	Joint Arrangements	✓			
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operation			✓	
	Amendments to PFRS 3 and PFRS 11: Previously Held Interest in a Joint Operation			✓	
	Disclosure of Interests in Other Entities	✓			
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28 Investment Entities: Applying the Consolidated Exception			✓	
	Amendments to PFRS 12: Clarification of the Scope of the Standard	✓			
	Fair Value Measurement	✓			
	Amendment to PFRS 13: Short-term Receivables and Payables	✓			
	Amendment to PFRS 13: Portfolio Exception			✓	
PFRS 14	Regulatory Deferral Accounts			✓	
	Revenue from Contracts with Customers				✓
	Amendments to PFRS 15: Clarification to PFRS 15				✓
PFRS 16	Leases				✓
PFRS 17	Insurance Contracts			✓	
Philippine Accounting Standards					
	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	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendments to PAS 1: Disclosure Initiative	✓			
PAS 2	Inventories	✓			
	Statement of Cash Flows	✓			
	Amendment to PAS 7: Disclosure Initiative	✓			
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓			
PAS 10	Events after the Reporting Date	✓			
PAS 11	Construction Contracts			✓	
	Income Taxes	✓			
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓			
	Amendment to PAS 12: Recognition of Deferred Tax for Unrealized Losses	✓			
	Amendments to PAS 12: Income Tax Consequences of Payments on Financial Instruments Classified as Equity			✓	
	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	✓			
	Employee Benefits	✓			
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓			
	Employee Benefits	✓			
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓	
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate			✓	
	Amendments to PAS 19: Plan Amendment, Curtailment or Settlement				✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓	
	The Effects of Changes in Foreign Exchange Rates			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendment: Net Investment in a Foreign Operation			✓	
	Borrowing Costs	✓			
	Amendment to PAS 23: Borrowing Costs Eligible for Capitalization				✓
	Related Party Disclosures	✓			
	Amendments to PAS 24: Key Management Personnel			✓	
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓	
PAS 27	Consolidated and Separate Financial Statements	✓			
	Consolidated and Separate Financial Statements	✓			
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓	
	Amendments to PAS 27 : Equity Method in Separate Financial Statement			✓	
PAS 28	Investments in Associates	✓			
	Investments in Associates and Joint Ventures	✓			
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between and Investor and its Associate of Joint Venture			✓	
	Amendment to PFRS 10, PFRS 12 and PAS 28 Investment Entities: Applying the Consolidation Exception			✓	
	Amendment to PAS 28:Measuring an Associate or Joint Venture at Fair Value			✓	
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures				✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓	
PAS 31	Interests in Joint Ventures	✓			
	Financial Instruments: Disclosure and 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	✓			
	Amendment to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 33	Earnings per Share	✓			
	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	✓			
	Impairment of Assets	✓			
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓			
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓			
	Intangible Assets	✓			
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓	
	Amendments to PAS 38: Clarification of acceptable methods of amortization			✓	
	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			✓	
	Investment Property	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property			✓	
	Amendment to PAS 40: Transfers of Investment Property				✓
	Agriculture			✓	
	Amendment to PAS 41: Bearer Plants			✓	
Philippine Interpretations					
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓	
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓	
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓	
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓	
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓	
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓	
IFRIC 8	Scope of PFRS 2			✓	
	Reassessment of Embedded Derivatives			✓	
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓	
IFRIC 10	Interim Financial Reporting and Impairment			✓	
IFRIC 11	PFRS 2 - Group and Treasury Share Transactions			✓	
IFRIC 12	Service Concession Arrangements			✓	
IFRIC 13	Customer Loyalty Programmes			✓	
	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 16	Hedges of a Net Investment in a Foreign Operation			✓	
IFRIC 17	Distributions of Non-cash Assets to Owners			✓	
IFRIC 18	Transfers of Assets from Customers			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	Not Early Adopted
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓	
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓	
IFRIC 21	Levies			✓	
IFRIC 22	Foreign Currency Transactions and Advance Consideration				✓
IFRIC 23	Uncertainty over Income Tax Treatments				✓
SIC-7	Introduction of the Euro			✓	
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓	
	Consolidation - Special Purpose Entities			✓	
	Amendment to SIC - 12: Scope of SIC 12			✓	
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓	
SIC-15	Operating Leases - Incentives			✓	
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓	
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓	
SIC-29	Service Concession Arrangements: Disclosures.			✓	
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓	
SIC-32	Intangible Assets - Web Site Costs			✓	

Financial Highlights and Key Performance Indicators

(in millions except margins, financial ratios and earnings per share)

	March 31, 2018 (Audited)	March 31, 2017 (Audited)	Increase(Decrease)) Amount	%
Condensed Statements of Financial Position				
Total assets	10,890.9	11,086.1	(195.2)	(2)
Current assets	2,978.7	3,458.8	(480.1)	(14)
Cash and cash equivalents	1,617.4	2,880.3	(1,262.9)	(44)
Equity attributable to equity holders of the parent company	6,612.2	6,253.7	358.5	6
Total liabilities	4,269.2	4,824.0	(554.8)	(12)
Current liabilities	595.1	1,013.8	(418.7)	(41)
Financial Ratios				
Debt to equity ratio [1]	0.64	0.77	(0.13)	(0.2)
Current ratio [2]	5.01	3.41	1.60	0.5
Asset to equity ratio [3]	1.64	1.77	(0.13)	(0.1)

	March 31, 2018 (Audited)	March 31, 2017 (Audited)	Increase(Decrease) Amount	%
Condensed Statements of Income				
Revenues	2,596.0	2,603.2	(7.2)	(0)
Direct costs [4]	813.3	800.5	12.8	2
Gross profit	1,782.7	1,802.7	(20.0)	(1)
Operating expenses	983.4	928.6	54.8	6
Operating profit	799.3	874.1	(74.8)	(9)
Other income (expenses)	(298.5)	(261.0)	(37.5)	14
Income before income tax	500.8	613.1	(112.3)	(18)
Net income	433.1	519.6	(86.5)	(17)
EBITDA [5]	1,219.4	1,298.3	(78.9)	(6)
Core Income [6]	651.3	822.4	(171.1)	(21)
Net income attributable to equity holders of the parent company	432.1	518.3	(86.2)	(17)
Earnings per share [7]	0.140	0.168	(0.028)	(17)
Condensed Statements of Cash Flows				
Net cash from operating activities	1,102.3	1,039.3	63.0	6
Net cash used in investing activities	(1,298.0)	(1,246.9)	(51.1)	4
Net cash used in financing activities	(1,067.2)	2,545.7	(3,612.9)	(142)

Financial Soundness Indicators

	March 31, 2018 (Audited)	March 31, 2017 (Audited)	Increase(Decrease) Amount	%
Liquidity Ratios				
Current ratio [2]	5.01	3.41	1.6	47
Quick ratio [8]	3.41	3.19	0.2	7
Cash ratio [9]	2.72	2.84	(0.1)	(4)
Solvency ratios				
Debt to equity ratio [1]	0.64	0.77	(0.13)	(16)
Asset to equity ratio [3]	1.64	1.77	(0.13)	(7)
Debt service cover ratio [10]	3.45	1.57	1.88	118
Interest coverage ratio [11]	3.38	10.32	(6.94)	(67)
Profitability ratios				
EBITDA margin [12]	47%	50%	(3)	(6)
Gross profit margin [13]	69%	69%	0	-
Operating profit margin [14]	31%	34%	(3)	(9)
Net profit margin [15]	17%	20%	(3)	(15)
Return on equity annualized[16]	7%	8%	(1)	(13)
Return on assets[17]	4%	5%	(1)	(20)

(1) Debt-to-equity ratio is measured as total liabilities, net of unearned tuition and other school fees, divided by total equity.

(2) Current ratio is measured as current assets divided by current liabilities.

(3) Asset to equity ratio is measured as total assets divided by total equity.

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

(5) EBITDA is net income excluding 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.

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

(7) 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

(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 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 divided by total revenues.

(15) Net profit margin is measured as net income after income tax divided by total revenues.

(16) Return on equity is measured as net income 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 income divided by average total assets.

STI EDUCATION SERVICES GROUP, INC. AND SUBSIDIARIES
Schedule M. - Use of Proceeds (Fixed Rate Bonds-₱3 Billion)
Series 7-year Bonds due 2024 and Series 10-year Bonds due 2027
(in PhP million)

	Amount
Proceeds of the Fixed Rate Bonds	**3,000,000,000**
Disbursements:	
Documentary stamp tax on bond issuance	15,000,000
Professional fees and other expenses	19,885,128
Underwriting fees	19,151,103
Acquisition of Lipa properties including taxes, registration and other fees	99,049,582
Payment of loans used to acquire EDSA properties and payment of related taxes and other fees	387,198,505
Payment for the construction of school buildings	805,060,669
Acquisition of Legazpi property including taxes	76,362,695
Payment for the design and other interior and exterior works on school buildings	6,271,954
Payment for the purchase of schools' furniture and fixtures	1,393,676
Payment of loans incurred for working capital requirements	410,000,000
Total Disbursements as of March 31, 2018	**1,839,373,312**
Cash Balance as of March 31, 2018	**1,160,626,688**