# COVER SHEET

for

## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1803

**COMPANY NAME**

ABS-CBN CORPORATION AND SUBSIDIARIES

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

ABS-CBN Broadcast Center, Sgt. Esguerra Avenue corner Mother Ignacia St., Quezon City

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

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| IR@abs-cbn.com | (632) 415 - 2272 | – |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 5,317 | Apr 6 | December 31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Rolando P. Valdueza | Rolando_Valdueza@abs-cbn.com | (632) 415-2272 | – |

**CONTACT PERSON's ADDRESS**

ABS-CBN Broadcast Center, Sgt. Esguerra Avenue corner Mother Ignacia St. Quezon 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.*

**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors and Stockholders
ABS-CBN Corporation
ABS-CBN Broadcast Center
Sgt. Esguerra Ave. corner Mother Ignacia Street
Quezon City

## Opinion

We have audited the consolidated financial statements of ABS-CBN Corporation and Subsidiaries (collectively referred to as "the Company"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, 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 December 31, 2017, 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 Company as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

## 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 Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the 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 in the following section, our description of how our audit addressed the matter is provided in that context.

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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.

Revenue Recognition

The Company derives a significant portion of its revenue from advertising, which comprise 51% of the consolidated revenue for the year ended December 31, 2017. This matter is significant to our audit because, in addition to the magnitude of the amount, the airtime revenue process is highly-automated and the amounts recognized depend on the calculated rates using a pricing scheme where billings are based on the actual ratings when the advertisements were aired and, hence, results in variations in airtime billings. The Company's policy on airtime revenue recognition is disclosed in Note 2 to the consolidated financial statements.

*Audit response*

We updated our understanding of the airtime revenue process and tested the relevant controls. We involved our specialist in our evaluation of the information technology general controls of the relevant systems. For selected sample billings, we tested the airtime rates by comparing the television ratings used against third-party television ratings reports and recomputed the billed amounts.

Recoverability of Goodwill and Other Intangible Assets with Indefinite Useful Lives

Under PFRSs, the Company is required to annually test the amount of goodwill and other intangible assets with indefinite useful lives for impairment. As at December 31, 2017, the Company's goodwill attributable to Sky Cable Corporation, Sapientis Holdings, Inc., Columbus Technologies, Inc., ABS-CBN Convergence, Inc. and ABS-CBN International and other intangible assets with indefinite useful lives amounted to ₱8,040 million, which are considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically revenue growth and gross margins in its cable subscription, broadcasting, broadband and mobile businesses, and discount rates and weighted average cost of capital, which were applied to the cash flow forecasts.

The Company's disclosures about goodwill and other intangible assets with indefinite useful lives are included in Note 3 to the consolidated financial statements.

*Audit response*

We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include revenue growth and gross margins in its cable subscription, broadcasting, broadband and mobile businesses, and discount rates and weighted average cost of capital. We compared the key assumptions used, such as revenue growth rate against the historical performance of the CGU, industry/market outlook and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Company'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 goodwill and other intangible assets with indefinite useful lives.

Recoverability of Deferred Tax Assets

The analysis of the recoverability of deferred tax assets of material subsidiaries was significant to our audit because the assessment process is complex and judgmental, and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of these subsidiaries.

The disclosures in relation to deferred income taxes are included in Note 29 to the consolidated financial statements.

*Audit response*

We reviewed management's assessments of the availability of future taxable income from significant subsidiaries operating at net losses. We reviewed management's five-year financial forecasts on these subsidiaries with reference to the entities' current performance, future plans for the business and tax planning strategies. In addition, we reviewed the assumptions used in the financial forecasts, evaluation of which was performed during the recoverability testing for goodwill and other intangible assets with indefinite useful lives. We checked the reconciling items considered in computing the forecasted taxable income with reference to prior years' reconciling items and their expected timing of reversal.

Provision and Contingencies

The Company is involved in legal proceedings and tax assessments. This matter is significant to our audit because the determination of whether any provision should be recognized and the estimation of the potential liability resulting from these assessments require significant judgment by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations.

The Company's disclosures about provisions and contingencies are included in Note 36 to the consolidated financial statements.

*Audit response*

Our procedures focused on the evaluation of the management's assessment on whether any provision for contingencies should be recognized and the estimation of such amount. We involved our internal specialist in the evaluation of management's assessment on whether any provision for contingencies should be recognized, and the estimation of such amount. We discussed with management the status of the claims and/or assessments, and obtained correspondences with the relevant authorities and opinions from the external legal/tax counsels. We evaluated the position of the Company by considering the relevant laws, rulings and jurisprudence.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

**Auditor's Responsibilities for the Audit of the 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company 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 Company 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.

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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 Catherine E. Lopez.

SYCIP GORRES VELAYO & CO.

Catherine E. Lopez

Catherine E. Lopez
Partner
CPA Certificate No. 86447
SEC Accreditation No. 0468-AR-3 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-085-895
BIR Accreditation No. 08-001998-65-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 6621274, January 9, 2018, Makati City

February 22, 2018

## ABS-CBN CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
**(Amounts in Thousands)**

| | December 31 | |
|---|---|---|
| | **2017** | 2016 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 6) | **₱12,346,556** | ₱10,964,524 |
| Short-term investments (Note 6) | **1,358,429** | 3,065,793 |
| Trade and other receivables (Notes 7 and 23) | **10,630,014** | 10,204,118 |
| Inventories (Note 8) | **508,721** | 349,821 |
| Program rights and other intangible assets (Note 12) | **1,137,234** | 1,067,144 |
| Other current assets (Note 9) | **5,062,390** | 4,141,388 |
| Total Current Assets | **31,043,344** | 29,792,788 |
| **Noncurrent Assets** | | |
| Property and equipment (Notes 10, 18 and 31) | **25,700,997** | 24,509,980 |
| Program rights and other intangible assets - net of current portion (Note 12) | **7,707,460** | 7,215,644 |
| Goodwill (Note 16) | **5,473,725** | 5,314,677 |
| Available-for-sale (AFS) investments (Note 13) | **242,743** | 210,219 |
| Investment properties (Notes 11 and 18) | **200,740** | 202,114 |
| Investments in associates and joint ventures (Note 14) | **524,953** | 530,005 |
| Deferred tax assets (Note 29) | **2,462,942** | 2,498,677 |
| Other noncurrent assets (Note 15) | **1,768,425** | 2,459,848 |
| Total Noncurrent Assets | **44,081,985** | 42,941,164 |
| **TOTAL ASSETS** | **₱75,125,329** | ₱72,733,952 |
| | | |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Notes 4, 17, 23 and 30) | **₱13,272,821** | ₱13,648,504 |
| Income tax payable | **263,329** | 277,239 |
| Obligations for program rights (Note 19) | **349,736** | 439,316 |
| Interest-bearing loans and borrowings (Notes 10, 11 and 18) | **350,678** | 354,950 |
| Total Current Liabilities | **14,236,564** | 14,720,009 |
| **Noncurrent Liabilities** | | |
| Interest-bearing loans and borrowings - net of current portion (Notes 10, 11 and 18) | **20,036,027** | 20,117,273 |
| Obligations for program rights - net of current portion (Note 19) | **554,657** | 660,667 |
| Accrued pension obligation and other employee benefits (Note 30) | **5,757,944** | 4,906,236 |
| Deferred tax liability (Note 29) | **138,271** | 138,271 |
| Convertible note (Note 20) | **205,380** | 221,063 |
| Other noncurrent liabilities (Note 21) | **485,542** | 278,730 |
| Total Noncurrent Liabilities | **27,177,821** | 26,322,240 |
| Total Liabilities | **41,414,385** | 41,042,249 |

(Forward)

| | December 31 | |
|---|---|---|
| | **2017** | 2016 |
| **Equity Attributable to Equity Holders of the Parent Company** | | |
| Capital stock (Note 22): | | |
| Common | **₱872,124** | ₱872,124 |
| Preferred | **200,000** | 200,000 |
| Additional paid-in capital | **4,745,399** | 4,740,811 |
| Exchange differences on translation of foreign operations | **359,816** | 18,349 |
| Unrealized gain on AFS investments (Note 13) | **180,408** | 147,884 |
| Share-based payment plan (Note 22) | **–** | 4,588 |
| Retained earnings (Note 22) | **28,560,106** | 26,709,981 |
| Treasury shares and Philippine depository receipts convertible to common shares (Note 22) | **(1,638,719)** | (1,638,719) |
| Equity attributable to Equity Holders of the Parent | **33,279,134** | 31,055,018 |
| **Noncontrolling Interests** (Note 24) | **431,810** | 636,685 |
| Total Equity | **33,710,944** | 31,691,703 |
| **TOTAL LIABILITIES AND EQUITY** | **₱75,125,329** | ₱72,733,952 |

*See accompanying Notes to Consolidated Financial Statements.*

## ABS-CBN CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF INCOME
**(Amounts in Thousands, Except Per Share Amounts)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| **REVENUE** | | | |
| Advertising revenue (Note 23) | **₱21,098,382** | ₱23,650,475 | ₱21,264,714 |
| Sale of services (Note 31) | **16,642,656** | 15,876,653 | 15,148,219 |
| Sale of goods (Note 23) | **2,624,414** | 1,966,274 | 1,734,397 |
| Others | **332,792** | 137,197 | 130,785 |
| | **40,698,244** | 41,630,599 | 38,278,115 |
| **PRODUCTION COSTS** (Notes 10, 12, 23, 25, 30 and 31) | **(11,833,615)** | (12,011,950) | (11,434,166) |
| **COST OF SERVICES** (Notes 8, 10, 12, 15, 23, 26, 30 and 31) | **(10,711,713)** | (10,323,075) | (9,599,609) |
| **COST OF SALES** (Notes 8, 10, 23, 26, 30 and 31) | **(2,109,942)** | (1,693,608) | (1,531,091) |
| **GROSS PROFIT** | **16,042,974** | 17,601,966 | 15,713,249 |
| **GENERAL AND ADMINISTRATIVE EXPENSES** (Notes 7, 8, 10, 11, 12, 22, 23, 27, 30 and 31) | **(11,916,759)** | (12,661,479) | (12,120,892) |
| **FINANCE COSTS** (Notes 18, 20 and 28) | **(1,007,916)** | (1,036,386) | (811,787) |
| **INTEREST INCOME** (Notes 6 and 23) | **166,788** | 220,982 | 169,270 |
| **FOREIGN EXCHANGE GAINS** - Net | **41,194** | 89,063 | 123,881 |
| **EQUITY IN NET LOSSES OF ASSOCIATES AND JOINT VENTURES** (Note 14) | **(5,052)** | (1,055) | (1,141) |
| **OTHER INCOME** - net (Notes 15, 21, 28 and 31) | **614,806** | 467,780 | 256,796 |
| **INCOME BEFORE INCOME TAX** | **3,936,035** | 4,680,871 | 3,329,376 |
| **PROVISION FOR INCOME TAX** (Note 29) | **772,458** | 1,155,555 | 784,242 |
| **NET INCOME** | **₱3,163,577** | ₱3,525,316 | ₱2,545,134 |
| **Attributable to** | | | |
| Equity holders of the Parent Company (Note 34) | **₱3,333,889** | ₱3,885,278 | ₱2,931,777 |
| Noncontrolling interests | **(170,312)** | (359,962) | (386,643) |
| | **₱3,163,577** | ₱3,525,316 | ₱2,545,134 |
| **Basic/Diluted Earnings per Share Attributable to Equity Holders of the Parent Company** (Note 34) | **₱4.046** | ₱4.716 | ₱3.555 |

*See accompanying Notes to Consolidated Financial Statements.*

## ABS-CBN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**(Amounts in Thousands)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| **NET INCOME** | **₱3,163,577** | ₱3,525,316 | ₱2,545,134 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Other comprehensive income (loss) not to be reclassified to profit and loss in subsequent periods: | | | |
| Remeasurement gain (loss) on defined benefit plan (Note 30) | **(905,560)** | (528,068) | 226,935 |
| Income tax effect | **272,562** | 169,762 | (64,945) |
| | **(632,998)** | (358,306) | 161,990 |
| Other comprehensive income (loss) to be reclassified to profit and loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | **341,467** | 484,508 | (9,386) |
| Unrealized fair value gain (loss) on AFS investments - net (Note 13) | **32,524** | (28,125) | 32,728 |
| | **373,991** | 456,383 | 23,342 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | **(259,007)** | 98,077 | 185,332 |
| **TOTAL COMPREHENSIVE INCOME** | **₱2,904,570** | ₱3,623,393 | ₱2,730,466 |
| **Attributable to:** | | | |
| Equity holders of the Parent Company | **₱3,109,445** | ₱3,890,533 | ₱3,097,146 |
| Noncontrolling interests | **(204,875)** | (267,140) | (366,680) |
| | **₱2,904,570** | ₱3,623,393 | ₱2,730,466 |

*See accompanying Notes to Consolidated Financial Statements.*

## ABS-CBN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

### (Amounts in Thousands)

| | Capital Stock (Note 22) Common | Capital Stock (Note 22) Preferred | Additional Paid-in Capital | Exchange Differences in Translation of Foreign Operations | Unrealized Gain on Available-for-Sale Investments (Note 13) | Remeasurement Gain (Loss) on Defined Benefit Plan - Net (Note 30) | Share-based Payment Plan (Note 22) | Retained Earnings (Note 22) Appropriated | Retained Earnings (Note 22) Unappropriated | Treasury Shares and Philippine Depository Receipts Convertible to Common Shares (Note 22) | Total | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At December 31, 2016 | ₱872,124 | ₱200,000 | ₱4,740,811 | ₱18,349 | ₱147,884 | ₱– | ₱4,588 | ₱16,200,000 | ₱10,509,981 | (₱1,638,719) | ₱31,055,018 | ₱636,685 | ₱31,691,703 |
| Net income (loss) | – | – | – | – | – | – | – | – | 3,333,889 | – | 3,333,889 | (170,312) | 3,163,577 |
| Other comprehensive income (loss) | – | – | – | 341,467 | 32,524 | (598,435) | – | – | – | – | (224,444) | (34,563) | (259,007) |
| Total comprehensive income (loss) | – | – | – | 341,467 | 32,524 | (598,435) | – | – | 3,333,889 | – | 3,109,445 | (204,875) | 2,904,570 |
| Remeasurement loss on defined benefit plan transferred to retained earnings | – | – | – | – | – | 598,435 | – | – | (598,435) | – | – | – | – |
| Cash dividends declared | – | – | – | – | – | – | – | – | (885,329) | – | (885,329) | – | (885,329) |
| Share-based payment | – | – | 4,588 | – | – | – | (4,588) | – | – | – | – | – | – |
| At December 31, 2017 | ₱872,124 | ₱200,000 | ₱4,745,399 | ₱359,816 | ₱180,408 | ₱– | ₱– | ₱16,200,000 | ₱12,360,106 | (₱1,638,719) | ₱33,279,134 | ₱431,810 | ₱33,710,944 |
| | | | | | | | | | | | | | |
| At December 31, 2015 | ₱872,124 | ₱200,000 | ₱4,711,050 | (₱466,159) | ₱176,009 | ₱– | ₱34,349 | ₱16,200,000 | ₱7,722,847 | (₱1,638,719) | ₱27,811,501 | ₱903,825 | ₱28,715,326 |
| Net income (loss) | – | – | – | – | – | – | – | – | 3,885,278 | – | 3,885,278 | (359,962) | 3,525,316 |
| Other comprehensive income (loss) | – | – | – | 484,508 | (28,125) | (451,128) | – | – | – | – | 5,255 | 92,822 | 98,077 |
| Total comprehensive income (loss) | – | – | – | 484,508 | (28,125) | (451,128) | – | – | 3,885,278 | – | 3,890,533 | (267,140) | 3,623,393 |
| Remeasurement loss on defined benefit plan transferred to retained earnings | – | – | – | – | – | 451,128 | – | – | (451,128) | – | – | – | – |
| Cash dividends declared | – | – | – | – | – | – | – | – | (647,016) | – | (647,016) | – | (647,016) |
| Share-based payment | – | – | 29,761 | – | – | – | (29,761) | – | – | – | – | – | – |
| At December 31, 2016 | ₱872,124 | ₱200,000 | ₱4,740,811 | ₱18,349 | ₱147,884 | ₱– | ₱4,588 | ₱16,200,000 | ₱10,509,981 | (₱1,638,719) | ₱31,055,018 | ₱636,685 | ₱31,691,703 |
| | | | | | | | | | | | | | |
| At December 31, 2014 | ₱872,124 | ₱200,000 | ₱4,495,050 | (₱456,773) | ₱143,281 | ₱– | ₱34,349 | ₱16,200,000 | ₱5,163,395 | (₱1,264,096) | ₱25,387,330 | ₱1,487,498 | ₱26,874,828 |
| Net income (loss) | – | – | – | – | – | – | – | – | 2,931,777 | – | 2,931,777 | (386,643) | 2,545,134 |
| Other comprehensive income (loss) | – | – | – | (9,386) | 32,728 | 142,027 | – | – | – | – | 165,369 | 19,963 | 185,332 |
| Total comprehensive income (loss) | – | – | – | (9,386) | 32,728 | 142,027 | – | – | 2,931,777 | – | 3,097,146 | (366,680) | 2,730,466 |
| Remeasurement gain on defined benefit plan transferred to retained earnings | – | – | – | – | – | (142,027) | – | – | 142,027 | – | – | – | – |
| Cash dividends declared | – | – | – | – | – | – | – | – | (514,352) | – | (514,352) | – | (514,352) |
| Acquisition of PDRs and common shares | – | – | (993) | – | – | – | – | – | – | (374,623) | (375,616) | – | (375,616) |
| Decrease in noncontrolling interest (Note 2 and 4) | – | – | 216,993 | – | – | – | – | – | – | – | 216,993 | (216,993) | – |
| At December 31, 2015 | ₱872,124 | ₱200,000 | ₱4,711,050 | (₱466,159) | ₱176,009 | ₱– | ₱34,349 | ₱16,200,000 | ₱7,722,847 | (₱1,638,719) | ₱27,811,501 | ₱903,825 | ₱28,715,326 |

*See accompanying Notes to Consolidated Financial Statements.*

## ABS-CBN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**(Amounts in Thousands)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱3,936,035** | ₱4,680,871 | ₱3,329,376 |
| Adjustments to reconcile income before tax to net cash flows: | | | |
| Depreciation and amortization (Notes 10 and 11) | **3,666,140** | 3,401,610 | 3,072,492 |
| Amortization of: | | | |
| Program rights and other intangibles (Note 12) | **1,818,806** | 1,182,544 | 1,626,845 |
| Debt issue costs (Note 28) | **40,390** | 49,609 | 34,687 |
| Deferred charges (Note 26) | **6,993** | 6,402 | 34,484 |
| Interest expense (Note 28) | **931,459** | 968,768 | 762,463 |
| Movements in accrued pension obligation and other employee benefits (Note 30) | **(439,759)** | 723,243 | 655,634 |
| Interest income (Notes 6 and 23) | **(166,788)** | (220,982) | (169,270) |
| Net unrealized foreign exchange loss (gain) | **(55,261)** | 42,624 | 71,665 |
| Dividend income | **(10,364)** | (14,230) | (8,732) |
| Gain on sale of property and equipment (Notes 10 and 28) | **(6,221)** | (3,987) | (11,687) |
| Equity in net losses of associates and joint ventures (Note 14) | **5,052** | 1,055 | 1,141 |
| Working capital changes: | | | |
| Decrease (increase) in: | | | |
| Trade and other receivables | **(662,248)** | 1,084,131 | (1,191,542) |
| Inventories | **(158,875)** | 328,993 | (122,722) |
| Other current assets | **(975,176)** | (526,167) | (6,757) |
| Increase (decrease) in: | | | |
| Trade and other payables | **(700,015)** | (2,903,438) | 1,680,860 |
| Obligations for program rights | **(197,019)** | 427,155 | (278,495) |
| Other noncurrent liabilities | **197,694** | 230,664 | (1,018,054) |
| Cash generated from operations | **7,230,843** | 9,458,865 | 8,462,388 |
| Income taxes paid | **(618,484)** | (907,865) | (894,026) |
| Net cash provided by operating activities | **6,612,359** | 8,551,000 | 7,568,362 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to: | | | |
| Property and equipment (Notes 5 and 10) | **(5,058,385)** | (5,565,611) | (5,241,499) |
| Program rights and other intangible assets (Notes 12 and 35) | **(1,944,422)** | (1,114,971) | (1,430,135) |
| Decrease (increase) in short-term investments | **1,707,364** | (1,448,248) | (1,617,546) |
| Decrease in other noncurrent assets | **684,846** | 338,551 | 129,281 |
| Effect of asset acquisition (Note 4) | **(350,000)** | – | – |
| Proceeds from sale of property and equipment | **221,983** | 10,967 | 519,328 |
| Interest received | **174,369** | 222,265 | 155,818 |
| Acquisition of AFS investments (Note 13) | **–** | (21,008) | – |
| Investments in joint ventures and associates (Note 14) | **–** | (10,062) | (291,405) |
| Net cash used in investing activities | **(4,564,245)** | (7,588,117) | (7,776,158) |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from: | | | |
| Long-term debt | **₱3,346,000** | ₱8,950,000 | ₱– |
| Bank loans (Note 18) | **–** | – | 300,000 |
| Payments of: | | | |
| Long-term debt (Note 18) | **(3,457,765)** | (8,951,483) | (178,510) |
| Interest | **(938,629)** | (871,375) | (742,242) |
| Dividends | **(840,251)** | (615,566) | (493,717) |
| Obligations under finance lease | **(14,105)** | (685) | (25,154) |
| Bank loans (Note 18) | **–** | (60,000) | – |
| Deposit for future subscription (Note 4) | **1,220,000** | – | – |
| Acquisition of treasury shares and Philippine depository receipts (Note 22) | **–** | – | (374,623) |
| Net cash used in financing activities (Note 35) | **(684,750)** | (1,549,109) | (1,514,246) |
| **EFFECTS OF EXCHANGE RATE CHANGES AND TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS** | **18,668** | 13,191 | 21,224 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **1,382,032** | (573,035) | (1,700,818) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **10,964,524** | 11,537,559 | 13,238,377 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 6) | **₱12,346,556** | ₱10,964,524 | ₱11,537,559 |

*See accompanying Notes to Consolidated Financial Statements.*

# ABS-CBN CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**(Amounts in Thousands Unless Otherwise Specified)**

## 1. Corporate Information

ABS-CBN Corporation ("ABS-CBN" or "Parent Company") was incorporated in the Philippines on July 11, 1946. On July 27, 1994, the Philippine Securities and Exchange Commission (SEC) approved the extension of the corporate term of the Parent Company for another 50 years. The Parent Company's core business is television and radio broadcasting. Its subsidiaries and associates are involved in the following related businesses: cable and direct-to-home (DTH) television distribution and telecommunications services overseas, movie production, audio recording and distribution, video/audio post-production and film distribution. Other activities of the subsidiaries include merchandising, internet and mobile services, publishing, money remittance and theme parks.

Lopez Inc., a Philippine entity, has 56% economic interest in the Parent Company, with 79% voting rights. Lopez, Inc. is the ultimate Parent Company.

The common shares of ABS-CBN were listed beginning July 8, 1992 and have been traded in the Philippine Stock Exchange (PSE) since then.

The registered office address of the Parent Company is ABS-CBN Broadcast Center, Sgt. Esguerra Avenue corner Mother Ignacia St., Quezon City.

The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on February 22, 2018.

## 2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The consolidated financial statements of ABS-CBN and its subsidiaries (collectively referred to as "the Company") have been prepared on a historical cost basis, except for available-for-sale (AFS) investments measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. All values are rounded to the nearest thousand, except for number of shares, per share amounts and when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Company were prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

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 following amended PFRS and improvements to existing standards effective January 1, 2017. Adoption of these amendments did not have any impact on the Company's consolidated financial statements.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to 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 Company has provided the required information in Note 35 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.

- 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.

<u>Basis of Consolidation and Noncontrolling Interests</u>
The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries.

The following is a list of the subsidiaries as at December 31, 2017 and 2016:

| Company | Place of Incorporation | Principal Activities | Functional Currency | Effective Interest 2017 | Effective Interest 2016 |
|---|---|---|---|---|---|
| **Media, Network, and Studio Entertainment** | | | | | |
| Global: | | | | | |
| ABS-CBN Global Ltd. (ABS-CBN Global)[(a) (j)] | Cayman Islands | Holding company | United States dollar (USD) | **100.0** | 100.0 |
| ABS-CBN Europe Ltd. (ABS-CBN Europe)[(b)(c) (j)] | United Kingdom | Cable and satellite programming services | Great Britain pound (GBP) | **100.0** | 100.0 |
| ABS-CBN Japan, Inc. (ABS- CBN Japan)[(d) (j) (r)] | Japan | Cable and satellite programming services | Japanese yen (JPY) | **100.0** | 100.0 |
| ABS-CBN Middle East FZ-LLC (ABS-CBN Middle East)[(b) (j)] | Dubai, UAE | Cable and satellite programming services | United Arab Emirates dirham (AED) | **100.0** | 100.0 |
| ABS-CBN Middle East LLC[(b) (j)] | Dubai, UAE | Trading | AED | **100.0** | 100.0 |
| ABS-CBN Global Hungary Kft. (ABS-CBN Hungary) | Budapest, Hungary | Holding company | USD | **100.0** | 100.0 |
| ABS-CBN International, Inc. (ABS-CBN International)[(j) (n)] | California, USA | Cable and satellite programming services | USD | **100.0** | 100.0 |
| ABS-CBN Australia Pty. Ltd. (ABS-CBN Australia)[(j) (k)] | Victoria, Australia | Cable and satellite programming services | Australian dollar (AUD) | **100.0** | 100.0 |
| ABS-CBN Canada, ULC (ABS-CBN Canada)[(j) (k)] | Canada | Cable and satellite programming services | Canadian dollar (CAD) | **100.0** | 100.0 |
| ABS-CBN Telecom North America, Inc.[(j) (k)] | California, USA | Telecommunications | USD | **100.0** | 100.0 |
| ABS-CBN Global Netherlands B.V. (ABS-CBN Netherlands)[(j) (n)] | Amsterdam, Netherlands | Intermediate holding and financing company | Euro (EUR) | **100.0** | 100.0 |
| **Films and Music:** | | | | | |
| ABS-CBN Film Productions, Inc. (ABS-CBN Films) | Philippines | Movie production | Philippine peso | **100.0** | 100.0 |
| Cinescreen, Inc. (Cinescreen) [(f)] | Philippines | Theater operator | Philippine peso | **100.0** | – |

(Forward)

| Company | Place of Incorporation | Principal Activities | Functional Currency | Effective Interest 2017 | 2016 |
|---|---|---|---|---|---|
| **Narrowcast and Sports:** | | | | | |
| ABS-CBN Publishing, Inc. (ABS-CBN Publishing) | Philippines | Print publishing | Philippine peso | **100.0** | 100.0 |
| Creative Programs, Inc. (CPI) | Philippines | Content development and programming services | Philippine peso | **100.0** | 100.0 |
| **Others**: | | | | | |
| ABS-CBN Europe Remittance Inc.[(d) (j)] | United Kingdom | Services - money remittance | GBP | **100.0** | 100.0 |
| E-Money Plus, Inc.[(b)] | Philippines | Services - money remittance | Philippine peso | **100.0** | 100.0 |
| ABS-CBN Global Remittance Inc.[(j) (k)] | California, USA | Services - money remittance | USD | **100.0** | 100.0 |
| ABS-CBN Canada Remittance Inc.[(j) (n)] | Canada | Services - money remittance | CAD | **100.0** | 100.0 |
| ABS-CBN Center for Communication Arts, Inc.[(e)] | Philippines | Educational/training | Philippine peso | **100.0** | 100.0 |
| ABS-CBN Global Cargo Corporation[(t)] | Philippines | Non-vessel operations common carrier | Philippine peso | **100.0** | 100.0 |
| ABS-CBN Integrated and Strategic Property Holdings, Inc. | Philippines | Real estate | Philippine peso | **100.0** | 100.0 |
| ABS-CBN Shared Service Center PTE. Ltd.[(j) (m)] | Singapore | Services - support | Singapore dollar (SGD) | **100.0** | 100.0 |
| Professional Services for Television & Radio, Inc. | Philippines | Services - production | Philippine peso | **100.0** | 100.0 |
| Rosetta Holdings Corporation (RHC) | Philippines | Holding company | Philippine peso | **100.0** | 100.0 |
| Sarimanok News Network, Inc. | Philippines | Content development and programming services | Philippine peso | **100.0** | 100.0 |
| The Big Dipper Digital Content & Design, Inc. (Big Dipper) | Philippines | Digital film archiving and central library, content licensing and transmission | Philippine peso | **100.0** | 100.0 |
| TV Food Chefs, Inc. | Philippines | Services - restaurant and food | Philippine peso | **100.0** | 100.0 |
| iConnect Convergence, Inc. | Philippines | Service - call center | Philippine peso | **100.0** | 100.0 |
| ABS-CBN Studios, Inc. [(v)] | Philippines | Production facility | Philippine peso | **100.0** | 100.0 |
| Medianow Strategies, Inc. (Medianow) [(x)] | Philippines | Marketing, sales and advertising | Philippine peso | **79.7** | 79.7 |
| **Digital and Interactive Media** | | | | | |
| Sapientis Holdings Corporation (Sapientis) | Philippines | Holding company | Philippine peso | **100.0** | 100.0 |
| Columbus Technologies, Inc. (CTI)[(q)] | Philippines | Holding company | Philippine peso | **70.0** | 70.0 |
| ABS-CBN Convergence, Inc, (ABS-C)[(q)] | Philippines | Telecommunication | Philippine peso | **69.3** | 69.3 |
| **Cable, Satellite and Broadband** | | | | | |
| Sky Vision Corporation (Sky Vision) [(w)] (see Note 4) | Philippines | Holding Company | Philippine peso | **75.0** | 75.0 |
| Sky Cable Corporation (Sky Cable) [(w)] (see Note 4) | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Bisaya Cable Television Network, Inc.[(h) (i) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Bright Moon Cable Networks, Inc.[(h) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Cavite Cable Corporation[(h) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Cepsil Consultancy and Management Corporation[(h) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Davao Cableworld Network, Inc.[(h) (o) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| HM Cable Networks, Inc.[(h) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| HM CATV, Inc.[(h) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Hotel Interactive Systems, Inc.[(h) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Isla Cable TV, Inc.[(h) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Moonsat Cable Television, Inc.[(h) (o) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Pilipino Cable Corporation (PCC)[(h) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Satellite Cable TV, Inc.[(h) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Sun Cable Holdings, Incorporated (SCHI)[(h) (w)] | Philippines | Holding company | Philippine peso | **59.4** | 59.4 |
| Sun Cable Systems Davao, Inc.[(h) (i) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Sunvision Cable, Inc.[(h) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |

(Forward)

| Company | Place of Incorporation | Principal Activities | Functional Currency | Effective Interest **2017** | 2016 |
|---|---|---|---|---|---|
| Tarlac Cable Television Network, Inc.[(h) (w)] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Telemondial Holdings, Inc.[(h) (i) (w)] | Philippines | Holding company | Philippine peso | **59.4** | 59.4 |
| JMY Advantage Corporation[(h) (w)] | Philippines | Cable television services | Philippine peso | **56.4** | 56.4 |
| Cebu Cable Television, Inc.[(h) (o) (p) (w)] | Philippines | Cable television services | Philippine peso | **57.4** | 57.4 |
| Suburban Cable Network, Inc.[(h) (w)] | Philippines | Cable television services | Philippine peso | **54.9** | 54.9 |
| Pacific CATV, Inc. (Pacific)[(h) (o) (w)] | Philippines | Cable television services | Philippine peso | **58.0** | 58.0 |
| First Ilocandia CATV, Inc.[(h) (o) (w)] | Philippines | Cable television services | Philippine peso | **54.9** | 54.9 |
| Mactan CATV Network, Inc.[(h) (o) (p) (w)] | Philippines | Cable television services | Philippine peso | **56.6** | 56.6 |
| Discovery Mactan Cable, Inc.[(h) (s) (w)] | Philippines | Cable television services | Philippine peso | **41.6** | 41.6 |
| Home-Lipa Cable, Inc.[(h) (s) (w)] | Philippines | Cable television services | Philippine peso | **35.6** | 35.6 |
| **Consumer Products and Experiences** | | | | | |
| ABS-CBN Theme Parks and Resorts Holdings, Inc. (ABS-CBN Theme Parks) | Philippines | Holding company | Philippine peso | **100.0** | 100.0 |
| ABS-CBN Themed Experiences, Inc. (ABS-CBN Themed Experiences)[(u)] | Philippines | Management of locations | Philippine peso | **100.0** | – |
| Play Innovations, Inc.[(g) (y)] | Philippines | Theme park | Philippine peso | **73.0** | 73.0 |
| Play Innovations Hungary Kft. (Play Innovations)[(j) (g)] | Budapest, Hungary | Theme park | USD | **73.0** | 73.0 |

[(a)] *With branches in the Philippines and Taiwan*
[(b)] *Through ABS-CBN Global*
[(c)] *With branches in Italy and Spain*
[(d)] *Subsidiary of ABS-CBN Europe*
[(e)] *Nonstock ownership interest*
[(f)] *On June 5, 2017, the SEC approved the incorporation of Cinescreen. Cinescreen was established primarily to own, acquire, establish, lease, maintain, operate, manage, control, promote, advertise, undertake and carry on the business of theatres, movie houses and places of public amusement and entertainment.*
[(g)] *Through ABS-CBN Theme Parks*
[(h)] *Through Sky Cable*
[(i)] *Subsidiary of SCHI*
[(j)] *Considered as foreign subsidiary*
[(k)] *Subsidiary of ABS-CBN International*
[(l)] *With a branch in Luxembourg*
[(m)] *With a regional operating headquarters in the Philippines*
[(n)] *Through ABS-CBN Hungary*
[(o)] *Subsidiary of PCC*
[(p)] *Through Pacific*
[(q)] *Through Sapientis*
[(r)] *With branch in Korea*
[(s)] *A subsidiary of Sky Cable where Sky Cable effectively owns more than 50% interest*
[(t)] *In liquidation*
[(u)] *On July 7, 2017, the SEC approved the incorporation of ABS-CBN Themed Experiences. ABS-CBN Themed Experiences was established primarily to design, build, develop, manage, operate and maintain theme and amusement parks, hotels, restaurants, coffee shops, refreshment parlors and other attractions and facilities.*
[(v)] *On April 21, 2015, the SEC approved the incorporation of ABS-CBN Studios, Inc.*
[(w)] *In 2012, ABS-CBN acquired additional interest in Sky Vision increasing its economic interest to 24.8%. On the same year, Lopez, Inc. also executed a proxy in favor of ABS-CBN assigning its voting rights in Sky Vision. As a result, ABS-CBN has a voting interest of 75% in Sky Vision since 2012. Sky Vision is the holding company of Sky Cable, where ABS-CBN has an economic interest of 57.4% in 2014. In 2015, ABS-CBN purchased additional shares in Sky Vision increasing its economic interest on Sky Vision and Sky Cable to 75% and 59.4%, respectively (see Note 4).*
[(x)] *In 2014, CPI and Sky Cable entered into an agreement to form a joint venture company. Medianow, which was incorporated on August 22, 2014, is 78.7% effectively owned by the Company in 2014. As a result of the acquisition of additional interest in Sky Vision, economic interest on Medianow increased to 79.7% in 2015.*
[(y)] *In 2013, Kidz Edutainment subscribed to additional shares of stock of Play Innovations, Inc. amounting to ₱36 million.*

The Company controls an investee if and only if the 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 Company has less than a majority of the voting or similar rights of an investee, the 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 Company's voting rights and potential voting rights.

The 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 Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets and liabilities, are eliminated in full on consolidation. Unrealized gains and losses are eliminated.

Noncontrolling interests represent the portion of profit or loss and net assets not held by the Parent Company and are presented separately in the consolidated statement of comprehensive income and within the equity section of the consolidated statement of financial position, separately from equity attributable to equity holders of the Parent Company. This includes the equity interests in Sky Vision, Sky Cable and its subsidiaries, subsidiaries of Sapientis, ABS-CBN Theme Parks and Medianow.

A change in the ownership interest of a subsidiary, without a loss of control, is considered as an acquisition or disposal of noncontrolling interest and accounted for as an equity transaction. The difference between the amount by which the noncontrolling interest is adjusted and the fair value of the consideration paid or received is recorded directly in equity.

If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any noncontrolling interest
- Derecognizes the cumulative translation differences recorded 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's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the noncontrolling interests, even if this results in the noncontrolling interests having a deficit balance.

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 noncontrolling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in administrative expenses.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. 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. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39, *Financial Instruments: Recognition and Measurement,* in profit or loss. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

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 Company 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 Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Business Combination Involving Entities under Common Control
Where there are business combinations in which all the combining entities within the group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Company may account such business combinations under the acquisition method of accounting or pooling of interests method, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the noncontrolling interest, shall be considered.

In cases where the business combination has no substance, the Company shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Company are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value of consideration received is also accounted for as an equity transaction.

Foreign Currency Translation and Transaction

*Functional and Presentation Currency*. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. Each entity determines its own functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity, and items included in the financial statements of each entity are measured using that functional currency.

The functional currency of all the subsidiaries, except foreign subsidiaries, is the Philippine peso. The functional currencies of the foreign subsidiaries are disclosed under the Basis of Consolidation section. As at financial reporting date, the assets and liabilities of foreign subsidiaries are translated into the presentation currency of the Parent Company (the Philippine peso) at the rate of exchange ruling at financial reporting date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to "Exchange differences on translation of foreign operations" in the OCI and "Exchange differences on translation of foreign operations" account within the equity section of the consolidated statement of financial position. Upon disposal of any of these foreign subsidiaries, the deferred cumulative amount recognized in equity relating to that particular foreign entity will be recognized in the consolidated statement of income.

*Foreign Currency-denominated Transactions*. Transactions in foreign currencies are initially recorded in the functional currency exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing exchange rate at financial reporting date.

All differences are taken to the consolidated statement of income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Fair Value Measurement
The Company measures financial instruments at fair value at each financial reporting date.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

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 nonfinancial 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 Company 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 Company 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 every financial reporting date.

For the purpose of fair value disclosures, the Company 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.

<u>Financial Statements Classification</u>
The Company presents assets and liabilities in the consolidated statements of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the financial reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the financial reporting date.

All other assets are classified as non-current.  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 financial reporting date; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the financial reporting date.

The Company also modifies classification of prior year amounts to conform to current year's presentation.

<u>Cash and Cash Equivalents</u>
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 three months or less from dates of acquisitions and that are subject to an insignificant risk of change in value.

<u>Short-term Investments</u>
Short-term investments represent investments that are readily convertible to known amounts of cash with original maturities of more than three months to one year.

<u>Financial Instruments</u>

*Date of Recognition.* Financial instruments are recognized in the consolidated statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized using trade date accounting. Derivatives are recognized on trade date accounting.

*Initial Recognition of Financial Instruments.* All financial instruments are initially recognized at fair value.  The initial measurement of financial instruments includes transaction costs, except for securities at fair value through profit or loss (FVPL).  The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, loans and receivables and AFS investments.  Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities at amortized cost.  The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market.  Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this classification at every financial reporting date.

*Day 1 Difference*.  Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a Day 1 difference) in the consolidated statement of income.  In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized.  For each transaction, the Company determines the appropriate method of recognizing the Day 1 difference amount.

*Financial Assets and Liabilities at FVPL.*  Financial assets and liabilities at FVPL include financial assets and liabilities held for trading and financial assets and liabilities designated upon initial recognition as at FVPL.  Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

Derivatives are also classified under financial assets or liabilities at FVPL, unless they are designated as hedging instruments in an effective hedge.

Financial assets or liabilities may be designated by management at initial recognition as at FVPL if any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance are evaluated on a fair value basis in accordance with a documented risk management strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis that it would not be separately recorded.

Financial assets or liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Subsequent changes in fair value are recognized directly in the consolidated statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income according to the terms of the contract, or when the right of payment has been established.

The Company has no financial assets and liabilities at FVPL as at December 31, 2017 and 2016.

*Loans and Receivables.* Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as at FVPL, designated as AFS financial asset or HTM investments. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method, less any allowance for impairment. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

This category includes the Company’s cash and cash equivalents, short-term investments, trade and other receivables and deposits (included under “Other noncurrent assets” account).

*HTM Investments.* HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company’s management has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this category. After initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

The Company has no HTM investments as at December 31, 2017 and 2016.

*AFS Investments.* AFS investments are those nonderivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial measurement, AFS investments are measured at fair value, with unrealized gains or losses being recognized as OCI until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously reported in OCI is included in the consolidated statement of income. Unquoted equity instruments whose fair value cannot be reliably measured, are measured at cost.

The Company's AFS investments include investments in ordinary common shares and club shares (see Note 13).

*Other Financial Liabilities*. Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

Other financial liabilities are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

Expenditures incurred in connection with availments of long-term debt are deferred and amortized using effective interest method over the term of the loans. Debt issue costs are netted against the related long-term debt allocated correspondingly to the current and noncurrent portion.

Classified under other financial liabilities are trade and other payables, interest-bearing loans and borrowings, obligations for program rights, convertible note and customers' deposits (included under "Other noncurrent liabilities" account).

Embedded Derivatives

An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and (c) the hybrid or combined instrument is not measured at FVPL.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. When reported, the fair value changes are reported in consolidated statement of income. Re-assessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Impairment of Financial Assets

The Company assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

*Loans and Receivables.* For loans and receivables carried at amortized cost, the Company first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset, together with the other assets that are not individually significant and, thus, were not individually assessed for impairment, is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is an objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Impaired receivables are derecognized when they are assessed as uncollectible.

Likewise, for other receivables, it was also established that accounts outstanding for less than a year should have no provision for impairment but accounts outstanding for over three years should have a 100% provision, which was arrived at after assessing individually significant balances. Provision for individually non-significant balances was made on a portfolio or group basis after performing the regular review of the age and status of the individual accounts and portfolio/group of accounts relative to historical collections, changes in payment terms and other factors that may affect ability to collect payments.

The carrying amount of the asset is reduced either directly or through use of an allowance account and the amount of loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If in case the receivable has proven to have no realistic prospect of future recovery, any allowance provided for such receivable is written off against the carrying value of the impaired receivable.

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 future write-off is later recovered, the recovery is recognized in the consolidated statement of income. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

*Assets Carried at Cost.* If there is an objective evidence that an impairment loss on 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 has been incurred, the amount of the 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. Such impairment losses shall not be reversed.

*AFS Investments.* In case of equity investments classified as AFS, an objective evidence of impairment includes a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income, is removed from the OCI and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in OCI.

The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" as 20% or more of the original cost of investment, and "prolonged" as greater than 12 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and discount factors for unquoted equities.

Derecognition of Financial Assets and Financial Liabilities

*Financial Assets.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company 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) has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset.

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

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

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

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

Inventories
Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. Net realizable value of inventories that are for sale is the selling price in the ordinary course of business, less the cost of marketing and distribution. Net realizable value of inventories not held for sale is the current replacement cost.

Other Current Assets

*Creditable Withholding Taxes (CWT).* CWT represents the amount withheld by the Company's customers in relation to its revenues. These are recognized upon collection of the related billings and are utilized as tax credits against income tax due as allowed by the Philippine taxation laws and regulations.

*Advances to Suppliers.* Advances to suppliers represent advance payments on goods to be received or services to be incurred in connection with the Company's operations and are generally applied to acquisition of inventories and fixed assets and availment of services and others within the next financial year.

*Preproduction Expenses.* Preproduction expenses represent costs incurred prior to the airing of the programs or episodes. These costs include talent fees of artists and production staff and other costs directly attributable to production of programs. These are charged to expense upon airing of the related program or episodes. Costs related to previously taped episodes determined not to be aired are charged to expense.

*Prepayments.* Prepayments 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.

Property and Equipment
Property and equipment, except land, are carried at cost (including capitalized interest), excluding the costs of day-to-day servicing, less accumulated depreciation, amortization and any impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Land is stated at cost, which includes initial purchase price and other cost directly attributable in bringing such asset to its working condition, less any impairment in value.

Subscriber's initial installation costs, including materials, labor and overhead costs are capitalized as part of distribution equipment (included in the "Towers, transmission, television, radio, movie and auxiliary equipment" account) and depreciated over a period no longer than the depreciation period of the distribution equipment. The costs of subsequent disconnection and reconnection are charged to current operations.

Unissued spare parts and supplies represent major spare parts that can be used only in connection with the distribution equipment. Unissued spare parts and supplies are not depreciated but tested for impairment until these become available for use. These are included in the "Other equipment" account.

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Depreciation and amortization are computed on a straight-line method over the following useful lives of property and equipment:

| Asset Type | Number of Years |
|---|---|
| Land improvements | 5 to 10 |
| Buildings and improvements | 10 to 40 |
| Towers, transmission, television, radio, movie and auxiliary equipment | 5 to 20 |
| Other equipment | 3 to 25 |

The property and equipment's residual values, useful lives and method of depreciation and amortization are reviewed, and adjusted if appropriate, at each financial reporting date.

Construction in-progress represents equipment under installation and building under construction and is stated at cost, which includes cost of construction and other direct costs. Construction in-progress is not depreciated until such time that the relevant assets are completed and become available for operational use.

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 statement of income in the year the asset is derecognized.

<u>Asset Retirement Obligation</u>
The net present value of legal obligations associated with the retirement of an item of property and equipment that resulted from the acquisition, construction or development and the normal operations of property and equipment is recognized in the period in which it is incurred and a reasonable estimate of the obligation can be made. This is included as part of "Other noncurrent liabilities" account in the consolidated statement of financial position. These obligations are accreted and such accretion is recognized as expense in the consolidated statement of income. The related asset retirement cost is capitalized under "Property and equipment" account in the consolidated statement of financial position and is being depreciated on a straight-line basis.

<u>Intangible Assets</u>
Intangible assets acquired separately are measured on initial recognition at cost. If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. 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. 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 method for an intangible asset with a finite useful life is reviewed at least

each financial reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization of intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if an indication of impairment exists either individually or at the cash-generating unit level. Such intangibles are not amortized. Intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Effective January 1, 2016, in view of the change in the expected pattern of economic benefits from the assets, the Company revised the estimated useful life and amortization method of program rights. A comparison of the previous and current policies follows:

<table>
<tr><th>Category</th><th>Previous Policy</th><th>Current Policy</th></tr>
<tr><td>Specific run with specific terms</td><td>Amortized on a straight-line basis over the specific term or usage, whichever comes first.</td><td rowspan="3">For fixed term program and film rights, amortized on a straight-line basis over the license term as indicated in the contract, regardless if program and film right is aired or not.</td></tr>
<tr><td>Multiple runs with specific terms</td><td>Amortized on a straight-line basis over the license term except for program rights with license term of more than 5 years, which are amortized after 5 years from acquisition date (i.e. equally over the remaining life) or from first year of airing, whichever comes first.</td></tr>
<tr><td>Multiple runs with indefinite start date of license term</td><td>Amortized on a straight-line basis over the specific term or 10 years, whichever is shorter from date of initial airing. If with more than 5 years term, amortization will start at the 6th year or the initial airing, whichever comes first, over the term or 10 years, whichever is shorter.</td></tr>
<tr><td>Perpetual rights</td><td>Amortized on a straight-line basis after 5 years from acquisition date or from first year of airing, whichever comes first (equally over the next 10 years).</td><td>For perpetuity program and film rights, amortized on a straight-line basis at the beginning of the term as indicated in the contract, regardless if the program and film right is aired or not, and shall run over a period of 15 years from the start of amortization.</td></tr>
</table>

There was no change on the policies applied on other intangible assets for 2017 and 2016, which are as follows:

| **Intangible Asset** | **Useful Lives** | **Amortization Method Used** | **Impairment Testing** | **Current and Noncurrent Classification** |
|---|---|---|---|---|
| Music Rights | Finite (useful economic benefit) | Amortized on a straight-line basis over the economic useful life | If the remaining expected benefit period is shorter than the Company's initial estimates, the Company accelerates amortization of the cost. Impairment loss is also recognized if the carrying value exceeds the asset's recoverable amount. | Based on the estimated year of usage |
| Movie In-process/Filmed Entertainment | Finite | Amortized on accelerated method upon showing | If the unamortized film cost is higher than the fair value of the film, the asset is written down to its recoverable amount. | Based on the estimated year of usage |
| Story and Publication | Finite (useful economic benefit) | Amortized on a straight-line basis over the economic useful life | If the remaining expected benefit period is shorter than the Company's initial estimates, the Company accelerates amortization of the cost. Impairment loss is also recognized if the carrying value exceeds the asset's recoverable amount. | Based on the estimated year of usage |
| Video Rights and Record Master | Finite - six months | Amortized on a straight-line basis over six months | If the remaining expected benefit period is shorter than the Company's initial estimates, the Company accelerates amortization of the cost. Impairment loss is also recognized if the carrying value exceeds the asset's recoverable amount. | Current |

| **Intangible Asset** | **Useful Lives** | **Amortization Method Used** | **Impairment Testing** | **Current and Noncurrent Classification** |
|---|---|---|---|---|
| Customer Relationships | Finite - 3 to 25 years | Amortized on a straight-line basis over the estimated customer service life | If the remaining expected benefit period is shorter than the Company's initial estimates, the Company accelerates amortization of the cost. Impairment loss is also recognized if the carrying value exceeds the asset's recoverable amount. | Noncurrent |
| Cable Channels - CPI | Indefinite | No amortization | Annually and more frequently when an indication of impairment exists. Impairment loss is also recognized if the carrying value exceeds the asset's recoverable amount. | Noncurrent |
| Production and Distribution Business - Middle East | Finite - 25 years | Amortized on a straight-line basis over the period of 25 years | If the remaining expected benefit period is shorter than the Company's initial estimates, the Company accelerates amortization of the cost. Impairment loss is also recognized if the carrying value exceeds the asset's recoverable amount. | Noncurrent |
| Trademarks | Indefinite | No amortization | Annually and more frequently when an indication of impairment exists. Impairment loss is also recognized if the carrying value exceeds the asset's recoverable amount. | Noncurrent |
| Licenses - Wireless Business | Indefinite | No amortization | Annually and more frequently when an indication of impairment exists. Impairment loss is also recognized if the carrying value exceeds the asset's recoverable amount. | Noncurrent |

| Intangible Asset | Useful Lives | Amortization Method Used | Impairment Testing | Current and Noncurrent Classification |
|---|---|---|---|---|
| Licenses - Franchise | Finite - 10 years | Amortized on a straight line basis over the period of 10 years | If the remaining expected benefit period is shorter than the Company's initial estimates, the Company accelerates amortization of the cost. Impairment loss is also recognized if the carrying value exceeds the asset's recoverable amount. | Noncurrent |
| Digital Platforms | Finite – 5 years | Amortized on a straight line basis over the estimated useful life | If the expected benefit period is shorter than the Company's initial estimates, the Company accelerates the amortization of the cost | Noncurrent |
| IP Block | Indefinite | No amortization | Annually and more frequently when an indication of impairment exists. Impairment loss is also recognized if the carrying value exceeds the asset's recoverable amount. | Noncurrent |

<u>Investment Properties</u>
Investment properties, except land, are measured at cost, including transaction costs, less accumulated depreciation and any impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred if the recognition criteria are met, and excludes day-to-day servicing of an investment property. Land is stated at cost, less any impairment in value.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under "Property and equipment" account up to the date of change in use.

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 statement of income in the year of retirement or disposal.

Investments in Associates
The Company’s investments in associates are accounted for under the equity method of accounting. An associate is an entity over which the Company has significant influence or the power to participate in the financial and operating policy decisions of the investee, but has no control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

Under the equity method, investment in associates is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Company’s share in net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not tested for impairment. The consolidated statement of income reflects the Company’s share on the financial performance of an associate. When the Company’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share in any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the associates and the Company are identical and the associates’ accounting policies conform to those used by the Company for like transactions and events in similar circumstances. Unrealized intercompany profits arising from the transactions with the associate are eliminated to the extent of the interest in the associate.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

Investments in 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 joint control are similar to those necessary to determine control over subsidiaries.

The Company’s investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Company’s share in net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment. The consolidated statement of income reflects the Company’s share of the results of operations of the joint venture. Any change in the OCI of the joint venture is presented as part of the Company’s OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Company 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 Company and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Company’s share in profit or loss of a joint venture is shown in the face of the consolidated statement of income outside operating profit and represents share in income or loss after tax and noncontrolling interests in the subsidiaries of the joint venture.

The reporting dates of the joint venture and the Company and the joint venture's accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

Upon loss of joint control over the joint venture, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the former joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income. When the remaining investment in a joint venture constitutes significant influence, it is accounted for as an investment in an associate.

<u>Tax Credits</u>
Tax credits from government airtime sales availed under Presidential Decree (PD) No. 1362 are recognized in the books upon actual airing of government commercials and advertisements. These are included under "Other noncurrent assets" account in the consolidated statement of financial position.

<u>Impairment of Nonfinancial Assets</u>
The Company assesses at each financial reporting date whether there is an indication that property and equipment, investment properties, program rights and other intangible assets with finite lives, investments in associates and joint ventures and tax credits may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit'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. Where the carrying amount of an asset exceeds its recoverable amount, the asset 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. Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each financial 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. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation and amortization are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The following criteria are also applied in assessing impairment of specific nonfinancial assets:

*Intangible Assets with Indefinite Life*. Goodwill, cable channels, trademark, licenses and IP block are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill, cable channels, trademarks, licenses and IP block by assessing the recoverable amount of the cash-generating units, to which the goodwill, cable channels, trademarks, licenses and IP block relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which the goodwill, cable channels, trademarks, licenses and IP block has been allocated, an impairment loss is recognized in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Company performs its annual impairment test of goodwill, cable channels, trademarks, licenses and IP block as at December 31 of each year.

*Investments in Associates and Joint Ventures*. After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investments in the associates and joint ventures. The Company determines at each financial reporting date whether there is any objective evidence that the investments in associates and joint ventures are impaired. If this is the case, the Company calculates the amount of impairment as being the difference between the recoverable amount of an investment in associate and joint ventures and the carrying value and recognizes the loss as "Equity in net earnings (losses) of associates and joint ventures" in the consolidated statement of income.

Customers' Deposits

Customers' deposits, included as part of "Other noncurrent liabilities" account in the consolidated statement of financial position, are initially recognized at fair value. The discount is recognized as deferred credits and amortized over the estimated remaining term of the deposits using the effective interest method. The current portion, if any, is included as part of "Trade and other payables" account in the consolidated statement of financial position.

Paid-in Capital

The Company has issued par value capital stock that is classified as equity. Incremental costs directly attributable to the issuance of new capital stock are shown in equity as a deduction, net of tax, from the proceeds.

When the Company issues its par value shares, the proceeds shall be credited to the "Capital stock" account in the consolidated statement of financial position to the extent of the par value, with any excess being reflected as "Additional paid-in capital" in the consolidated statement of financial position.

Where the Company purchases its capital stock and PDRs issued by ABS-CBN Holdings that are convertible to Parent Company common shares (recorded as "Treasury shares and PDRs convertible to common shares" account in the consolidated statement of financial position), the consideration paid, including any directly attributable incremental costs (net of applicable taxes) is deducted from equity attributable to the equity holders of the Parent Company until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the equity holders of the Parent Company.

Share-based Payment Transactions

Employees (including directors) of the Company receive remuneration in the form of share-based payment transactions from Lopez Holdings Corporation (Lopez Holdings), a commonly-controlled entity, whereby employees render services as consideration for equity instruments (equity-settled transactions). Selected key employees of the Company, also receive remuneration in the form of share-based payment transactions from the Parent Company, whereby the Company incurs a liability to pay cash (cash-settled transactions) to the employees in consideration for their services rendered.

*Equity-settled Transactions.* The cost of equity-settled transactions received from Lopez Holdings is measured by reference to the fair value of the stock options at the date the option is granted. The fair value is determined using the Black-Scholes-Merton Option Pricing Model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Lopez Holdings (“market conditions”) and non-vesting conditions, if applicable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in “Share-based payment plan” account in equity, over the period in which the performance and/or service conditions are fulfilled.

The cumulative expense recognized for equity-settled transactions at each financial reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest at that date. The current income or expense charges in “Personnel expenses”, under “General and administrative expenses” account in the consolidated statement of income, represents the movement in cumulative expense recognized as at financial reporting date.

No expense is recognized for awards that do not ultimately vest.

When the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled with payment, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. There is no reversal of cost already charged after vesting of the equity-settled transactions, only transfers between components of equity.

*Cash-settled Transactions.* The cost of liability from the cash-settled transactions for notional shares allocated to selected key employees is measured by reference to the market price of the Parent Company’s share as at financial reporting date. At each financial reporting date between the grant date and settlement, the liability recognized is the fair value of the award at that date multiplied by the expired portion of the vesting period. All changes in the liability are recognized in profit or loss for the period.

Retained Earnings

Retained earnings includes profit attributable to the equity holders of the Parent Company and reduced by dividends on capital stock.

Retained earnings may also include effect of changes in accounting policy as may be required by the standard’s transitional provisions.

Dividends on Common and Preferred Shares of the Parent Company

Dividends on common and preferred shares are recognized as liability and deducted from equity when approved by the BOD of the Parent Company. Dividends for the year that are approved after the financial reporting date are dealt with as an event after financial reporting date.

Revenue

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Advertising revenue is recognized as income on the dates the advertisements are aired, net of agency commissions and incentives. The Parent Company uses the cost per individual rating point (CPIRP) pricing scheme. The scheme provides that the advertising spots sold will be computed using a multiplier based on the actual rating point of the spot aired as provided by a third party measurement company. The fair values of barter transactions from advertising time exchanged for program materials, merchandise or service are included in advertising revenue and the related accounts.

Industry rules allow ABS-CBN to sell up to 18 minutes of commercial spots per hour of television programming. These spots are sold mainly through advertising agencies which act as the buying agents of advertisers, and to a lesser extent, directly to advertisers. Agency commissions are recognized at a standard rate of 15%.

Incentives, which include volume discounts for large quantities of telecast order, are recognized upon airing.

Payments received before broadcast (pay before broadcast) represent customer deposits, which are realized upon airing of related advertisements. These are included in the consolidated statement of financial position as part of “Deferred revenue” under “Trade and other payables” account for the current portion.

Sale of services comprise of the following:

a. Subscription fees are recognized as follows:

    *DTH and Internet Protocol Television Subscribers and Cable Operators.* Subscription fees are recognized under the accrual basis in accordance with the terms of the agreements.

    *Share in DirecTV Subscription Revenue.* Subscription revenue from subscribers of DirecTV who subscribe to the “The Filipino Channel” is recognized under the accrual basis in accordance with the Deal Memorandum as discussed in Note 31.

    *Subscription Revenue from TFC.tv (formerly TFC Now).* Payment from online streaming services of Filipino-oriented content and programming received in advance is deferred (included as “Deferred revenue” under “Trade and other payables” account in the consolidated statement of financial position) and recognized as revenue on a straight-line basis over the period during which the service is performed.

    *Cable Subscribers.* Subscription fees are recognized under the accrual basis in accordance with the terms of the agreements. Subscription fees billed and collected in advance are deferred and shown as “Deferred revenue” under “Trade and other payables” account in the consolidated statement of financial position and recognized as revenue when service is rendered.

    Income and related costs pertaining to installation of decoders and set-top boxes which has no standalone value without the subscription revenue are aggregated and recognized ratably over the longer of subscription contract term or the estimated customer service life. These are included in the consolidated statement of financial position as part of “Deferred revenue” account under

"Trade and other payables" and as part of "Deferred charges" under "Other noncurrent assets", respectively.

b. Telecommunications revenue is stated at amounts invoiced and accrued to customers, taking into consideration the bill cycle cut-off (for postpaid subscribers), the amount charged against preloaded airtime value (for prepaid subscribers), switch-monitored traffic (for carriers and content providers) and excludes value-added tax (VAT) and overseas communication tax. Inbound traffic charges, net of discounts, are accrued based on actual volume of traffic monitored by the Company.

   Postpaid service arrangements include fixed monthly service fees, which are recognized over the subscription period on a a straight-line basis. Monthly service fees are recognized as revenues during the period when earned. Telecommunications services provided to postpaid subscribers are billed throughout the month according to the bill cycles of subscribers. As a result of bill cycle cutoff, monthly service revenues earned but not yet billed at the end of the month are estimated and accrued.

   Proceeds from over-the-air reloading is deferred and shown as part of "Deferred revenue" account under "Trade and other payables" in the consolidated statement of financial position. Revenue is recognized upon actual usage of airtime value, net of discounts. Unused load value is recognized as revenue upon expiration.

   Interconnection revenue for all call termination and network usages are recognized in the year the traffic occurs. Revenue related to local, long distance, network-to network, roaming and international call connection services are recognized when the call is placed or connection is provided and the equivalent amounts charged to the Company by other carriers are recorded as "Interconnection costs" under the "Cost of sales and services" account in the consolidated statement of income. Inbound revenue and outbound charges are based on agreed transit and termination rates with other foreign and local carriers and content providers.

c. Channel lease revenue is recognized as income on a straight-line basis over the lease term.

d. Income from film exhibition is recognized, net of theater shares, on the dates the films are shown.

e. Income from TV rights and cable rights are recognized on the dates the films are permitted to be publicly shown as stipulated in the agreement.

f. Pay-per-view fees are recognized on the date the movies or special programs are viewed.

g. Short-messaging-system/text-based revenue, sale of news materials and Company-produced programs are recognized upon delivery.

h. Royalty income is recognized upon rendering of service based on the terms of the agreement and is reduced to the extent of the share of the composers or co-publishers of the songs produced for original sound recording. It also includes income from Parent Company's share in fees from endorsements and other external services of its talents equivalent to 10% of gross receipts.

i. Admission revenue is recognized when tickets are used or expired.

Sale of goods is recognized when delivery has taken place and transfer of risks and rewards has been completed. These are stated net of sales discounts, returns and allowances.

Other revenues include revenue from gate receipts and studio tours. Revenue is recognized when earned and when services are rendered.

Interest income is recognized on a time proportion basis that reflects the effective yield on the asset.

Other Income
Other income is recognized when the services are rendered or goods are delivered:

a. Rental income is recognized as income on a straight-line basis over the lease term.

b. Dividends are recognized when the shareholders' right to receive payment is established.

c. Management fees are recognized based on the terms of the management agreement.

Cost and Expense Recognition
Cost 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 decrease in equity, other than those relating to distribution to equity participant. Cost and expenses other than those with specific policies are recognized in the consolidated statement of income in the year these are incurred.

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 and the arrangement conveys a right to use the asset.

*Company as a Lessee.* Finance leases, which transfer to the Company 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 the consolidated statement of income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

*Company as a Lessor.* Leases where the Company 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.

Provisions
Provisions are recognized when the Company 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows 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.

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

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.

Pension Costs and Other Employee Benefits
The Company's pension plans are funded (Parent Company, Sky Cable and PCC) and unfunded (other subsidiaries) defined benefit pension plans, except for ABS-CBN International, which has a defined contribution pension plan. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method.

*Defined Benefit Pension 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.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit obligation or asset
- Remeasurements of net defined benefit obligation or asset

Service costs which include current service costs, past service costs and gains or losses on nonroutine settlements are recognized as part of costs and expenses in the consolidated statement of 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 obligation or asset is the change during the period in the net defined benefit obligation 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 obligation or asset is recognized under costs and expenses in the consolidated statement of income.

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 obligation) are recognized immediately in OCI in the period in which they arise and subsequently transferred to retained earnings. 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. 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).

If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company'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 Pension Plans*. For ABS-CBN International, the defined contribution pension plan is composed of the contribution of ABS-CBN International or employee (or both) to the employee's individual account. These contributions generally are invested on behalf of the employee through American Funds. Employees ultimately receive the balance in their account, which is based on contributions plus or minus investment gains or losses. The value of each account will fluctuate due to changes in the value of investments.

The amount of the Company's contribution to the defined contribution pension plan is recognized as expense in the period incurred.

*Termination Benefit.* Termination benefits are employee benefits provided in exchange for the termination of an employee's employment before the normal retirement date as a result of either an entity's decision or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

*Employee Leave Entitlement*. Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. Liability for leaves expected to be settled beyond 12 months are recognized as part of the noncurrent portion of other employee benefits liability and measured at the present value of the benefit as at financial reporting date.

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 tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at financial reporting date.

Current tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

*Deferred Tax.* Deferred tax is provided, using the liability method, on all temporary differences at 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, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT over RCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries and associates. With respect to investments in other subsidiaries and associates, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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 income tax assets to be utilized. Unrecognized deferred tax assets are measured at each financial reporting date and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax to be recovered.

Deferred tax assets and 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 substantively enacted as at financial reporting date.

Deferred tax relating to items recognized outside profit and loss is recognized in correlation to the underlying transaction either in OCI or directly in equity and not in the consolidated statement of income.

Deferred tax assets and 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 tax authority.

*VAT.* Revenue, expenses and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Earnings Per Share (EPS) attributable to the Equity Holders of the Parent Company
Basic EPS amounts are calculated by dividing the net income (less preferred shares, if any) attributable to equity holders of the Parent Company for the year over the weighted average number of common shares outstanding (net of treasury shares and PDRs) during the year, with retroactive adjustments for any stock dividends and stock split.

Diluted EPS amounts are computed in the same manner, adjusted for the dilutive effect of any potential common shares. As the Company has no dilutive potential common shares outstanding, basic and diluted EPS are stated at the same amount.

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

Events after Financial Reporting Date
Any event after financial reporting date that provides additional information about the Company's financial position at financial reporting date (adjusting events) are reflected in the consolidated financial statements. Events after financial reporting date that are not adjusting events are disclosed in the notes to consolidated financial statements, when material.

Segment Reporting
In 2017, the Company changed the structure of its internal organization resulting to a change in the composition of its reportable segments. Accordingly, the prior period segment information has been restated to reflect the change.

For management purposes, the Company's operating businesses are organized and managed separately into four (4) business activities. Such business segments are the bases upon which the Company reports its operating segment information. The Company operates in three (3) geographical areas where it derives its revenue. Financial information on segment reporting is presented in Note 5.

Future Changes in Accounting Policies
The standards, amendments and interpretations that are issued, but not yet effective as at December 31, 2017 are disclosed in the following section. The Company intends to adopt these standards, if applicable, when these become effective. Except as otherwise stated, the Company does not expect the adoption of the applicable new and amended PFRSs to have a significant impact on the consolidated financial statements.

*Effective beginning on or after January 1, 2018*

- 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.

The Company is currently assessing the potential effect of the amendments on its consolidated financial statements.

- 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 new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

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

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Company is currently assessing the impact of adopting this standard.

- PFRS 15, *Revenue from Contracts with Customers*

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

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

  The Company is currently assessing the impact of adopting this standard.

- 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.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- 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 non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

  Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

*Effective beginning on or after January 1, 2019*

- 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.

- 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 Company 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.

The Company is currently assessing the impact of adopting this interpretation.

*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 deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

## 3. Management's Use of Judgments, Estimates and Assumptions

The Company's consolidated financial statements prepared under PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Judgments</u>
In the process of applying the Company'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 Functional Currency.* The Parent Company and all other subsidiaries and associates, except for foreign subsidiaries, have determined that their functional currency is the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Parent Company and all other subsidiaries and associates, except for foreign subsidiaries, operate. The Philippine peso is also the currency that mainly influences the sale of goods and services as well as the costs of selling such goods and providing such services.

Each foreign subsidiary determines its functional currency (i.e., USD, GBP, JPY, AUD, CAD, EUR or SGD). Thus, the accounts of foreign subsidiaries were translated to Philippine peso for purposes of consolidation to the ABS-CBN Group's accounts.

*Revenue Recognition.* The Company assesses its revenue arrangements from its telecommunications business against specific criteria to determine if it is acting as principal or agent. The following criteria indicate whether the Company is acting as a principal or an agent:

- the Company has the primary responsibility for providing services to the customer;
- the Company has latitude in establishing price, either directly or indirectly, for example by providing additional services;
- the Company bears the customer's credit risk for the amount receivable from the customer; and,
- the Company has inventory risk before or after the customer order, during shipping or on return.

The Company has concluded that it is acting as a principal in its revenue arrangements. Revenue is stated at gross amount including the share of the other telecommunications carriers.

*Leases.* The evaluation of whether an arrangement contains a lease is based on its substance. An arrangement is, or contains, a lease when the fulfillment of the arrangement depends on a specific asset or assets and the arrangement conveys the right to use the asset.

The Company has entered into lease arrangements as a lessor and as a lessee. Such contracts are accounted for as operating leases when the Company, as a lessee, has determined that the lessor retains substantial risks and benefits of ownership of these properties, and as a lessor, the Company retains substantially all the risks and benefits incidental to ownership of the assets.

The Company has also entered into lease agreements covering certain property and equipment. Such contracts are accounted for as finance leases when the Company, as a lessee, has determined that it bears substantially all the risks and benefits incidental to ownership of said asset and as a lessor, it does not retain all the significant risks and rewards of ownership of the leased assets.

Bayan Telecommunications, Inc. (Bayantel) has entered into an agreement with Sky Cable for the grant of Indefeasible Right of Use (IRU) in certain capacities in the network. The arrangement is assessed as a transaction which contains a lease on the basis that fulfilment of the arrangement is dependent on the use of a specific asset or assets and arrangement conveys a right to use the asset. Sky Cable has accounted for the arrangement as a finance lease on the basis that the lease term is for the major part of the economic life of the asset of 25 years. The IRU was included as part of "Other equipment" account (see Note 10).

In 2016, Sky Cable granted a Right to Use (RTU) over its IRU at 5G Inter-island Domestic Capacity to IPS, Inc. in the National Digital Transmission Network. Sky Cable has accounted for the arrangement as a finance lease on the basis of the present value of the minimum lease payments substantially amounting to the fair value of the leased asset.

The carrying amount of property and equipment under finance lease amounted to ₱348 million and ₱356 million as at December 31, 2017 and 2016, respectively (see Notes 10 and 31).

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation 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.

*Allowance for Doubtful Accounts.* The Company reviews its loans and receivables, including unbilled receivables, at each financial reporting date to assess whether an allowance for impairment should be recorded in the consolidated statement of income. 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 in the allowance.

The Company evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Company uses judgment, based on available facts and circumstances, and a review of the factors that affect the collectability of the accounts including, but not limited to, the age and status of the receivables, collection experience and past loss experience. The review is made by management on a continuing basis to identify accounts to be provided with allowance. These specific reserves are re-evaluated and adjusted as additional information received affects the amount estimated. In addition to specific allowance against individually significant receivables, the Company 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 historical default experience, current economic trends, changes in customer payment terms and other factors that may affect the Company's ability to collect payments. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for doubtful accounts would increase the recorded operating expenses and decrease current assets.

Provision for doubtful accounts amounted to ₱498 million, ₱572 million and ₱365 million in 2017, 2016 and 2015, respectively (see Notes 7 and 27). Trade and other receivables, net of allowance for doubtful accounts, amounted to ₱10.6 billion and ₱10.2 billion as at December 31, 2017 and 2016, respectively. Allowance for doubtful accounts amounted to ₱1.9 billion and ₱1.8 billion as at December 31, 2017 and 2016, respectively (see Note 7).

*Estimated Useful Lives of Property and Equipment, Investment Properties and Intangible Assets.* The useful life of each item of the Company's property and equipment, investment properties and intangible assets with finite life is estimated based on the period over which the asset is expected to be available for use. Estimation for property and equipment and investment properties is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets while for intangible assets with finite life, estimated life is based on the life of agreement covering such intangibles or based on expected future benefits. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of these assets. However, it is possible that future financial performance could be materially affected by changes in the estimates brought about by changes in the aforementioned factors. The amounts and timing of recording the depreciation and amortization for any year, with regard to the property and equipment, investment properties and intangible assets would be affected by changes in these factors and circumstances. A reduction in the estimated useful life of any of the property and equipment, investment properties or intangible assets would increase the recorded expenses and decrease noncurrent assets.

Except for the changes made in 2016 on the estimated useful life of program rights in perpetuity from 10 to 15 years as discussed in the succeeding section, there were no changes in the estimated useful lives of property and equipment, other intangible assets and investment properties in 2017 and 2016.

The carrying values of property and equipment, investment properties and intangible assets with finite life are as follows (see Notes 10, 11 and 12):

| | **2017** | 2016 |
|---|---|---|
| Property and equipment | **₱19,558,658** | ₱18,659,835 |
| Program rights | **4,514,725** | 4,233,293 |
| Movie in-process and filmed entertainment | **1,003,400** | 850,462 |
| Customer relationships | **511,214** | 400,108 |
| Story, video and publication and record master | **128,922** | 14,713 |
| Digital platforms and IP block | **60,105** | 22,160 |
| Production and distribution business - Middle East | **57,247** | 63,192 |
| Investment properties | **37,091** | 30,554 |
| License - franchise | **28,924** | 33,441 |
| Music rights | **3,356** | 128,618 |

*Amortization of Program Rights*. The Company reviews its program rights inventory and plans for its usage across different platforms to maximize its benefits. The Company amortizes program rights based on usage or specific term.

Effective January 1, 2016, in view of the change in the expected pattern of economic benefits from the assets, the Company revised the amortization policy for program rights. For fixed-term programs, the new policy provides that amortization for fixed-term programs will start and end based on the license term per contract in contrast with the old policy which is dependent both on the license term per contract and/or on the first year of airing. For rights in perpetuity, amortization will commence at the beginning of the term as indicated in the contract and shall run over a period of 15 years in contrast with the old policy to amortize rights in perpetuity after 5 years from acquisition date and/or from first year of airing, whichever comes first (equally over the next 10 years).

The change in estimate of the Company resulted to an increase in amortization expense of ₱17 million in 2016. The change is also expected to result in increase in future monthly amortization expenses of about ₱4 million.

Program rights amounted to ₱4.5 billion and ₱4.2 billion as at December 31, 2017 and 2016, respectively (see Note 12).

*Impairment of Nonfinancial Assets.* The Company assesses impairment on nonfinancial assets (enumerated in the following table) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant under-performance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Except for the impairment loss amounting to ₱3 million recognized in 2016 on the Company's investment in Daum Kakao, the Company did not note any other impairment indicators in 2017 and 2016. The carrying values of nonfinancial assets as at December 31, 2017 and 2016 are as follows (see Notes 9, 10, 11, 12, 14 and 15):

| | **2017** | 2016 |
|---|---|---|
| Property and equipment | **₱25,700,997** | ₱24,509,980 |
| Program rights | **4,514,725** | 4,233,293 |
| Tax credits with tax credit certificates (TCCs) - net of allowance for impairment | **1,149,321** | 1,518,946 |
| Movie in-process and filmed entertainment | **1,003,400** | 850,462 |
| Investments in associates and joint venture | **524,953** | 530,005 |
| Customer relationships | **511,214** | 400,108 |
| Preproduction expenses | **425,308** | 328,370 |
| Investment properties | **200,740** | 202,114 |
| Story, video and publication and record master | **128,922** | 14,713 |
| Digital platforms and IP block | **60,105** | 22,160 |
| Production and distribution business - Middle East | **57,247** | 63,192 |
| License - franchise | **28,924** | 33,441 |
| Music rights | **3,356** | 128,618 |

*Recoverability of Goodwill, Cable Channels, Trademarks, Licenses and IP Block.* The Company performs recoverability testing annually or more frequently when there are indications of impairment for goodwill and intangible assets with indefinite lives. The Company has identified that cable channels of CPI, trademarks, licenses and IP block have indefinite lives. Recoverability testing requires an estimation of the value-in-use of the cash-generating units to which goodwill, cable channels, trademarks, licenses and IP block to operate wireless business are allocated. Goodwill acquired through business combination has been allocated to one cash-generating unit which is also the operating entity acquired through business combination and to which the goodwill relates. Estimating the recoverable amount of the cash-generating unit involves significant assumptions about the future results of the business such as revenue growth and gross margins in its cable subscription, advertising, broadband and mobile businesses, and discount rates which were applied to cash flow forecasts. The cash flow forecasts were based on financial budgets approved by senior management of the subsidiaries covering a five-year period.

The impairment on goodwill, cable channels, trademarks, licenses and IP block is determined by comparing: (a) the carrying amount of the cash-generating unit; and (b) the present value of the annual projected cash flows for five years and the present value of the terminal value computed under the discounted cash flow method.

The key assumptions used in the impairment test of goodwill, cable channels, trademarks and licenses are as follows:

a. Gross Revenue

   On the average, gross revenue of the subsidiaries over the next five years were projected to grow in line with the economy or with nominal Gross Domestic Product. This assumes that the market share of the subsidiaries in their respective industries will be flat on the assumption that the industries also grow at par with the economy. Historically, advertising spending growth had a direct correlation with economic growth. A 1-4% perpetuity growth rate was assumed at the end of the five-year forecast period.

b. Operating Expenses

On the average, operating expenses were projected to increase at a single-digit growth rate and at a slower pace than revenue.

c. Gross Margins

Increased efficiencies over the next five years are expected to result in margin improvements.

d. Discount Rate

The discount rate used to arrive at the present value of future cash flows was the Company's Weighted Average Cost of Capital (WACC). WACC was based on the appropriate weights of debt and equity, which were multiplied with the assumed costs of debt and equity. The discount rates applied to the cash flow projections range from 8.3% to 10.7% in 2017 and from 7.06% to 12.00% in 2016.

The carrying values of goodwill and intangible assets with indefinite useful lives as at December 31, 2017 and 2016 are as follows (see Note 12):

| | **2017** | 2016 |
|---|---|---|
| Goodwill | **₱5,473,725** | ₱5,314,677 |
| Trademarks | **1,111,784** | 1,111,784 |
| License - wireless business | **965,049** | 965,049 |
| Cable channels - CPI | **459,968** | 459,968 |
| IP block | **29,491** | – |

*Present Value of Pension Obligation and Other Employee Benefits.* The cost of defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions such as discount rates and future salary increases, among others. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each financial reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 30.

Employee leave entitlements that is expected to be settled within one year from reporting date is classified as a current liability in the consolidated statement of financial position. Otherwise, this is classified as part of the noncurrent portion of other employee benefits liability. Accrued pension obligation and other employee benefits of the Company amounted to ₱6.1 billion and ₱5.7 billion as at December 31, 2017 and 2016, respectively (see Note 30).

*Recoverability of Deferred Tax Assets.* Management's assessment of the deferred tax assets to be recognized involves significant judgments and is based on assumptions regarding the entities' current performance, future plans for the business and tax planning strategies. Management exercised judgement on the financial forecast used in determining the forecasted taxable income of the entities, including the timing of reversal of future taxable and deductible temporary differences.

As at December 31, 2017 and 2016, the Company recognized deferred tax assets amounting to ₱2,653 million and ₱2,499 million, respectively. From this amount, ₱369 million and ₱502 million as at December 31, 2017 and 2016, respectively, relates to significant subsidiaries that incurred net losses and/or are in a capital deficiency position. Management has determined that there is sufficient taxable profit against which these recognized deferred tax assets will be realized. The Company did not recognize deferred tax assets from certain subsidiaries amounting to ₱1,135 million and ₱715 million as at December 31, 2017 and 2016, respectively, as management believes that sufficient future taxable profit will not be available to allow these deferred tax assets to be utilized (see Note 29).

*Provisions and Contingencies.* The Company is currently involved in various legal proceedings and periodic examinations by tax authorities, which may result in taxation issues due to different interpretation and implementation of the relevant laws and regulations. Significant estimates and judgment are made by management regarding the outcome of these legal proceedings and tax examinations. The Company's estimate of the costs of the resolution of these claims has been developed in consultation with their external legal counsels and considering the correspondences with relevant tax authorities and any relevant historical and recent judgments issued by the court or tax authorities. Any change on these assumptions and the estimates may have a material impact on the Company's consolidated financial statements (see Note 36).

## 4. Significant Business Combinations, Acquisitions, Re-organization and Disposals

a. Acquisition of additional Sky Vision shares

   In December 2015, the Parent Company entered into a Deed of Assignment with Lopez Holdings whereby the latter assigned all its rights, including all deposits made, under a Share Option Agreement (the Agreement) covering the purchase of 504,980,707 common shares of Sky Vision from Lopez Inc. The consideration for the assignment of rights amounted to ₱350 million. Thereafter, the Parent Company entered into agreements with Lopez Inc. for the reduction of the purchase price and the acquisition of the subject common shares via application of the deposit. The Parent Company's economic interest in Sky Vision increased from 24.8% in 2014 to 75% in 2015 as a result of the acquisition of the shares of stock. The Parent Company's economic interest in Sky Cable also increased from 57.4% in 2014 to 59.4% in 2015. The impact of the transaction, which is deemed a purchase of noncontrolling interest in a subsidiary, is recorded in equity amounting to ₱217 million in 2015.

b. Merger of ABS-CBN, Studio 23, ABS-CBN Interactive and ABS-CBN Multimedia

   On March 5, 2015, the BOD approved the Plan of Merger of ABS-CBN, ABS-CBN Interactive, ABS-CBN Multimedia, Sarimanok News Network, Inc., Sapientis and Studio 23, with the Parent Company as the surviving corporation. On April 30, 2015, the Parent Company, Studio 23, ABS-CBN Interactive and ABS-CBN Multimedia filed an application for merger with the SEC, which the latter approved on December 29, 2015 to be effective January 1, 2016.

c. Sky Cable's Acquisition of Inter-Island Information System, Inc.'s Internet and Value-added Services Business and Assets

   On March 6, 2017, Sky Cable entered into an Asset Purchase Agreement (APA) with Inter-Island Information System, Inc. (Tri-Isys) to acquire the internet and value-added services business of Tri-Isys with the acquisition of the its assets, equipment, material contracts and subscription contracts. The consideration as provided for in the APA is ₱350 million, including the assumption of certain liabilities of the Tri-Isys as provided for in the APA.

The provisional fair value of the identifiable net assets of Tri-Isys as at date of acquisition is as follows:

| | Amount |
|---|---|
| Trade receivables | ₱4,730 |
| Property and equipment (see Note 10) | 24,539 |
| Intangible assets (see Note 12) | 163,406 |
| Deferred input VAT | 8,415 |
| Other current assets | 2,133 |
| Customer deposits | (10,726) |
| Deferred output VAT | (507) |
| Net assets acquired | 191,990 |
| Goodwill arising on acquisition (see Note 16) | 158,010 |
| Total consideration | ₱350,000 |

The purchase price allocation has been determined provisionally pending completion of an independent valuation and as such, is still subject to change. The Company recognized the entire excess of the consideration paid over the provisional values of Tri-Isys' identifiable assets and liabilities as goodwill.

Goodwill arising from the acquisition comprise the expectation of future growth in earnings and taking advantage of business synergies that cannot be recognized separately as identifiable intangible assets at the date of acquisition.

None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value and gross amount of trade and other receivables amounted to ₱5 million. If the combination had taken place at the beginning of 2017, the Company's consolidated net income and revenue would have been ₱9,166 million and ₱133 million, respectively, for the year ended December 31, 2017.

d. Subscription agreement between Sky Cable, Sky Vision, Sampaquita Communications PTE LTD (Sampaquita) and the Parent Company

On December 18, 2017, Sky Cable, Sky Vision, Sampaquita and the Parent Company entered into a subscription agreement with the following salient provisions:

- The Parent Company agreed to subscribe to 162,373,928 PDRs for ₱9.6853 per PDR from Sky Vision.
- Sky Cable agreed to offer 314,910,225 shares to its shareholders from an increase in capital stock. Sky Vision agreed to subscribe to 288,338,018 offered shares and the Parent Company agreed to subscribe to 26,572,207 offered shares for ₱9.6853 per share.

The Parent Company and Sampaquita agreed that the following aggregate economic interests shall be maintained:

- ABS-CBN, Lopez Holdings Corporation, Lopez, Inc. and Sky Vision shall have an aggregate economic interest of at least 59.4% of the total issued share capital of Sky Cable on a fully diluted basis; and

- Sampaquita shall have an aggregate economic interest of 40% of the total issued share capital of Sky Cable on a fully diluted basis.

On December 19, 2017, the Parent Company and Sky Vision paid Sky Cable their respective subscription for shares. The Parent Company and Sampaquita also paid Sky Vision their subscription for PDRs. The payment of Sampaquita of ₱1.2 billion is recorded under "Deposit for future subscription" under "Trade and Other Payables" account in the 2017 consolidated statement of financial position (see Note 17). On January 24, 2018, the increase in capital stock of Sky Cable was approved by the SEC. As at February 22, 2018, the PDR instruments remain unissued.

## 5. Segment Information

Segment information is prepared on the following bases:

Business Segments

For management purposes, the Company is organized into four business activities – Media, Network and Studio Entertainment, Cable, Satellite and Broadband, Digital and Interactive Media, and Consumer Products and Live Experience. This segmentation is the basis upon which the Company reports its primary segment information.

- Media, network and studio entertainment comprise broadcast, news and current affairs, digital terrestrial TV, global operations, film and music production, cable channels and publishing. This consists of local and global content creation and distribution through television and radio broadcasting.

- Cable, satellite and broadband includes cable television services of Sky Cable and its subsidiaries in Metro Manila and in certain provincial areas in the Philippines.

- Digital and interactive media comprise of content distribution through digital platforms and wireless telecommunications business.

- Consumer products and live experience comprise of retail and licensing, theme parks and live events and concerts.

Geographical Segments

The Company operates in three major geographical areas namely, the Philippines, United States and Other Countries. In the Philippines, its home country, the Company is involved in TV and studio entertainment, pay TV networks and new businesses. In the United States and in other locations (which include Middle East, Europe, Australia, Canada and Japan), the Company operates its cable and satellite operations to bring television programming outside the Philippines.

The Company does not have revenue from transactions with a single external customer amounting to 10% or more of the Company's revenues.

Inter-segment Transactions

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

The Executive Committee, the Company's chief operating decision maker, 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 operating profit and loss in the consolidated financial statements.

On a consolidated basis, the Company's performance is evaluated based on consolidated net income for the year, earnings before interest, taxes and depreciation and amortization (EBITDA) and EBITDA margin. EBITDA margin pertains to EBITDA divided by gross revenues.

EBITDA and EBITDA margin are non-PFRSs measures.

The following table shows the reconciliation of the consolidated EBITDA to consolidated net income:

| | **Years Ended December 31** | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Consolidated EBITDA | **₱9,625,717** | ₱9,852,538 | ₱7,939,954 |
| Depreciation and amortization | **(3,666,140)** | (3,401,610) | (3,072,492) |
| Provision for income tax | **(772,458)** | (1,155,555) | (784,242) |
| Amortization of intangible assets** | **(1,218,481)** | (972,662) | (910,206) |
| Finance costs* | **(971,849)** | (1,018,377) | (797,150) |
| Interest income | **166,788** | 220,982 | 169,270 |
| Consolidated net income | **₱3,163,577** | ₱3,525,316 | ₱2,545,134 |

**Excluding bank service charges*

***Excluding amortization of movie in-process and filmed entertainment and story, video and publication and record master*

Business Segment Data

The following tables present revenue and income information and certain asset and liability information regarding business segments for each of the three years in the period ended December 31:

| | Media, Network and Studio Entertainment | | | Cable, Satellite and Broadband | | | Digital and Interactive Media | | | Consumer Products and Live Experience | | | Eliminations | | | Consolidated | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| **Revenue** | | | | | | | | | | | | | | | | | | |
| External sales | ₱29,622,184 | ₱31,033,826 | ₱28,695,244 | ₱9,123,752 | ₱8,749,167 | ₱8,083,253 | ₱1,075,687 | ₱777,269 | ₱707,333 | ₱1,725,062 | ₱1,703,523 | ₱1,328,966 | ₱– | ₱– | ₱– | ₱41,546,685 | ₱42,263,785 | ₱38,814,796 |
| Inter-segment sales | 4,540,561 | 4,656,719 | 3,337,403 | – | 11,692 | – | 3,874 | 16,985 | | 30,521 | 14,589 | 55,806 | (4,574,956) | (4,699,985) | (3,393,209) | – | – | – |
| Revenue deductions | (706,225) | (597,009) | (524,401) | – | – | – | (107,539) | (40,690) | (24,275) | (46,278) | (25,487) | (18,435) | 11,601 | 30,000 | 30,430 | (848,441) | (633,186) | (536,681) |
| Total revenue | ₱33,456,520 | ₱35,093,536 | ₱31,508,246 | ₱9,123,752 | ₱8,760,859 | ₱8,083,253 | ₱972,022 | ₱753,564 | ₱683,058 | 1,709,305 | ₱1,692,625 | ₱1,366,337 | (₱4,563,355) | (₱4,669,985) | (₱3,362,779) | ₱40,698,244 | ₱41,630,599 | ₱38,278,115 |
| **Results** | | | | | | | | | | | | | | | | | | |
| Operating results | ₱4,439,604 | ₱5,847,949 | ₱3,831,941 | ₱154,095 | ₱218,966 | ₱185,672 | (₱620,378) | (₱1,177,545) | (₱1,107,282) | (₱114,183) | ₱7,544 | ₱78,048 | ₱110,544 | ₱43,573 | ₱603,978 | ₱3,969,682 | ₱4,940,487 | ₱3,592,357 |
| Finance costs | (933,627) | (886,696) | (695,497) | (261,504) | (324,254) | (233,906) | (261) | (317) | (368) | (46,310) | (7,123) | (2,887) | 233,786 | 182,004 | 120,871 | (1,007,916) | (1,036,386) | (811,787) |
| Foreign exchange gains (losses) - net | 46,929 | 144,574 | (115,295) | 8,024 | (25,750) | 55,912 | 2,083 | (3,562) | (2,983) | 8 | (1,656) | (3,009) | (15,850) | (24,543) | 189,256 | 41,194 | 89,063 | 123,881 |
| Interest income | 240,664 | 315,613 | 261,515 | 6,306 | 4,629 | 11,831 | 1,329 | 61 | 51 | 2,020 | 2,050 | 2,894 | (83,531) | (101,371) | (107,021) | 166,788 | 220,982 | 169,270 |
| Equity in net earnings (losses) of associates and joint ventures | (5,052) | (1,055) | (1,141) | – | – | – | – | – | – | – | – | – | – | – | – | (5,052) | (1,055) | (1,141) |
| Other income - net | 934,134 | 893,877 | 829,493 | 240,968 | 175,380 | 14,066 | 7,690 | 30,464 | 37,470 | 10,138 | 5,740 | 7,559 | (421,591) | (637,681) | (631,792) | 771,339 | 467,780 | 256,796 |
| Income tax | (738,469) | (1,138,306) | (701,109) | (32,226) | (8,515) | (10,073) | 722 | 1,145 | (21,499) | (2,485) | (8,159) | (51,561) | – | (1,720) | – | (772,458) | (1,155,555) | (784,242) |
| Net income | ₱3,984,183 | ₱5,175,956 | ₱3,409,907 | ₱115,663 | ₱40,456 | ₱23,502 | (₱608,815) | (₱1,149,754) | (₱1,094,611) | (₱150,812) | (₱1,604) | ₱31,044 | (₱176,642) | (₱539,738) | ₱175,292 | ₱3,163,577 | ₱3,525,316 | ₱2,545,134 |
| **EBITDA** | | | | | | | | | | | | | | | | ₱9,625,717 | ₱9,852,538 | ₱7,939,954 |
| **EBITDA Margin** | | | | | | | | | | | | | | | | 23% | 23% | 21% |
| **Assets and Liabilities** | | | | | | | | | | | | | | | | | | |
| Operating assets | ₱62,875,687 | ₱61,697,812 | ₱54,464,779 | ₱21,604,378 | ₱20,112,974 | ₱18,094,516 | ₱3,589,758 | ₱3,066,809 | ₱1,386,352 | ₱908,307 | ₱1,045,703 | ₱773,370 | (₱16,840,696) | (₱16,218,028) | (₱7,709,785) | ₱72,137,434 | ₱69,705,270 | ₱67,009,232 |
| Investments in associates and joint ventures | 20,488,396 | 20,344,288 | 18,564,266 | 1,562 | 1,562 | 1,562 | – | – | – | – | – | – | (19,965,005) | (19,815,845) | (18,042,095) | 524,953 | 530,005 | 523,733 |
| Deferred tax assets - net | 1,761,641 | 1,622,104 | 1,836,538 | 786,797 | 744,618 | 760,458 | 128,718 | 120,498 | 288,550 | 21,235 | 22,218 | 16,354 | (235,449) | (10,761) | (10,761) | 2,462,942 | 2,498,677 | 2,891,139 |
| Total assets | ₱85,125,724 | ₱83,664,204 | ₱74,865,583 | ₱22,392,737 | ₱20,859,154 | ₱18,856,536 | ₱3,718,476 | ₱3,187,307 | ₱1,674,902 | ₱929,542 | ₱1,067,921 | ₱789,724 | (₱37,041,150) | (₱36,044,634) | (₱25,762,641) | ₱75,125,329 | ₱72,733,952 | ₱70,424,104 |
| Operating liabilities | ₱13,456,751 | ₱15,719,803 | ₱15,497,127 | ₱6,203,801 | ₱8,392,788 | ₱6,673,883 | ₱758,764 | ₱2,699,071 | ₱2,089,449 | ₱769,726 | ₱858,547 | ₱801,895 | (₱303,036) | (₱7,238,454) | (₱4,502,745) | ₱20,886,006 | ₱20,431,755 | ₱20,559,609 |
| Interest-bearing loans and borrowings | 16,701,670 | 16,745,892 | 16,819,685 | 4,209,671 | 3,688,458 | 3,672,071 | – | – | – | – | – | – | (545,000) | – | – | 20,366,341 | 20,434,350 | 20,491,753 |
| Deferred tax liabilities - net | – | – | 320,087 | – | – | – | 138,271 | 138,271 | 298,769 | – | – | – | – | – | – | 138,271 | 138,271 | 618,856 |
| Obligations under finance lease | – | 12,139 | 33,253 | 3,049 | 5,017 | 5,304 | 20,718 | 20,717 | – | – | – | – | – | – | – | 23,767 | 37,873 | 38,557 |
| Total liabilities | ₱30,158,421 | ₱32,477,834 | ₱32,670,149 | ₱10,416,521 | ₱12,086,263 | ₱10,351,258 | ₱917,753 | ₱2,858,059 | ₱2,388,218 | ₱769,726 | ₱858,547 | ₱801,895 | (₱858,036) | (₱7,238,454) | (₱4,502,745) | ₱41,414,385 | ₱41,042,249 | ₱41,708,775 |
| **Other Segment Information** | | | | | | | | | | | | | | | | | | |
| Capital expenditures: | | | | | | | | | | | | | | | | | | |
| Property and equipment | ₱3,237,700 | ₱3,376,425 | ₱1,171,036 | ₱1,802,798 | ₱1,989,638 | ₱2,817,506 | ₱5,045 | ₱206,184 | ₱312,331 | ₱12,842 | ₱15,208 | ₱442,936 | ₱– | ₱– | ₱– | ₱5,058,385 | ₱5,587,455 | ₱4,743,809 |
| Intangible assets | 2,184,932 | 1,944,156 | 1,336,948 | 165,827 | 7,042 | – | 29,365 | 19,846 | 667,626 | – | – | – | – | – | – | 2,380,122 | 1,971,044 | 2,004,574 |
| Depreciation and amortization | 4,703,841 | 3,613,160 | 3,832,869 | 1,597,389 | 1,592,353 | 1,390,324 | 91,496 | 136,531 | 123,096 | 78,884 | 77,345 | 29,208 | (986,664) | (835,235) | (676,161) | 5,484,946 | 4,584,154 | 4,699,336 |
| Noncash expenses other than depreciation and amortization | 47,754 | 292,603 | 115,854 | 456,128 | 181,770 | 258,778 | 34,131 | 49,950 | – | – | – | – | (72,059) | – | – | 538,013 | 621,536 | 374,632 |

Geographical Segment Data

The following tables present revenue and expenditure and certain asset information regarding geographical segments for each of the three years in the period ended December 31:

| | Philippines | | | United States | | | Others | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | **2017** | 2016 | 2015 | **2017** | 2016 | 2015 |
| **Revenue** | | | | | | | | | |
| External sales | **₱35,622,752** | ₱36,494,030 | ₱32,925,902 | **₱4,228,437** | ₱4,052,619 | ₱3,947,010 | **₱1,695,496** | ₱1,717,136 | ₱1,941,884 |
| Inter-segment sales | **4,574,956** | 4,699,986 | 3,393,208 | – | – | – | – | – | – |
| Revenue deductions | **(860,042)** | (663,186) | (567,111) | – | – | – | – | – | – |
| Total revenue | **₱39,337,666** | ₱40,530,830 | ₱35,751,999 | **₱4,228,437** | ₱4,052,619 | ₱3,947,010 | **₱1,695,496** | ₱1,717,136 | ₱1,941,884 |
| **Assets** | | | | | | | | | |
| Operating assets | **₱79,663,190** | ₱75,766,138 | ₱65,255,223 | **₱2,058,526** | ₱2,149,742 | ₱1,880,291 | **₱7,256,413** | ₱8,007,418 | ₱7,583,503 |
| Investments in associates and joint ventures | **20,489,958** | 20,345,850 | 18,565,828 | – | – | – | – | – | – |
| Deferred tax assets – net | **2,604,233** | 2,302,767 | 2,246,187 | **218,043** | 217,125 | 179,510 | **(123,885)** | (10,454) | (4,382) |
| Total assets | **₱102,757,382** | ₱98,414,755 | ₱86,067,238 | **₱2,276,569** | ₱2,366,867 | ₱2,059,801 | **₱7,132,528** | ₱7,996,964 | ₱7,579,121 |
| **Liabilities** | | | | | | | | | |
| Operating liabilities | **₱20,547,708** | ₱26,004,310 | ₱23,304,892 | **₱603,709** | ₱726,814 | ₱569,183 | **₱37,625** | ₱939,085 | ₱1,188,279 |
| Interest-bearing loans and borrowings | **20,875,791** | 20,396,661 | 20,454,033 | **2,436** | 37,692 | 37,723 | **33,114** | – | – |
| Deferred tax liabilities - net | **138,271** | 138,271 | 138,271 | **1,752,564** | – | – | **(1,752,564)** | – | – |
| Obligations under finance lease | **23,767** | 37,870 | 38,557 | – | – | – | – | – | – |
| Total liabilities | **₱41,585,537** | ₱46,577,112 | ₱43,935,753 | **₱2,358,709** | ₱764,506 | ₱606,906 | **(₱1,681,825)** | ₱939,085 | ₱1,188,279 |
| **Other Segment Information** | | | | | | | | | |
| Capital expenditures: | | | | | | | | | |
| Property and equipment | **₱4,907,685** | ₱5,436,755 | ₱5,200,552 | **₱147,524** | ₱147,524 | ₱39,052 | **₱3,176** | ₱3,176 | ₱1,895 |
| Intangible assets | **2,380,122** | 1,182,544 | 1,506,844 | – | – | – | – | – | – |

| | Eliminations | | | Consolidated | | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | 2015 | **2017** | 2016 | 2015 |
| **Revenue** | | | | | | |
| External sales | **₱–** | ₱– | ₱– | **₱41,546,685** | ₱42,263,785 | ₱38,814,796 |
| Inter-segment sales | **(4,574,956)** | (4,699,986) | (3,393,208) | – | – | – |
| Revenue deductions | **11,601** | 30,000 | 30,430 | **(848,441)** | (633,186) | (536,681) |
| Total revenue | **(4,563,355)** | (4,669,986) | (3,362,778) | **₱40,698,244** | ₱41,630,599 | ₱38,278,115 |
| **Assets** | | | | | | |
| Operating assets | **(₱16,840,696)** | (₱16,218,028) | (₱7,709,785) | **₱72,137,434** | ₱69,705,270 | ₱67,009,232 |
| Investments in associates and joint ventures | **(19,965,005)** | (19,815,845) | (18,042,095) | **524,953** | 530,005 | 523,733 |
| Deferred tax assets – net | **(235,449)** | (10,761) | (10,761) | **2,462,942** | 2,498,677 | 2,410,554 |
| Total assets | **(37,041,150)** | (36,044,634) | (₱25,762,641) | **₱75,125,329** | ₱72,733,952 | ₱69,943,519 |
| **Liabilities** | | | | | | |
| Operating liabilities | **(₱303,036)** | (₱7,238,454) | (₱4,502,745) | **₱20,886,006** | ₱20,431,755 | ₱20,559,609 |
| Interest-bearing loans and borrowings | **(545,000)** | – | – | **20,366,341** | 20,434,353 | 20,491,756 |
| Deferred tax liabilities - net | – | – | – | **138,271** | 138,271 | 138,271 |
| Obligations under finance lease | – | – | – | **23,767** | 37,870 | 38,557 |
| Total liabilities | **(₱848,036)** | (₱7,238,454) | (₱4,502,745) | **₱41,414,385** | ₱41,042,249 | ₱41,228,193 |
| **Other Segment Information** | | | | | | |
| Capital expenditures: | | | | | | |
| Property and equipment | **₱–** | ₱– | ₱– | **₱5,058,385** | ₱5,587,455 | ₱5,241,499 |
| Intangible assets | – | – | – | **2,380,122** | 1,971,044 | 1,506,844 |

## 6. Cash and Cash Equivalents and Short-term Investments

| | 2017 | 2016 |
|---|---|---|
| Cash on hand and in banks | **₱7,906,083** | ₱6,115,829 |
| Cash equivalents | **4,440,473** | 4,848,695 |
| | **₱12,346,556** | ₱10,964,524 |

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

Cash deposits amounting to ₱1,359 million and ₱3,066 million as at December 31, 2017 and 2016, respectively, and with maturities of more than three months but less than one year are classified as "Short-term investments" in the consolidated statements of financial position.

Interest earned from cash and cash equivalents and short-term investments amounted to ₱167 million, ₱221 million and ₱169 million in 2017, 2016 and 2015, respectively.

## 7. Trade and Other Receivables

| | 2017 | 2016 |
|---|---|---|
| Trade: | | |
| Airtime | **₱6,627,531** | ₱5,977,883 |
| Subscriptions | **2,675,490** | 2,675,347 |
| Others | **1,824,713** | 1,996,793 |
| Due from related parties (see Note 23) | **322,227** | 326,467 |
| Advances to employees and talents (see Note 23) | **638,035** | 493,311 |
| Others | **433,999** | 493,549 |
| | **12,521,995** | 11,963,350 |
| Less allowance for doubtful accounts | **1,891,981** | 1,759,232 |
| | **₱10,630,014** | ₱10,204,118 |

Trade receivables are noninterest-bearing and are generally on 60 to 90-days term upon receipt of invoice by the customer.

Airtime receivables include unbilled airtime arising from advertisements which have been aired during the year but billing or acceptance by the customer has been delayed due to time lag in completing all required documents. Invoicing normally takes around 7 days from airing.

Subscription receivables include unbilled subscription, where revenue has been accrued based on the rates in the subscription agreements multiplied by the estimated number of subscribers based on the latest report from the cable providers.

For terms and conditions relating to due from related parties, refer to Note 23.

Advances to employees and talents are usually settled within one year (see Note 23).

Other trade receivables pertain to other revenue generated from the sale of goods and services and usually collected within one year.

The aging analysis of the unbilled airtime and subscription receivables follows:

| | 2017 | 2016 |
|---|---|---|
| Less than 30 days | **₱756,404** | ₱480,911 |
| 31 to 60 days | **134,922** | 27,170 |
| | **₱891,326** | ₱508,081 |

Movements in the allowance for doubtful accounts are as follows:

| | Trade | | | | |
|---|---|---|---|---|---|
| | Airtime | Subscriptions | Others | Nontrade | Total |
| Balance at January 1, 2016 | ₱329,503 | ₱900,388 | ₱162,243 | ₱71,253 | ₱1,463,387 |
| Provisions (see Note 27) | 54,223 | 207,730 | 309,694 | 280 | 571,927 |
| Write-offs and others | (50,253) | (62,730) | (161,531) | (1,568) | (276,082) |
| Balance at December 31, 2016 | 333,473 | 1,045,388 | 310,406 | 69,965 | 1,759,232 |
| Provisions (see Note 27) | – | **456,272** | **41,352** | – | **497,624** |
| Write-offs and others | – | **(324,922)** | **(39,953)** | – | **(364,875)** |
| **Balance at December 31, 2017** | **₱333,473** | **₱1,176,738** | **₱311,805** | **₱69,965** | **₱1,891,981** |

Allowance for doubtful accounts are based on specific and collective assessment by the Company.

## 8. Inventories

| | 2017 | 2016 |
|---|---|---|
| At cost: | | |
| Merchandise inventories | **₱379,247** | ₱142,315 |
| Office supplies | **1,396** | 1,377 |
| At net realizable value: | | |
| Merchandise inventories | **37,937** | 94,171 |
| Materials, supplies and spare parts | **90,141** | 111,958 |
| | **₱508,721** | ₱349,821 |

Merchandise inventory consists mainly of set-top boxes, records and other consumer products held for sale by the Parent Company and subsidiaries. Materials, supplies and spare parts comprise mainly of cable, construction and installation supplies of Sky Cable and the Parent Company's spare parts and supplies.

In 2015, the Parent Company launched the ABS-CBN TVPlus, a digital box which allows users to receive clear pictures and sounds in the television sets through digital transmission. Cost of sales related to digital boxes amounting to ₱1,959 million, ₱1,518 million and ₱1,331 million in 2017, 2016 and 2015, respectively, is recorded as part of "Inventory costs" under the "Cost of sales" account in the consolidated statements of income (see Note 26). Total inventory costs, recognized under "Cost of sales and services" amounted to ₱2,124 million, ₱1,661 million and ₱1,489 million in 2017, 2016 and 2015, respectively (see Note 26).

The cost of inventories carried at net realizable value amounted to ₱277 million and ₱317 million as at December 31, 2017 and 2016, respectively. Inventory losses amounted to ₱27 million, ₱23 million and ₱12 million in 2017, 2016 and 2015, respectively (see Note 27).

## 9. Other Current Assets

| | 2017 | 2016 |
|---|---|---|
| Creditable withholding and prepaid taxes | **₱2,397,592** | ₱1,707,488 |
| Advances to suppliers | **1,406,488** | 1,270,325 |
| Prepaid licenses | **491,968** | 392,820 |
| Preproduction expenses | **425,308** | 328,370 |
| Prepaid rent | **91,239** | 92,141 |
| Prepaid transponder services | **23,244** | 8,741 |
| Prepaid insurance | **23,207** | 25,857 |
| Prepaid subscription | **6,346** | 110,396 |
| Other prepayments | **196,998** | 205,250 |
| | **₱5,062,390** | ₱4,141,388 |

Advances to suppliers are generally applied against future billings within next year.

Other prepayments mainly pertain to sponsorship and royalties.

## 10. Property and Equipment

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Land and Land Improvements | Buildings and Improvements | Towers, Transmission, Television, Radio, Movie, and Auxiliary Equipment | Other Equipment | Construction in Progress | Total |
| **Cost** | | | | | | |
| Balance at beginning of year | ₱2,161,114 | ₱12,244,968 | ₱20,195,726 | ₱12,594,599 | ₱3,734,488 | ₱50,930,895 |
| Additions | 53,091 | 146,921 | 2,023,750 | 643,651 | 2,166,433 | 5,033,846 |
| Effect of business acquisition (see Note 4) | – | – | – | 24,539 | – | 24,539 |
| Disposals/retirements | – | (33,214) | (361,796) | (127,781) | – | (522,791) |
| Reclassifications | 7,273 | 441,683 | 1,034,169 | 391,407 | (1,874,532) | – |
| Translation adjustments | 376 | 1,996 | 5,834 | 21,383 | 293 | 29,882 |
| Balance at end of year | 2,221,854 | 12,802,354 | 22,897,683 | 13,547,798 | 4,026,682 | 55,496,371 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Balance at beginning of year | 32,818 | 6,945,257 | 12,484,073 | 6,958,767 | – | 26,420,915 |
| Depreciation and amortization (see Notes 25, 26 and 27) | 8,167 | 476,174 | 2,094,813 | 1,085,294 | – | 3,664,448 |
| Disposals/retirements | – | (820) | (194,869) | (111,340) | – | (307,029) |
| Translation adjustments | 4 | 1,636 | 1,540 | 13,860 | – | 17,040 |
| Balance at end of year | 40,989 | 7,422,247 | 14,385,557 | 7,946,581 | – | 29,795,374 |
| **Net Book Value** | ₱2,180,865 | ₱5,380,107 | ₱8,512,126 | ₱5,601,217 | ₱4,026,682 | ₱25,700,997 |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Land and Land Improvements | Buildings and Improvements | Towers, Transmission, Television, Radio, Movie, and Auxiliary Equipment | Other Equipment | Construction in Progress | Total |
| Cost | | | | | | |
| Balance at beginning of year | ₱1,729,165 | ₱11,813,393 | ₱18,833,128 | ₱11,384,615 | ₱2,653,258 | ₱46,413,559 |
| Additions | 411,762 | 11,568 | 1,847,536 | 1,084,733 | 2,231,856 | 5,587,455 |
| Disposals/retirements | – | – | (836,322) | (307,160) | – | (1,143,482) |
| Reclassifications | 15,421 | 410,522 | 327,973 | 395,560 | (1,149,476) | – |
| Translation adjustments | 4,766 | 9,485 | 23,411 | 36,851 | (1,150) | 73,363 |
| Balance at end of year | 2,161,114 | 12,244,968 | 20,195,726 | 12,594,599 | 3,734,488 | 50,930,895 |
| Accumulated Depreciation and Amortization | | | | | | |
| Balance at beginning of year | 27,792 | 6,448,962 | 11,355,731 | 6,271,811 | – | 24,104,296 |
| Depreciation and amortization (see Notes 25, 26 and 27) | 4,970 | 486,830 | 1,925,052 | 983,550 | – | 3,400,402 |
| Disposals/retirements | – | – | (833,556) | (302,931) | – | (1,136,487) |
| Reclassifications | – | (194) | – | 194 | – | – |
| Translation adjustments | 56 | 9,659 | 36,846 | 6,143 | – | 52,704 |
| Balance at end of year | 32,818 | 6,945,257 | 12,484,073 | 6,958,767 | – | 26,420,915 |
| Net Book Value | ₱2,128,296 | ₱5,299,711 | ₱7,711,653 | ₱5,635,832 | ₱3,734,488 | ₱24,509,980 |

Certain property and equipment of Sky Cable and PCC with a carrying value of ₱492 million as at December 31, 2009 were pledged as collateral to secure the long-term debt of Sky Cable. As part of the refinancing of the restructured long-term debt of Sky Cable in 2010, creditors of Sky Cable, executed a deed of release of property from indenture lien and cancellation of mortgage. As at February 22, 2018, the cancellation of mortgage annotations with the remaining register of deeds located in some provinces is still in process.

Certain property and equipment with cost amounting to ₱19,572 million and ₱17,428 million as at December 31, 2017 and 2016, respectively, have been fully depreciated but are still being used by the Company.

Unamortized borrowing costs capitalized as part of property and equipment amounted to ₱1,298 million and ₱1,128 million as at December 31, 2017 and 2016, respectively. Borrowing costs capitalized in 2017 and 2016 amounted to ₱200 million and ₱212 million, respectively. Borrowing cost capitalization rate in 2017 and 2016 is 5.335%.

Property and equipment, classified as other equipment, includes the following amounts where the Company is a lessee under a finance lease (see Note 31):

| | **2017** | 2016 |
|---|---|---|
| Cost capitalized under finance lease | **₱786,867** | ₱790,416 |
| Accumulated depreciation | **(438,705)** | (434,021) |
| Net book value | **₱348,162** | ₱356,395 |

The amount of property and equipment under finance lease includes the net book value of the IRU covered by the lease agreement between Sky Cable and Bayantel.

## 11. **Investment Properties**

| | December 31, 2017 | | |
|---|---|---|---|
| | **Land** | **Building** | **Total** |
| **Cost:** | | | |
| Balance at beginning of year | **₱171,560** | **₱42,033** | **₱213,593** |
| Translation adjustments | **(682)** | **1,039** | **357** |
| Balance at end of year | **170,878** | **43,072** | **213,950** |
| **Accumulated depreciation:** | | | |
| Balance at beginning of year | **–** | **11,479** | **11,479** |
| Depreciation (see Note 27) | **–** | **1,692** | **1,692** |
| Translation adjustments | **–** | **39** | **39** |
| Balance at end of year | **–** | **13,210** | **13,210** |
| **Net book value** | **₱170,878** | **₱29,862** | **₱200,740** |

| | December 31, 2016 | | |
|---|---|---|---|
| | Land | Building | Total |
| Cost: | | | |
| Balance at beginning of year | ₱169,264 | ₱40,171 | ₱209,435 |
| Translation adjustments | 2,296 | 1,862 | 4,158 |
| Balance at end of year | 171,560 | 42,033 | 213,593 |
| Accumulated depreciation: | | | |
| Balance at beginning of year | – | 8,634 | 8,634 |
| Depreciation (see Note 27) | – | 1,208 | 1,208 |
| Translation adjustments | – | 1,637 | 1,637 |
| Balance at end of year | – | 11,479 | 11,479 |
| Net book value | ₱171,560 | ₱30,554 | ₱202,114 |

The Parent Company owns a parcel of land for capital appreciation purposes costing ₱136 million as at December 31, 2017 and 2016. The Parent Company did not obtain updated appraisal reports for the year ended December 31, 2017 since management believes that the change in the fair values is not material. The market value of the land, based on the latest appraisal report dated August 4, 2017, amounted to ₱436 million as determined by an independent appraiser using the Sales Comparison Approach, which considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. The fair value of this investment property is categorized under Level 3 of the fair value hierarchy as the market for the identical or similar properties is not active. The highest and best use of the asset is as a commercial utility.

Land and building with carrying value of ₱58 million and ₱59 million as at December 31, 2017 and 2016, respectively, pertain to a parcel of land purchased by ABS-CBN International, with a two-storey house constructed thereon, located in Redwood City, California, USA. The real property, which was acquired in July 2008 at a purchase price of US$1.4 million (₱67 million), was intended to be held by ABS-CBN International as investment properties. To fund the acquisition, ABS-CBN International obtained a loan from Citibank, North America amounting to US$1 million (₱50 million) for which the property was pledged as collateral (see Note 18).

As at December 31, 2017 and 2016, the fair market value of the land and building of ABS-CBN International, which is based on market price of similar properties within the area, amounted to ₱79 million and ₱75 million, respectively. The fair value of these investment properties is categorized under Level 3 of the fair value hierarchy as the market for the identical or similar properties is not active.

Rental income derived from the investment properties amounted to ₱2 million in 2017, 2016 and 2015. Direct operating expenses, which consist mainly of depreciation, amounted to ₱1 million in 2017, 2016 and 2015.

## 12. Program Rights and Other Intangible Assets

**December 31, 2017**

| | Program Rights | Music Rights | Movie In-Process and Filmed Entertainment | Story, Video and Publication and Record Master | Trademarks | Licenses | Customer Relationships | Cable Channels - CPI | Production and Distribution Business - Middle East | Digital Platforms and IP Block | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at beginning of year | **₱4,233,293** | **₱128,618** | **₱850,462** | **₱14,713** | **₱1,111,784** | **₱998,490** | **₱400,108** | **₱459,968** | **₱63,192** | **₱22,160** | **₱8,282,788** |
| Additions | **1,436,491** | **2,713** | **742,196** | **3,530** | – | – | **2,419** | – | – | **29,367** | **2,216,716** |
| Effect of business combination (see Note 4) | – | – | – | – | – | – | **133,915** | – | – | **29,491** | **163,406** |
| Reclassification | – | **(121,746)** | – | **121,746** | – | – | – | – | – | – | – |
| Amortization (see Notes 25, 26 and 27) | **(1,155,059)** | **(6,229)** | **(589,258)** | **(11,067)** | – | **(4,631)** | **(25,228)** | – | **(6,421)** | **(20,913)** | **(1,818,806)** |
| Translation adjustments | – | – | – | – | – | **114** | – | – | **476** | – | **590** |
| Balance at end of year | **4,514,725** | **3,356** | **1,003,400** | **128,922** | **1,111,784** | **993,973** | **511,214** | **459,968** | **57,247** | **60,105** | **8,844,694** |
| Less current portion | **1,072,248** | **1,653** | **54,838** | **8,495** | – | – | – | – | – | – | **1,137,234** |
| Noncurrent portion | **₱3,442,477** | **₱1,703** | **₱948,562** | **₱120,427** | **₱1,111,784** | **₱993,973** | **₱511,214** | **₱459,968** | **₱57,247** | **₱60,105** | **₱7,707,460** |

December 31, 2016

| | Program Rights | Music Rights | Movie In-Process and Filmed Entertainment | Story, Video and Publication and Record Master | Trademarks | Licenses | Customer Relationships | Cable Channels - CPI | Production and Distribution Business - Middle East | Digital Platforms | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at beginning of year | ₱3,356,467 | ₱134,847 | ₱924,297 | ₱13,465 | ₱1,111,784 | ₱1,001,814 | ₱421,246 | ₱459,968 | ₱65,764 | ₱– | ₱7,489,652 |
| Additions | 1,806,861 | – | 130,584 | 6,711 | – | – | – | – | – | 26,888 | 1,971,044 |
| Amortization (see Notes 25, 26 and 27) | (930,035) | (6,229) | (204,419) | (5,463) | – | (4,484) | (21,138) | – | (6,048) | (4,728) | (1,182,544) |
| Translation adjustments | – | – | – | – | – | 1,160 | – | – | 3,476 | – | 4,636 |
| Balance at end of year | 4,233,293 | 128,618 | 850,462 | 14,713 | 1,111,784 | 998,490 | 400,108 | 459,968 | 63,192 | 22,160 | 8,282,788 |
| Less current portion | 969,863 | 9,904 | 85,252 | 2,125 | – | – | – | – | – | – | 1,067,144 |
| Noncurrent portion | ₱3,263,430 | ₱118,714 | ₱765,210 | ₱12,588 | ₱1,111,784 | ₱998,490 | ₱400,108 | ₱459,968 | ₱63,192 | ₱22,160 | ₱7,215,644 |

Costs and related accumulated amortization of other intangible assets with finite life (except cable channels) are as follows:

| | **December 31, 2017** | | | | | | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Licenses** | **Customer Relationships** | **Cable Channels - CPI** | **Production and Distribution Business - Middle East** | **Digital Platforms** | **Total** | Licenses | Customer Relationships | Cable Channels - CPI | Production and Distribution Business - Middle East | Digital Platforms | Total |
| Cost | **₱42,777** | **₱749,274** | **₱574,960** | **₱212,358** | **₱56,255** | **₱1,635,624** | ₱42,777 | ₱612,940 | ₱574,960 | ₱212,358 | ₱26,888 | ₱1,469,923 |
| Accumulated amortization | **(13,853)** | **(238,060)** | **(114,992)** | **(155,110)** | **(25,641)** | **(547,656)** | (9,336) | (212,832) | (114,992) | (149,166) | (4,728) | (491,054) |
| Net book value | **₱28,924** | **₱511,214** | **₱459,968** | **₱57,248** | **₱30,614** | **₱1,087,968** | ₱33,441 | ₱400,108 | ₱459,968 | ₱63,192 | ₱22,160 | ₱978,869 |

Program rights include the acquired rights of the Company to air foreign and local films or programs for a certain period of time. As at December 31, 2017, the remaining useful life of program rights range from one to 15 years. Licenses with finite life include franchise of KidZania brand in the Philippines, acquired in 2012, by Play Innovations, Inc. As at December 31, 2017, the remaining useful life of the license is approximately five years.

The customer relationships acquired in a business combination relate to the core subscribers of the following:

- Sky Cable postpaid, prepaid and platinum, broadband and other subscribers at conversion date who have sustained their relationship with Sky Cable for more than a year
- Destiny Cable, Incorporated (DCI), Solid Broadband Corporation and UNI Cable TV, Inc. cable postpaid, prepaid and broadband subscribers
- Tri-Isys postpaid internet subscribers
- Bayantel postpaid wireless landline subscribers

The cable channels include Lifestyle Channel, Cinema One, and Myx Channel acquired by CPI from Sky Vision. Based on the Company's analysis of all the relevant factors, there is no foreseeable limit to the period over which this business is expected to generate net cash inflows for the Company and therefore, these were assessed to have an indefinite life. As such, yearly amortization has been discontinued in 2001. The carrying amount is net of previously recognized amortization amounting to ₱115 million.

Production and distribution business for Middle East operations represent payments arising from the sponsorship agreement between Arab Digital Distribution (ADD) and ABS-CBN Middle East. This agreement grants the Company the right to operate in the Middle East with ADD as sponsor for a period of 25 years. The Company was operating in the Kingdom of Saudi Arabia through ADD until the transfer of its content rights to Orbit Showtime Network, a new sponsor, under an agreement effective from November 2013. As at December 31, 2017, the remaining useful life of this intangible asset is approximately six years.

Other intangible assets assessed to have indefinite life include trademarks and licenses to operate the wireless business. Trademarks pertain to DCI and Sky Cable distinctive sign to promote and distinguish its products and services from those of other entities. Based on the Company's analysis of all the relevant factors, there is no foreseeable limit to the period over which the business is expected to generate net cash inflows for the Company and therefore, these were assessed to have an indefinite life.

## 13. **Available-for-Sale Investments**

| | **2017** | 2016 |
|---|---|---|
| Quoted equity securities | **₱168,039** | ₱135,515 |
| Unquoted ordinary common and club shares | **74,704** | 74,704 |
| | **₱242,743** | ₱210,219 |

Movements in this account follow:

| | 2017 | 2016 |
|---|---|---|
| Balance at beginning of year | **₱210,219** | ₱217,336 |
| Additions | **–** | 21,008 |
| Unrealized fair value gain (loss) on AFS investments | **32,524** | (28,125) |
| Balance at end of year | **₱242,743** | ₱210,219 |

## 14. **Investments in Associates and Joint Ventures**

| | | Percentage of Ownership | |
|---|---|---|---|
| Entity | Principal Activities | **2017** | 2016 |
| Associates: | | | |
| Amcara Broadcasting Network Incorporated (Amcara) | Services | **49.0** | 49.0 |
| Star Cinema Productions, Inc. | Services | **45.0** | 45.0 |
| The Flagship, Inc. (Flagship) | Services | **40.0** | 40.0 |
| Transmission Specialists, Inc. (TSI) | Services | **35.0** | 35.0 |
| Joint ventures: | | | |
| A CJ O Shopping Corporation (A CJ O) | Home shopping | **50.0** | 50.0 |
| Daum Kakao Philippines Corp. (Daum Kakao) | Services | **50.0** | 50.0 |
| ALA Sports | Boxing promotions | **44.0** | 44.0 |

Details and movement in the account are as follows:

| | 2017 | 2016 |
|---|---|---|
| Acquisition costs: | | |
| Balance at beginning of year | **₱1,064,552** | ₱1,054,490 |
| Additions | – | 10,062 |
| Balance at end of year | **1,064,552** | 1,064,552 |
| Accumulated equity in net losses: | | |
| Balance at beginning of year | **(531,812)** | (530,757) |
| Equity in net loss during the year | **(5,052)** | (1,055) |
| Balance at end of year | **(536,864)** | (531,812) |
| Accumulated impairment loss: | | |
| Balance at beginning of year | **(2,735)** | – |
| Impairment during the year | **–** | (2,735) |
| Balance at end of year | **(2,735)** | (2,735) |
| | **₱524,953** | ₱530,005 |

| | 2017 | 2016 |
|---|---|---|
| Investments in: | | |
| Joint ventures | **₱370,938** | ₱375,953 |
| Associates | **154,015** | 154,052 |
| | **₱524,953** | ₱530,005 |

All the associates and joint ventures are incorporated and have principal place of business in the Philippines. The associates and joint ventures have no contingent liabilities or capital commitments as at December 31, 2017 and 2016.

a. Investments in Joint Ventures

i. A CJ O

The joint venture operates O Shopping Channel which broadcasts company-produced shopping programs 24/7 via Sky Cable and Destiny Cable. It also airs programs through ABS-CBN's Channel 2.

ii. ALA Sports

The primary purpose of ALA Sports, which was incorporated in December 2013, is to organize, stage and promote boxing matches, and provide, distribute and market products and services that are otherwise connected to the operations of said business, in the Philippines and other territories.

iii. Daum Kakao

In 2015, the Parent Company entered into a joint venture agreement with Kakao Corporation to form a joint venture corporation, Daum Kakao. The primary purpose of Daum Kakao, which was incorporated in February 2015, is to engage in and provide KakaoTalk services developed and/or customized for users in the Philippines for mobile devices, including marketing and sales promotions. The joint venture agreement also includes a put option in favor of the Parent Company for the joint venture partner to purchase all of the Parent Company's stocks in Daum Kakao within 60 days after the second year of Daum Kakao's registration.

On July 29, 2016, the stockholders and the BOD of Daum Kakao approved the resolution to cease business operations and dissolve its corporation, subject to approval of SEC, effective August 30, 2016. Thereafter, the Parent Company recognized ₱3 million impairment loss from its investment in Daum Kakao in 2016.

In view of the recent developments in Daum Kakao, the stockholders and the BOD of Daum Kakao revoked its previous resolution on cessation and dissolution of its corporation, and thereafter approved the continuance of its business operations in 2017.

Combined financial information of the joint ventures follows:

| | **2017** | 2016 |
|---|---|---|
| Current assets | **₱865,792** | ₱875,357 |
| Noncurrent assets | **147,498** | 137,967 |
| Current liabilities | **(253,962)** | (226,288) |
| Noncurrent liabilities | **(695)** | (17,091) |
| Net equity | **₱758,633** | ₱769,945 |

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Revenue | **₱850,184** | ₱894,093 | ₱751,102 |
| Costs and expenses | **(861,496)** | (903,267) | (746,474) |
| Net income (loss) | **(11,312)** | (9,174) | 4,628 |
| Equity in net earnings (losses) of joint ventures | **(₱5,015)** | (₱4,113) | (₱1,114) |

Below is the reconciliation of the summarized financial information of the joint ventures to the carrying amount of the Parent Company's investments therein:

| | **2017** | | | |
|---|---|---|---|---|
| | **A CJ O** | **ALA Sports** | **Daum Kakao** | **Total** |
| Net assets of joint ventures | **₱269,934** | **₱94,051** | **₱394,648** | **₱758,633** |
| Interest of the Parent Company in the net assets of the joint ventures | **50%** | **44%** | **50%** | |
| | **134,967** | **41,382** | **197,324** | **373,673** |
| Accumulated impairment loss | **–** | **–** | **(2,735)** | **(2,735)** |
| Carrying amount of investments in joint ventures | **₱134,967** | **₱41,382** | **₱194,589** | **₱370,938** |

| | 2016 | | | |
|---|---|---|---|---|
| | A CJ O | ALA Sports | Daum Kakao | Total |
| Net assets of joint ventures | ₱270,161 | ₱104,732 | ₱395,052 | ₱769,945 |
| Interest of the Parent Company in the net assets of the joint ventures | 50% | 44% | 50% | |
| | 135,080 | 46,082 | 197,526 | 378,688 |
| Accumulated impairment loss | – | – | (2,735) | (2,735) |
| Carrying amount of investments in joint ventures | ₱135,080 | ₱46,082 | ₱194,791 | ₱375,953 |

b. Investments in Associates

The carrying value of investments in associates consists of investments in Flagship, Amcara and TSI.

The Company has investment in TSI amounting to ₱10 million, which represents 35% ownership in the entity. The Company did not recognize equity in net income of TSI for the years ended December 31, 2017 and 2016 because it is immaterial.

In 2015, the Parent Company entered into an agreement with certain individuals to form Flagship, a holding company with interests on entities engaged in the business of producing and co-producing motion pictures and providing visual effects and post-production services. In 2017 and 2015, the Company did not recognize equity in net income of Flagship because it is immaterial. In 2016, the Company recognized equity in net income of Flagship amounting to ₱3 million.

Investment in the other associate, Star Cinema Productions, Inc., has been reduced to zero due to accumulated equity in net losses.

The net cumulative unrecognized net losses amounted to ₱17 million as at December 31, 2017 and 2016.

Combined financial information of associates follows:

| | 2017 | 2016 |
|---|---|---|
| Current assets | **₱48,917** | ₱37,795 |
| Noncurrent assets | **255,082** | 256,145 |
| Current liabilities | **(212,844)** | (202,709) |
| Net equity | **₱91,155** | ₱91,231 |

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Revenue | **₱33,290** | ₱125,469 | ₱29,925 |
| Costs and expenses | **(33,365)** | (117,769) | (29,981) |
| Net income (loss) | **(₱75)** | ₱7,700 | (₱56) |
| Equity in net earnings (losses) of associates | **(₱37)** | ₱3,058 | (₱27) |

Below is the reconciliation of the summarized financial information of the associates to the carrying amount of the Parent Company's investment therein:

| | 2017 | 2016 |
|---|---|---|
| Net assets of associate – Amcara | **₱83,215** | ₱83,290 |
| Interest of the Parent Company in the net assets of the associate | **49%** | 49% |
| Carrying amount of investment in Amcara | **40,775** | 40,812 |
| Carrying amount of investment in Flagship | **103,178** | 103,178 |
| Investment in TSI | **10,062** | 10,062 |
| Carrying amount of investments in associates | **₱154,015** | ₱154,052 |

15. **Other Noncurrent Assets**

| | 2017 | 2016 |
|---|---|---|
| Tax credits with TCCs – net of allowance for impairment | **₱1,149,321** | ₱1,518,946 |
| Deposits and bonds | **361,321** | 334,864 |
| Deferred charges | **75,722** | 90,465 |
| Others (see Note 23) | **182,061** | 515,573 |
| | **₱1,768,425** | ₱2,459,848 |

Tax credits represent claims from the government arising from airing of government commercials, advertisements and cablecast services. Pursuant to PD No. 1362, these will be collected in the form of tax credits which the Company can use in paying for import duties and taxes on its broadcasting and cable equipment. The tax credits cannot be used to pay for any other tax obligation to the government. The Company expects to utilize these tax credits within the next ten years until 2027.

On January 9, 2012, the Department of Finance issued a favorable ruling on the request of the Parent Company to utilize the tax credits in the payment of duties and taxes on the importation of digital terrestrial television boxes which will be subsequently distributed or made available to its customers and end-users.

Sky Cable and PCC recognized provision for unrecoverable tax credits of ₱7 million in 2015 (nil in 2017 and 2016), were presented in the consolidated statements of income (see Note 28). Allowance for impairment of tax credits amounted to ₱216 million as at December 31, 2017 and 2016.

Deferred charges pertain to excess of cost over revenue from installation of decoders and set-top boxes. Amortization of deferred charges amounted to ₱7 million, ₱6 million and ₱34 million in 2017, 2016 and 2015, respectively (see Note 26).

## 16. **Goodwill**

Goodwill arose from the following acquisitions and business combination:

| | **2017** | 2016 |
|---|---|---|
| Sky Cable | **₱4,649,827** | ₱4,491,817 |
| CTI and ABS-C | **567,836** | 567,836 |
| ABS-CBN International | **246,861** | 245,823 |
| Sapientis | **9,201** | 9,201 |
| | **₱5,473,725** | ₱5,314,677 |

Movements in the account follows:

| | **2017** | 2016 |
|---|---|---|
| Balance at beginning of year | **₱5,314,677** | ₱5,301,526 |
| Effect of business acquisition (see Note 4) | **158,010** | – |
| Translation adjustment | **1,038** | 13,151 |
| Balance at end of year | **₱5,473,725** | ₱5,314,677 |

## 17. **Trade and Other Payables**

| | **2017** | 2016 |
|---|---|---|
| Trade | **₱1,247,188** | ₱1,933,245 |
| Accrued expenses: | | |
| Production costs and other expenses | **5,912,409** | 6,399,976 |
| Salaries and other employee benefits (see Note 30) | **1,339,504** | 1,196,564 |
| Taxes | **1,203,142** | 1,433,891 |
| Interest | **225,697** | 232,867 |
| Deferred revenue | **1,510,413** | 1,666,297 |
| Deposit for future subscription (see Note 4) | **1,220,000** | – |
| Dividend payable | **257,961** | 229,570 |
| Due to related parties (see Note 23) | **171,303** | 145,417 |
| Others | **185,204** | 410,677 |
| | **₱13,272,821** | ₱13,648,504 |

Trade payables are noninterest-bearing and are normally settled on 30 to 90-day term.

Accrued expenses are normally settled within the next financial year.

Accrued production costs and other expenses represent accruals for various expenses related to the production of programs.

Accrual for salaries and other employee benefits includes accrual for the Company's retention program. The Company allocated specified number of notional shares for selected key employees valued at the Parent Company quoted share price as at December 31, 2017 and 2016. This will be paid in cash after the holding period of 5 or 6 years from the grant dates in 2011, 2012 and 2013. Notional shares totaling 1,000,000 were cancelled in 2016.

Deferred revenue pertains to payments received before broadcast and subscription fees billed and received in advance. This also includes the portion of the advance payments from the industry partners of Play Innovations, Inc., that will be recognized as revenue for the next 12 months. The advance payments are recognized over the life of the sponsorship agreement (typically five years) using the straight-line method of amortization.

For terms and conditions relating to due to related parties, refer to Note 23.

Other current liabilities include statutory liabilities which are payable within the next financial year.

## 18. Interest-bearing Loans and Borrowings

| | **December 31, 2017** | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| Borrower | **Current Portion** | **Noncurrent Portion** | **Total** | Current Portion | Noncurrent Portion | Total |
| Parent Company | **₱70,934** | **₱16,351,784** | **₱16,422,718** | ₱71,231 | ₱16,409,111 | ₱16,480,342 |
| Sky Cable | **23,737** | **2,883,530** | **2,907,267** | 27,823 | 2,896,347 | 2,924,170 |
| PCC | **6,808** | **753,646** | **760,454** | 6,847 | 762,455 | 769,302 |
| Play Innovations, Inc. | **240,000** | **–** | **240,000** | 240,000 | – | 240,000 |
| ABS-CBN International | **2,441** | **33,108** | **35,549** | 2,291 | 35,401 | 37,692 |
| ABS-C (see Note 31) | **6,758** | **13,959** | **20,717** | 6,758 | 13,959 | 20,717 |
| | **₱350,678** | **₱20,036,027** | **₱20,386,705** | ₱354,950 | ₱20,117,273 | ₱20,472,223 |

Parent Company

The details of interest-bearing loans and borrowings of the Parent Company are as follows:

| | **December 31, 2017** | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | **Current Portion** | **Noncurrent Portion** | **Total** | Current Portion | Noncurrent Portion | Total |
| Term loans: | | | | | | |
| Loan agreements | **₱70,934** | **₱10,388,056** | **₱10,458,990** | ₱59,092 | ₱10,455,754 | ₱10,514,846 |
| Bonds payable | **–** | **5,963,728** | **5,963,728** | – | 5,953,357 | 5,953,357 |
| Obligations under finance lease (see Note 31) | **–** | **–** | **–** | 12,139 | – | 12,139 |
| | **₱70,934** | **₱16,351,784** | **₱16,422,718** | ₱71,231 | ₱16,409,111 | ₱16,480,342 |

a. *Loan Agreements*

(i) On October 29, 2010, the Parent Company signed a syndicated loan for ₱10 billion with Allied Banking Corporation, Allied Savings Bank, Banco de Oro (BDO) Unibank, Inc., BDO Unibank, Inc. - Trust and Investment Group, Bank of the Philippine Islands (BPI), Insular Life Assurance Company Ltd., Philippine National Bank (PNB), PNB Life Insurance, Inc., Security Bank Corporation (Security Bank) (collectively, the "Lenders"), BPI Capital Corporation (the "Lead Arranger"), BDO Capital & Investment Corporation and Security Bank (collectively, the "Arrangers") and PNB Capital & Investment Corporation and Insular Life Assurance Company Ltd. (collectively the "Co-Arranger"). BPI - Asset Management and Trust Group served as the loan's facility agent. The loan was used to refinance existing indebtedness and fund working capital requirements.

The loan is unsecured and unsubordinated with interest at 3-month PDST-F plus 0.65% per annum for the floating rate portion and 7-year PDST-F plus 0.65% per annum for the fixed rate portion.

On November 9, 2010, the Parent Company availed the amount of ₱6,906 million from the syndicated loan to prepay existing debt facilities, namely, the Senior Credit Agreement (SCA) facility, the BDO facility, the ₱800 million Syndicated Loan facility and the Combined facility agreements.

On March 11, 2011, the Parent Company availed the remaining amount of ₱3,094 million from the syndicated loan for working capital purposes.

The syndicated loan contains provision regarding the maintenance of certain financial ratios and limiting, among others, the payment of dividends, making investments, the issuing or selling of the Company's capital stock or some of its subsidiaries, the selling or exchange of assets, the creation of liens and the effecting of mergers.

On June 29, 2012, the Parent Company signed a Supplemental Agreement between and among the lenders of the ₱10 billion syndicated loan agreement to amend the financial ratios as follows:

- Deletion of Maximum Total Debt-to-Annualized EBITDA;
- Increase in threshold of the Debt Service Coverage Ratio (DSCR) from 1.1:1 to 1.2:1 in the years 2012, 2013 and 2014 and to 1.5:1 from 2015 until its final maturity in 2017; and
- Utilization of the amount of projected capital expenditure and program rights based on approved capital expenditure and program rights acquisition budget in calculating the cash available for debt service instead of using the actual amount of capital expenditure and program rights actually paid in cash during the period.

On December 5, 2012, the Parent Company signed a Second Supplemental Agreement between and among the lenders of the ₱10 billion syndicated loan to amend the definition of "Business." The amendment expanded the definition to include "entertainment and amusement center development and management services and product sales and distribution services." The expansion of the definition allowed the Company to invest in ABS-CBN Theme Parks, Play Innovations and/or Play Innovations, Inc.

Under the same agreement, the majority lenders, likewise, permitted to extend a guarantee in favor of Play Innovations and/or Play Innovations, Inc.

On January 30, 2014 and October 30, 2014, the BOD approved the refinancing of the fixed rate portions of the syndicated loan, which amounted to ₱4,850 million in principal. Thereafter, on February 28, 2014 and November 10, 2014, the Company entered into loan agreements with local banks for principal amounts of ₱1,650 million and ₱3,200 million, respectively. The loans are intended to refinance existing indebtedness and to fund working capital requirements.

The ₱1,650 million loan, which was availed from Security Bank, bears interest of 4.25% per annum and a term of four years. The ₱3,200 million loan, which was secured from BPI, bears interest of 3.88% per annum and a term of three years. Transaction cost incurred in availing the 2014 loans amounted to ₱105 million.

On February 9, 2016, the Parent Company entered into a loan agreement with Unionbank of the Philippines for a principal amount of ₱4,750 million. The loan, which refinanced the remaining portion of the syndicated loan, bears interest of 5.00% payable semi-annually with a term of ten years. Transaction cost incurred in availing the loan amounted to ₱24 million.

On May 13, 2016, the Parent Company entered into a loan with BPI to refinance the ₱3,200 million loan availed from BPI in 2014. The loan bears interest of 5.00% payable quarterly with a term of ten years. Transaction cost incurred in availing the loan amounted to ₱16 million.

On April 26, 2017, the Parent Company entered into a loan with Unionbank of the Philippines for a principal amount of ₱1,600 million for a term of 10 years. The loan, which was used to finance the settlement of the ₱1,650 million loan from Security Bank, bears interest of 4.25% per annum for first year, and 5.15% per annum for succeeding years until maturity. Transaction costs incurred in availing the loan amounted to ₱8 million.

The new loans contain provision regarding the maintenance of certain financial ratios and limiting, among others, the payment of dividends, making investments, the issuing or selling of the Company's capital stock or some of its subsidiaries, the selling or exchange of assets, the creation of liens and the effecting of mergers.

(ii) On March 7, 2014, the Company secured a ₱1 billion loan from Philippine American Life and General Insurance Company to partially finance its capital expenditure requirements and general working capital requirements. The loan has a term of ten years and a fixed rate of 5.40% per annum. Transaction cost incurred in availing the loan amounted to ₱5 million.

As at December 31, 2017 and 2016, the Company is in compliance with the provisions of its loan agreements.

Unamortized debt issue cost, presented as a deduction from the Company's outstanding loan, amounted to ₱44 million and ₱52 million as at December 31, 2017 and 2016, respectively.

Amortization of debt issue costs amounted to ₱17 million, ₱33 million and ₱21 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 28).

b. *Bonds Payable*

On January 23, 2014, the Philippine SEC approved the Parent Company's offering of debt securities in the aggregate principal amount of up to ₱10 billion to be issued in one or two tranches, as approved by the BOD on November 29, 2013. The first tranche comprised of fixed rate bonds amounting to ₱5 billion and an overallotment option of ₱1 billion with BDO Capital & Investment Corporation, BPI Capital and Hongkong and Shanghai Banking Corporation as joint-issue managers. The term of the bonds is seven years with a fixed interest rate of 5.335% per annum. Interest on the bonds shall be payable quarterly in arrears starting on May 10, 2014 for the first interest payment date.

On February 10, 2014, the Parent Company listed the ₱6 billion worth of retail bonds in the Philippine Dealing and Exchange Corporation. The bonds were rated PRS Aaa by the Philippine Rating Services Corporation on December 27, 2013.

As at December 31, 2017 and 2016, the Parent Company is in compliance with the provisions of this facility.

Unamortized debt issue cost, presented as a deduction from the Parent Company’s bonds payable, amounted to ₱36 million and ₱47 million as at December 31, 2017 and 2016, respectively.

Amortization of debt issue costs amounted to ₱10 million, ₱10 million and ₱9 million in 2017 and 2016, respectively (see Note 28).

Breakdown of the Parent Company’s term loans as at December 31, 2017 and 2016 follows:

| | **December 31, 2017** | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | **Loan Agreements** | **Bonds Payable** | **Total** | Loan Agreements | Bonds Payable | Total |
| Principal | **₱10,502,500** | **₱6,000,000** | **₱16,502,500** | ₱10,567,000 | ₱6,000,000 | ₱16,567,000 |
| Less unamortized transaction costs | **43,510** | **36,272** | **79,782** | 52,154 | 46,643 | 98,797 |
| | **10,458,990** | **5,963,728** | **16,422,718** | 10,514,846 | 5,953,357 | 16,468,203 |
| Less current portion | **70,934** | **–** | **70,934** | 59,092 | – | 59,092 |
| Noncurrent portion | **₱10,388,056** | **₱5,963,728** | **₱16,351,784** | ₱10,455,754 | ₱5,953,357 | ₱16,409,111 |

Debt issue costs as at December 31, 2017 are amortized over the term of the loans using the effective interest method as follows:

| Year | Loan Agreements | Bonds Payable | Total |
|---|---|---|---|
| 2018 | ₱8,566 | ₱10,966 | ₱19,532 |
| 2019 | 4,452 | 11,595 | 16,047 |
| 2020 and onwards | 30,492 | 13,711 | 44,203 |
| | ₱43,510 | ₱36,272 | ₱79,782 |

Amortization of debt issue costs for the years ended December 31, 2017, 2016 and 2015 amounted to ₱27,054 million, ₱42,491 million and ₱30,225 million, respectively (see Note 28).

Repayments of loan and bonds payable based on nominal values are scheduled as follows:

| Year | Loan Agreements | Bonds Payable | Total |
|---|---|---|---|
| 2018 | ₱79,500 | ₱– | ₱79,500 |
| 2019 | 95,500 | – | 95,500 |
| 2020-2027 | 10,327,500 | 6,000,000 | 16,327,500 |
| | ₱10,502,500 | ₱6,000,000 | ₱16,502,500 |

Sky Cable

The details of interest-bearing loans and borrowings of the Sky Cable are as follows:

| | **December 31, 2017** | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | **Current Portion** | **Noncurrent Portion** | **Total** | Current Portion | Noncurrent Portion | Total |
| Term Loans: | | | | | | |
| Unsubordinated loan | **₱13,710** | **₱1,911,185** | **₱1,924,895** | ₱17,900 | ₱1,912,883 | ₱1,930,783 |
| Loan agreement | **9,004** | **970,318** | **979,322** | 9,039 | 979,334 | 988,373 |
| Obligations under finance lease (see Note 31) | **1,023** | **2,027** | **3,050** | 884 | 4,130 | 5,014 |
| | **₱23,737** | **₱2,883,530** | **₱2,907,267** | ₱27,823 | ₱2,896,347 | ₱2,924,170 |

a. *Unsubordinated Loan*

On December 27, 2012, Sky Cable availed of a short-term ₱1 billion loan from BPI with interest of 3.25% per annum. Proceeds were used to pay a ₱1 billion loan from Australia and New Zealand Banking Group Limited, Manila Branch (ANZ).

On February 4, 2013, Sky Cable availed of an additional short-term ₱850 million loan from BPI, at 3.75% interest per annum. The proceeds were used to fully pay the remaining bridge loan from ANZ.

On October 17, 2013, Sky Cable executed an unsecured and unsubordinated loan agreement with BPI and Security Bank for ₱1,800 million with interest at 7-year PDST-F plus 1% per annum subject to a floor rate of 5.40% and Robinsons Bank for ₱200 million with interest at 10-year PDST-F plus 0.9% per annum subject to a floor rate of 5.40%. The proceeds were used to repay the existing short-term loan of Sky Cable with BPI amounting to ₱1,850 million. The remaining ₱150 million will be used for working capital purposes.

On January 16, 2017, Sky Cable executed a loan agreement with BPI for ₱873 million for a term of 7 years, with interest rate of 5.40% per annum for the first 4 years from the issue date and the higher between the PDST-F plus 1.25% and 5.0% floor rate per annum until the date of maturity. The proceeds were used to refinance the existing loan of Sky Cable with BPI amounting to ₱900 million.

On February 1, 2017, Sky Cable executed a loan agreement with Security Bank for ₱873 million for a term of 7 years, with a fixed interest rate of 5.40% per annum until maturity date. The proceeds were used to refinance the existing loan of Sky Cable with Security Bank amounting to ₱900 million.

b. *Restructured Loan*

On October 26, 2010, a new loan was obtained with a principal amount of ₱1 billion to refinance Sky Cable's existing restructured long-term debt and the Post Moratorium Interest (which is the unpaid accrued interest on the principal) amounting to ₱863 million and ₱79 million, respectively.

The loan was obtained from various local banks and bears a fixed interest rate based on the previous banking day's 5-year PDST-F rate at the time of agreement plus 1%. The loan is unsecured and is payable in annual installment commencing on October 26, 2011 with a final maturity on October 26, 2017. It has an interest rate step-up feature in case the loan is extended for another two years. The loan was fully paid in January 2016.

c. *Loan Agreement*

On January 25, 2016, Sky Cable secured a ₱1 billion loan from Rizal Commercial Banking Corporation to partially finance its capital expenditure requirements, investments and/or debt refinancing. The loan has a term of five years and a fixed rate of 4.60% per annum.

As at December 31, 2017 and 2016, Sky Cable is in compliance with the provisions and all of the financial ratios required by its creditors in the agreement.

Unamortized debt issue costs, presented as a deduction from the unsubordinated and restructured loans, amounted to ₱16 million and ₱13 million as at December 31, 2017 and 2016, respectively.

Using the effective interest method, unamortized debt issue costs as at December 31, 2017 will be amortized as follows:

| Year | Amount |
|---|---|
| 2018 | ₱7,016 |
| 2019 | 7,352 |
| 2020 | 6,703 |
| 2021 and onwards | (4,158) |
| | ₱16,913 |

Amortization of debt issue costs amounted to ₱6 million, ₱6 million and ₱3 million in 2017, 2016 and 2015, respectively (see Note 28).

Based on nominal values, the schedule of debt repayments of the unsubordinated loans is as follows:

| Year | Amount |
|---|---|
| 2018 | ₱29,730 |
| 2019 | 29,730 |
| 2020 | 2,861,040 |
| | ₱2,920,500 |

PCC

On April 10, 2012, PCC signed an omnibus notes facility and security agreement with BDO in the amount of ₱800 million based on the interest rate setting date by reference to the prevailing BSP overnight borrowing rate multiplied by 97/100.

The loan is supported by deed of pledge executed by Sky Cable and the Continuing Suretyship Agreement executed by Sky Vision. The loan is payable in quarterly installments commencing on July 16, 2013 with a maturity on April 1, 2019.

The agreement provided for certain requirements and restrictions with respect to, among others, the use of the proceeds, maintenance of certain financial ratios, incurrence of additional debt, sale or lease of all or substantially all of PCC's assets, declaration of cash dividends or enter into merger or consolidation, except where PCC is the surviving entity and it does not result to a change in control.

As at December 31, 2017 and 2016, PCC is in compliance with the provisions and all of the financial ratios required by its creditors in the agreement.

Debt issue costs on the loan amounting to ₱2 million and ₱3 million as at December 31, 2017 and 2016, respectively are deferred and amortized using the effective interest method. Amortization of debt issue costs amounted to about ₱1 million in 2017, 2016 and 2015 (see Note 28).

Debt issue costs are amortized over the term of the loan using the effective interest method as follows:

| Year | Amount |
|---|---|
| 2018 | ₱1,192 |
| 2019 | 354 |
| | ₱1,546 |

The schedule of debt repayment of the loan is as follows:

| Year | Amount |
|---|---|
| 2018 | ₱8,000 |
| 2019 | 754,000 |
| | ₱762,000 |

Sky Cable group has finance leases over various transportation and office equipment and IRU granted by various telecommunication companies classified as part of "Other assets" under "Other noncurrent assets" account. The carrying value of the lease obligation amounted to ₱3 million and ₱5 million as at December 31, 2017 and 2016, respectively.

ABS-CBN International
On August 19, 2008, ABS-CBN International availed of a loan from Citibank, North America amounting to US$1 million (₱50 million). The loan has a term of 20 years and can be prepaid starting on the 15th year. The loan bears interest at a fixed rate per annum equal to 125 basis points in excess of Citibank's 15-year Cost of Funds in effect three business days prior to the funding of the loan, which Cost of Funds rate is based on the applicable term Libor Swap Rate.

The investment property acquired for which the loan was availed was pledged as collateral (see Note 11).

The schedule of debt repayment is as follows:

| Year | Amount |
|---|---|
| 2018 | ₱2,441 |
| 2019 | 2,580 |
| 2020 | 2,732 |
| 2021 | 2,894 |
| 2022 and onwards | 24,902 |
| | ₱35,549 |

As at December 31, 2017 and 2016, ABS-CBN International is in compliance with the provisions and all of the financial ratios required by its creditors in the agreement.

Play Innovations
Play Innovations, Inc. availed of various short-term loans from BPI to finance ongoing construction of Kidzania theme park. The principal amount of the loans totaled ₱240 million as at December 31, 2016, bearing an annual fixed interest rate of 4.21%. The loans are free from liens and mortgages. In 2017, the loans were renewed and will be settled within the next financial year.

ABS-C
In 2016, ABS-C entered into a finance lease covering transportation equipment. The carrying value of the lease obligation amounted to ₱21 million as at December 31, 2017 and 2016.

## 19. **Obligations for Program Rights**

This account represents liabilities to foreign and local film suppliers for program rights purchased by the Company. The liabilities are noninterest-bearing and are payable in equal monthly, quarterly or semiannual installments over a period of one to six years. The amounts presented in the consolidated statements of financial position represent the face amounts of the obligations, net of unamortized discounts, which represent the difference between the face amounts and the fair values of the obligations upon initial recognition.

The schedule of repayments as at December 31 is as follows:

| | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Gross Value** | **Unamortized Discount** | **Carrying Value** | Gross Value | Unamortized Discount | Carrying Value |
| Within one year | **₱382,841** | **₱33,105** | **₱349,736** | ₱477,282 | ₱37,966 | ₱439,316 |
| More than one year to five years | **614,117** | **59,460** | **554,657** | 748,626 | 87,959 | 660,667 |
| | **₱996,958** | **₱92,565** | **₱904,393** | ₱1,225,908 | ₱125,925 | ₱1,099,983 |

## 20. **Convertible Note**

On February 14, 2011, ABS-CBN, Lopez, Inc, Lopez Holdings, Sky Vision, Sky Cable, STT Communications Ltd. (STTC) and Sampaquita, entered into a Subscription and Purchase Agreement (SPA) wherein Sampaquita agreed to purchase PDRs from ABS-CBN and Lopez Holdings and to subscribe to originally issued PDRs from Sky Vision and convertible note to be issued by Sky Cable.

On March 30, 2011, ABS-CBN completed the sale of 143,107,174 PDRs with underlying Sky Cable shares to Sampaquita for ₱1,816 million. Simultaneously, Sampaquita completed the subscription of originally issued 149,711,934 PDRs with underlying Sky Cable shares from Sky Vision for ₱1,450 million and Sky Cable convertible note for ₱250 million.

On May 12, 2011, Sky Cable, as provided in the SPA dated February 14, 2011, completed the issuance of the ₱250 million note to Sampaquita convertible into 25,812,403 shares of Sky Cable at the option of Sampaquita any time from issue date to maturity date, which is 10 years from date of issuance.

The convertible note bears 0% interest rate for the first three years, subject to adjustment every three years upon mutual agreement of the parties, provided that the interest rate shall not exceed 10% per annum. The interest rate shall be agreed upon by Sky Cable and Sampaquita at least 30 days prior to the commencement of each 3-year period. If no such agreement is reached, the interest rate for the succeeding period shall be the same as the interest rate for the preceding 3-year period. Such interest shall accrue from and including the first day of such interest period but not including the last day of such interest period.

The convertible note was accounted for under split accounting. The equity component of the convertible note amounting to ₱27 million (net of transaction costs of ₱2 million and tax of ₱12 million) was recognized as part of noncontrolling interests in the consolidated financial statements. The liability component is presented separately as "Convertible note" in the consolidated statements of financial position.

In 2017, Sampaquita and Sky Cable agreed to retain the interest rate at 0% for the next three year period. Accordingly, Sky Cable recalculated the carrying amount of the convertible note to reflect the actual and revised estimated cash flows. The difference between the carrying values computed at the original effective interest rate and the revised effective interest rate amounting to ₱31 million is recognized as gain in 2017, shown as part of "Other income - others" account in the 2017 consolidated statement of income (see Note 28).

The carrying value of the convertible note amounted to ₱205 million and ₱221 million as at December 31, 2017 and 2016, respectively.

Accretion of the convertible note recognized as part of interest expense in the consolidated statements of income amounted to ₱16 million in 2017 and 2016, and ₱15 million in 2015 (see Note 28).

## 21. **Other Noncurrent Liabilities**

| | **2017** | 2016 |
|---|---|---|
| Customers' deposits | **₱386,805** | ₱178,134 |
| Deferred credits | **17,525** | 21,951 |
| Others | **81,212** | 78,645 |
| | **₱485,542** | ₱278,730 |

Customers' deposits related to Sky Cable's subscription agreements with customers are initially recognized at fair value. The discount is recognized as deferred credits and amortized over the estimated remaining term of the deposit as other income. Customers' deposits are refunded to the customers upon termination of service.

Others include outstanding transmission liability and other long-term payables.

## 22. **Equity**

Capital Stock

Details of authorized and issued capital stock as at December 31, 2017 and 2016 are as follows:

| | Number of Shares | Amount |
|---|---|---|
| | *(Amounts in Thousands, Except Number of Shares)* | |
| Authorized - | | |
| Common shares - ₱1.0 par value | 1,300,000,000 | ₱1,300,000 |
| Preferred shares - ₱0.2 par value | 1,000,000,000 | 200,000 |
| Issued - | | |
| Common shares | 872,123,642 | ₱872,124 |
| Preferred shares | 1,000,000,000 | 200,000 |

Below is the Parent Company's track record of the registration of securities:

| Date of SEC Order Rendered Effective or Permit to Sell | Event | Authorized Capital Stock | Issued Shares | Issue Price |
|---|---|---|---|---|
| | Registered and Listed Shares (Original Shares) | ₱200,000 | 111,327,200 | ₱1.00 |
| March 31, 1992 | Initial Public Offering (Primary) | 200,000 | 12,428,378 | 15.00 |
| | Secondary * | 200,000 | 18,510,517 | 15.00 |
| | ESOP* | 200,000 | 1,403,500 | 15.00 |
| June 16, 1993 | 40% stock dividends | 200,000 | 49,502,074 | 1.00 |
| August 18, 1994 | 50% stock dividends | 500,000 | 86,620,368 | 1.00 |
| July 25, 1995 | 100% stock dividends | 1,500,000 | 259,861,104 | 1.00 |
| July 2, 1996 | 50% stock dividends | 1,500,000 | 259,861,104 | 1.00 |
| January 7, 2014 | Issuance | 1,500,000 | 57,836,900 | 43.125 |
| January 7, 2014 | Issuance | 1,500,000 | 34,702,140 | 43.225 |

**Included in the 111,327,200 shares existing at the time of the IPO*

The Parent Company's total number of common stockholders is 5,317 and 5,371 as at December 31, 2017 and 2016, respectively.

*Preferred Shares.* The account consists of 1 billion cumulative, voting, non-participating, redeemable and nonconvertible preferred shares with a par value of ₱0.20 per share.

The Parent Company's total number of preferred shareholders is 197 as at December 31, 2017 and 2016.

Share-based Payment Plan

Lopez Holdings, a commonly controlled entity, has an Employee Stock Purchase Plan (ESPP) that was approved by the BOD and stockholders on February 28, 2011. The terms of ESPP, include among others, a limit as to the number of shares a qualified regular employee, officer or qualified director of Lopez Holdings and Lopez, Inc. or a qualified officer of Lopez Holdings' subsidiaries and associates, may purchase and the manner of payment based on equal semi-monthly installments over a period of two years through salary deductions. The stock options vest after two years from the grant date. All qualified participants are given until 10 years from grant date to exercise the stock options.

The primary terms of the grant are as follows:

| | |
|---|---|
| Grant date | May 2011 |
| Number of options granted allocable to the Company | 21,974,257 |
| Offer price per share | ₱4.573 |
| Option value per share | ₱1.65 |

The fair value of equity-settled share options granted is estimated as at the date of grant using the Black-Scholes Option Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the option grants:

| | |
|---|---|
| Expected volatility | 42.6% |
| Weighted average share price | ₱4.573 |
| Risk-free interest rate | 4.3% |
| Expected life of option | 5 years |
| Dividend yield | 2.5% |

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which likewise, may not necessarily be the actual outcome. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. No other features of options grant were incorporated into the measurement of the fair value of the options.

Total number of options exercisable under ESPP is as follows:

| | **2017** | 2016 |
|---|---|---|
| Balance at beginning of year | **711,743** | 13,447,196 |
| Exercised during the year | **(711,743)** | (12,735,453) |
| Balance at end of year | – | 711,743 |

Retained Earnings

Unappropriated retained earnings available for dividend distribution is adjusted to exclude the Parent Company's accumulated equity in net earnings of subsidiaries and associates amounting to ₱2,578 million and ₱2,000 million as at December 31, 2017 and 2016, respectively.

Further, the Parent Company's loan agreement with its creditors limits the declaration of dividends up to 50% of the net income after tax for the immediately preceding financial year. This limitation has been in effect since 2004 resulting to an accumulation of unappropriated retained earnings (see Note 18).

On February 22, 2017, the BOD approved the declaration of cash dividend of ₱1.04 per common share or an aggregate amount of ₱881 million to all common stockholders of record as at March 8, 2017 payable on March 22, 2017. On the same date, the BOD also approved the declaration and payment of 2% per annum cash dividend on the Parent Company's preferred shares with a record date set for March 8, 2017 and payable on March 22, 2017.

On March 17, 2016, the BOD approved the declaration of cash dividend of ₱0.75 per common share or an aggregate amount of ₱643 million to all common stockholders of record as at April 11, 2016 payable on April 29, 2016.

On May 5, 2016, the BOD approved the declaration and payment of 2% per annum cash dividend on the Parent Company's preferred shares with a record date set for May 20, 2016 and payable on June 7, 2016.

On March 5, 2015, the BOD approved the declaration of cash dividend of ₱0.60 per common share or an aggregate amount of ₱510 million to all common stockholders of record as at March 20, 2015 payable on April 20, 2015.

On April 24, 2015, the BOD approved the declaration and payment of 2% per annum cash dividend on the Parent Company's preferred shares with a record date set for May 11, 2015 payable on May 18, 2015.

On February 27, 2013, the BOD approved the reversal of appropriated retained earnings amounting to ₱8,300 million to unappropriated retained earnings. On the same date, the Company's BOD approved the appropriation of retained earnings of ₱16,200 million, including the specific projects and timeline. The appropriated retained earnings is set aside for capital expenditures particularly for the purchase of Parent Company's property and equipment needed for business operations and expansion over a period of five years.

Treasury Shares and PDRs Convertible to Common Shares
Details of treasury shares and PDRs convertible to common shares held by the Parent Company as at December 31, 2017 and 2016 are as follows:

| | Treasury Shares | PDRs Convertible to Common Shares | Total | Amount |
|---|---|---|---|---|
| Balance at beginning and end of year | 21,322,561 | 27,828,645 | 49,151,206 | ₱1,638,719 |

PDRs convertible to common shares represents ABS-CBN Holdings PDRs held by the Parent Company, which are convertible into ABS-CBN shares. Each PDR grants the holders, upon payment of the exercise price and subject to certain other conditions, the delivery of one ABS-CBN share or the sale of and delivery of the proceeds of such sale of one ABS-CBN share. The ABS-CBN shares are still subject to ownership restrictions on shares of corporations engaged in mass media and ABS-CBN may reject the transfer of shares to persons other than Philippine nationals. The PDRs were listed in the PSE on October 7, 1999 and may be exercised at any time from said date. Any cash dividends or other cash distributions in respect of the underlying ABS-CBN shares shall be applied by ABS-CBN Holdings, issuer of PDRs, towards payment of operating expenses and any amounts remaining shall be distributed pro-rata among outstanding PDR holders.

Transaction cost incurred on the purchase of treasury shares and PDRs convertible to common shares amounting to ₱993 thousand was charged to "Additional paid-in capital" in the 2015 consolidated statement of changes in equity.

## 23. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Transactions with Related Parties
In addition to the related party transactions discussed in Note 4, significant transactions of the Company with its associates, joint ventures and related parties follow:

| | | Years Ended December 31 | | |
|---|---|---|---|---|
| | Nature | **2017** | 2016 | 2015 |
| **Associate and Joint Venture** | | | | |
| Airtime revenue from A CJ O | Airtime fees | **₱17,902** | ₱6,000 | ₱19,500 |
| Blocktime fees paid to Amcara | Blocktime fees | **27,641** | 34,964 | 29,741 |
| Expenses and charges paid for by the Parent Company which are reimbursed by A CJ O and Amcara | Rent and utilties | **17,707** | 18,239 | 424 |
| **Entities under Common Control** | | | | |
| Expenses paid by the Parent Company and subsidiaries to Goldlink Securities and Investigative Services, Inc. (Goldlink), and other related parties | Service fees and utilities expenses | **92,391** | 164,182 | 179,335 |
| Expenses and charges paid for by the Parent Company which are reimbursed by the concerned related parties | Rent and utilities | **10,142** | 5,105 | 29,436 |
| (Forward) | | | | |

| | Nature | Years Ended December 31 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Revenue of API and subsidiaries from other related parties | Print revenue and Other service Fees | **₱–** | ₱29,091 | ₱5,850 |
| Payment to INAEC Aviation Corporation (INAEC) | Purchase of equipment | **–** | – | 357,960 |
| Loan and advances to Lopez Holdings | Purchase and interest | **–** | – | 120,232 |

The related receivables from related parties, presented under "Trade and other receivables" account and payables to related parties, presented under "Trade and other payables" account in the consolidated statements of financial position, are as follows:

| | Relationship* | Terms | Conditions | December 31, 2017 | December 31, 2016 |
|---|---|---|---|---|---|
| **Due from** (see Note 7) | | | | | |
| Amcara | Associate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **₱146,794** | ₱137,295 |
| ALA Sports | Joint Venture | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **50,496** | 31,379 |
| ABS-CBN Lingkod Kapamilya | Corporate social responsibility sector of ABS-CBN | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **40,818** | 32,492 |
| INAEC | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **36,478** | 22,235 |
| Skyworks, Inc. | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **24,441** | 31,722 |
| First Gas Power Corp. | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **1,540** | 26,330 |
| First Philippine Holdings Corporation (FPHC) | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **2,510** | 2,124 |
| Rockwell Land Corporation (Rockwell Land) | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **1,952** | 1,844 |
| A CJ O | Joint Venture | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **–** | 16,767 |
| Goldlink | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **–** | 5,772 |
| Others | Affiliate | 30 days upon receipt; noninterest-bearing | Unsecured, no impairment | **17,198** | 18,507 |
| Total | | | | **₱322,227** | ₱326,467 |

| | Relationship* | Terms | Conditions | **December 31, 2017** | December 31, 2016 |
|---|---|---|---|---|---|
| **Due to** (see Note 17) | | | | | |
| A CJ O | Joint Venture | 30 days upon receipt of billings; noninterest-bearing | Unsecured | **₱28,274** | ₱– |
| Beyond Cable Holdings, Inc. | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured | **16,690** | 16,690 |
| Lopez Holdings | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured | **6,725** | – |
| ABS-CBN Bayan Foundation | Corporate social responsibility sector of ABS-CBN | 30 days upon receipt of billings; noninterest-bearing | Unsecured | **1,355** | 11,878 |
| Lopez, Inc. | Ultimate parent | 30 days upon receipt of billings; noninterest-bearing | Unsecured | **415** | 29,575 |
| Others | Affiliates | 30 days upon receipt of billings; noninterest-bearing | Unsecured | **117,844** | 87,274 |
| Total | | | | **₱171,303** | ₱145,417 |

**Affiliate pertains to various entities under common control of Lopez, Inc., ultimate parent company*

a. The Parent Company owns the program rights being aired in UHF Channel 23 of Amcara. The Parent Company has an existing blocktime agreement with Amcara for its provincial operations.

b. Due from Amcara pertains substantially to the outstanding receivable for funds transferred by ABS-CBN to Amcara in 2012 to fund the purchase of an intangible asset.

c. Advances to employees and talents amounted to ₱638 million and ₱493 million as at December 31, 2017 and 2016, respectively (see Note 7).

d. Share-based payment shown under the equity section of the consolidated statements of financial position amounted to nil and ₱5 million as at December 31, 2017 and 2016, respectively (see Note 22).

e. In 2015, the Parent Company purchased certain properties from Lopez Holdings amounting to ₱96 million. As at December 31, 2017 and 2016, the carrying values of these properties amounted to ₱56 million and ₱77 million, respectively.

f. The Parent Company has advances to ALA Sports amounting to ₱51 million and ₱31 million as at December 31, 2017 and 2016, respectively.

g. In 2015, the Parent Company has advances to INAEC amounting to ₱336 million, which was used to purchase an equipment in 2016.

h. Other transactions with related parties include cash advances for working capital requirements.

Terms and Conditions of Transactions with Related Parties

Except for transactions identified in the previous section as interest-bearing, outstanding balances as at financial reporting date are generally unsecured, interest-free and settlement occurs in cash, and are collectible or payable on demand. For the years ended December 31, 2017, 2016 and 2015, the Company has not made any provision for doubtful accounts relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of Key Management Personnel of the Company

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Compensation (see Notes 25, 26 and 27) | **₱1,087,614** | ₱1,431,126 | ₱1,441,643 |
| Termination benefits | **55,644** | 62,520 | 47,412 |
| Pension benefits (see Note 30) | **52,986** | 58,145 | 62,194 |
| Vacation leaves and sick leaves | **28,647** | 42,736 | 45,528 |
| | **₱1,224,891** | ₱1,594,527 | ₱1,596,777 |

## 24. Material Noncontrolling Interests

Financial information of subsidiaries that have material noncontrolling interests is provided below.

Proportion of Equity Interest Held by Noncontrolling Interests

| | | Percentage | |
|---|---|---|---|
| Company | Place of Incorporation | **2017** | 2016 |
| Sky Cable Corporation and Subsidiaries (see Note 4) | Philippines | **40.6%** | 40.6% |
| Sapientis Holdings Corporation and Subsidiaries | Philippines | **30.7%** | 30.7% |

Accumulated Earnings (Losses) of Material Noncontrolling Interests

| Company | **2017** | 2016 |
|---|---|---|
| Sky Cable Corporation and Subsidiaries | **₱2,059,786** | ₱1,926,161 |
| Sapientis Holdings Corporation and Subsidiaries | **(1,560,423)** | (1,355,075) |

Net Income (Loss) Attributable to Material Noncontrolling Interests

| | Years Ended December 31 | | |
|---|---|---|---|
| Company | **2017** | 2016 | 2015 |
| Sky Cable Corporation and Subsidiaries | **₱49,098** | ₱14,181 | ₱10,054 |
| Sapientis Holdings Corporation and Subsidiaries | **(205,239)** | (354,554) | (343,000) |

The summarized financial information of Sky Cable and Sapientis are provided in the succeeding section. This information is based on amounts before intercompany eliminations and after fair value adjustments.

a. *Sky Cable*

Summarized Consolidated Statements of Financial Position

| | **2017** | 2016 |
|---|---|---|
| Cash and cash equivalents | **₱2,717,523** | ₱1,117,957 |
| Other current assets | **3,061,885** | 2,772,273 |
| Goodwill | **4,649,827** | 4,491,817 |
| Trademarks | **1,111,784** | 1,111,784 |
| Customer relationships | **511,215** | 400,109 |
| Other noncurrent assets | **11,237,995** | 11,294,032 |
| Current liabilities | **(7,002,500)** | (8,273,923) |
| Noncurrent liabilities | **(4,801,663)** | (4,639,267) |

Summarized Consolidated Statements of Comprehensive Income

| | **Years Ended December 31** | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Revenue | **₱9,123,752** | ₱8,760,859 | ₱8,083,253 |
| Cost of services | **(6,708,772)** | (6,176,978) | (5,725,541) |
| General and administrative expenses | **(2,246,346)** | (2,364,915) | (2,172,039) |
| Finance costs | **(261,504)** | (324,254) | (233,906) |
| Other income – net | **255,298** | 154,259 | 81,809 |
| Income before income tax | **162,428** | 48,971 | 33,576 |
| Provision for income tax | **36,527** | 8,515 | 10,073 |
| Net income | **125,901** | 40,456 | 23,503 |
| Other comprehensive income (loss) | **(161,770)** | 226,038 | 35,864 |
| Total comprehensive income (loss) | **(₱35,869)** | ₱266,494 | ₱59,367 |

Summarized Consolidated Statements of Cash Flows

| | **Years Ended December 31** | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Operating | **₱2,051,343** | ₱2,204,832 | ₱1,372,259 |
| Investing | **(1,608,928)** | (2,785,725) | (2,028,021) |
| Financing | **(187,495)** | (92,395) | (758,870) |
| | **₱254,920** | (₱673,288) | (₱1,414,632) |

b. *Sapientis*

Summarized Consolidated Statements of Financial Position

| | **2017** | 2016 |
|---|---|---|
| Cash and cash equivalents | **₱92,636** | ₱132,394 |
| Other current assets | **1,287,770** | 1,024,592 |
| Goodwill | **567,836** | 567,836 |
| Other noncurrent assets | **1,770,025** | 1,786,682 |
| Current liabilities | **(731,267)** | (2,810,688) |
| Noncurrent liabilities | **(9,757,659)** | (7,018,688) |

Summarized Consolidated Statements of Comprehensive Income

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Revenue | **₱562,845** | ₱356,104 | ₱397,964 |
| Cost of services | **(380,798)** | (465,706) | (423,016) |
| General and administrative expenses | **(817,091)** | (1,072,184) | (1,095,727) |
| Finance costs | **(261)** | (317) | (368) |
| Other income – net | **11,103** | 26,963 | 34,538 |
| Loss before income tax | **(624,202)** | (1,155,140) | (1,086,609) |
| Provision for income tax | **(722)** | (1,145) | 21,499 |
| Net loss | **(623,480)** | (1,153,995) | (1,108,108) |
| Other comprehensive income (loss) | **6,587** | (244) | (11,491) |
| Total comprehensive loss | **(₱616,893)** | (₱1,154,239) | (₱1,119,599) |

Summarized Consolidated Statements of Cash Flows

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Operating | **₱5,510** | ₱209,114 | (₱639,350) |
| Investing | **(45,268)** | (90,236) | (77,065) |
| Financing | **–** | – | 709,771 |
| | **(₱39,758)** | ₱118,878 | (₱6,644) |

25. **Production Costs**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Personnel expenses and talent fees (see Notes 23 and 30) | **₱6,219,856** | ₱6,410,846 | ₱6,185,440 |
| Facilities-related expenses (see Notes 23 and 31) | **1,682,196** | 1,939,806 | 1,708,826 |
| Depreciation and amortization (see Note 10) | **1,080,458** | 891,553 | 862,094 |
| Amortization of program rights (see Note 12) | **898,780** | 824,121 | 652,346 |
| Travel and transportation | **837,379** | 653,434 | 641,551 |
| License and royalty | **353,356** | 493,526 | 422,959 |
| Catering and food expenses | **185,117** | 229,383 | 179,656 |
| Set requirements | **176,520** | 225,832 | 234,552 |
| Other program expenses (see Notes 12 and 23) | **399,953** | 343,449 | 546,742 |
| | **₱11,833,615** | ₱12,011,950 | ₱11,434,166 |

Other program expenses consist of production expenses including, but not limited to, prizes and other expenses related to the promotional activities of various projects during the year.

26. **Cost of Sales and Services**

Cost of services consists of the following:

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Facilities-related expenses (see Notes 23 and 31) | **₱3,280,228** | ₱2,926,159 | ₱2,706,013 |
| Programming costs | **1,919,071** | 1,952,137 | 1,859,121 |
| Depreciation and amortization (see Note 10) | **1,738,750** | 1,816,164 | 1,524,531 |
| Personnel expenses (see Notes 23 and 30) | **1,560,519** | 1,609,428 | 1,532,060 |
| Bandwidth costs | **634,309** | 385,990 | 333,800 |
| Interconnection costs (see Note 23) | **277,763** | 292,722 | 262,897 |
| Amortization of program rights (see Note 12) | **256,279** | 176,773 | 198,165 |
| Transportation and travel | **228,124** | 232,641 | 179,230 |
| Inventory costs (see Note 8) | **107,737** | 73,341 | 80,741 |
| Freight and delivery | **81,295** | 66,897 | 79,465 |
| Taxes and licenses | **₱65,079** | ₱18,883 | ₱22,566 |
| Stationery and office supplies | **65,010** | 71,511 | 68,645 |
| License fees and royalties | **44,888** | 140,486 | 218,950 |
| Transaction costs | **41,088** | 162,197 | 228,469 |
| Catering and food expenses | **36,304** | 35,595 | 29,899 |
| Set requirements | **28,423** | 30,557 | 28,833 |
| Amortization of other intangible assets (see Note 12) | **25,606** | 9,421 | 9,119 |
| Installation costs | **619** | 2,222 | 31,818 |
| Amortization of deferred charges (see Note 15) | **6,993** | 6,402 | 34,484 |
| Others (see Note 23) | **313,628** | 313,549 | 170,803 |
| | **₱10,711,713** | ₱10,323,075 | ₱9,599,609 |

Amortization of movie in-process and filmed entertainment are recorded as part of "Cost of services" under each applicable expense account.

Cost of sales consists of the following:

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Inventory costs (see Note 8) | **₱2,016,341** | ₱1,587,460 | ₱1,408,306 |
| Personnel expenses (see Notes 23 and 30) | **38,020** | 38,753 | 37,922 |
| Printing and reproduction | **24,007** | 37,625 | 43,249 |
| Handling and processing costs | **13,204** | 11,070 | 12,070 |
| Transportation and travel | **2,723** | 2,724 | 1,571 |
| Freight and delivery | **2,716** | 4,991 | 5,419 |
| Facilities related expenses (see Notes 23 and 31) | **2,443** | 3,670 | 3,690 |
| Others | **10,488** | 7,315 | 18,864 |
| | **₱2,109,942** | ₱1,693,608 | ₱1,531,091 |

## 27. **General and Administrative Expenses**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Personnel expenses (see Notes 22, 23 and 30) | **₱5,861,141** | ₱6,471,719 | ₱6,701,800 |
| Advertising and promotion | **1,035,597** | 1,287,759 | 1,018,104 |
| Facilities related expenses (see Notes 23 and 31) | **1,025,094** | 887,099 | 947,811 |
| Contracted services | **878,372** | 1,008,749 | 959,863 |
| Depreciation and amortization (see Notes 10 and 11) | **846,932** | 693,893 | 685,867 |
| Transportation and travel | **651,276** | 319,471 | 337,678 |
| Provision for doubtful accounts (see Note 7) | **497,624** | 571,927 | 364,874 |
| Taxes and licenses | **417,839** | 489,352 | 459,398 |
| Research and survey | **264,752** | 352,546 | 243,180 |
| Entertainment, amusement and recreation | **94,646** | 101,709 | 105,844 |
| Donations and contributions | **53,346** | 61,442 | 62,167 |
| Amortization of other intangible assets (see Note 12) | **37,816** | 33,206 | 30,665 |
| Inventory losses (see Note 8) | **27,391** | 22,661 | 11,740 |
| Others | **224,933** | 359,946 | 191,901 |
| | **₱11,916,759** | ₱12,661,479 | ₱12,120,892 |

## 28. **Other Income and Expenses**

Finance Costs

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Interest expense (see Notes 18 and 20) | **₱931,459** | ₱968,768 | ₱762,463 |
| Amortization of debt issue costs (see Note 18) | **40,390** | 49,609 | 34,687 |
| Bank service charges | **36,067** | 18,009 | 14,637 |
| | **₱1,007,916** | ₱1,036,386 | ₱811,787 |

The following are the sources of the Company's interest expense:

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Long-term debt (see Note 18) | **₱829,341** | ₱825,677 | ₱584,709 |
| Bonds payable (see Note 18) | **86,314** | 122,237 | 158,970 |
| Convertible note (see Note 20) | **15,531** | 15,832 | 14,709 |
| Obligations under finance lease (see Note 18) | **273** | 5,022 | 4,075 |
| | **₱931,459** | ₱968,768 | ₱762,463 |

Other Income

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Leasing operations (see Note 31) | **₱35,346** | ₱37,319 | ₱34,800 |
| Management fees | **16,737** | – | 16,929 |
| Dividend income | **10,364** | 14,230 | 8,732 |
| Gain on sale of property and equipment | **6,221** | 3,987 | 11,687 |
| Revenue from workshops | **–** | 13,195 | 15,441 |
| Others - net (see Notes 15, 20 and 21) | **546,138** | 399,049 | 169,207 |
| | **₱614,806** | ₱467,780 | ₱256,796 |

Others mainly consist of income from installation services, unclaimed deposits and service fees.

## 29. Income Tax and Registration with the Philippine Economic Zone Authority (PEZA)

The provision for (benefit from) income tax follows:

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Current | **₱604,575** | ₱1,047,055 | ₱878,347 |
| Deferred | **167,883** | 108,500 | (94,105) |
| | **₱772,458** | ₱1,155,555 | ₱784,242 |

The components of consolidated net deferred tax assets and liabilities of the Company are as follows:

| | **2017** | 2016 |
|---|---|---|
| Deferred tax assets - net : | | |
| Accrued pension obligation and other employee benefits | **₱1,097,117** | ₱1,540,896 |
| Allowance for doubtful accounts | **535,445** | 460,821 |
| NOLCO | **468,901** | 410,625 |
| Capitalized interest, duties, and taxes | **(265,578)** | (266,704) |
| Excess of the purchase price over the fair value of net assets acquired | **249,751** | 1,900 |
| MCIT | **235,853** | 108,552 |
| License | **(149,828)** | (149,828) |
| Unearned revenue | **126,681** | 104,634 |
| Imputed discount | **(84,536)** | (84,536) |
| Customers' deposits | **99,997** | 110,884 |
| Accrued expenses | **74,076** | 164,444 |
| Net unrealized foreign exchange loss (gain) | **21,210** | (5,544) |
| Allowance for impairment loss on property and equipment | **8,764** | 17,998 |
| Allowance for inventory obsolescence | **4,625** | 5,504 |
| Others | **40,464** | 79,031 |
| | **₱2,462,942** | ₱2,498,677 |
| Deferred tax liability - | | |
| Excess of the fair value over the book value of net assets acquired | **₱138,271** | ₱138,271 |

The details of the deductible temporary differences, NOLCO and MCIT of certain subsidiaries for which no deferred tax assets were recognized are as follows:

| | **2017** | 2016 |
|---|---|---|
| NOLCO | **₱2,123,324** | ₱500,065 |
| Allowance for doubtful accounts | **939,159** | 1,064,214 |
| Accrued pension obligation and others | **348,722** | 397,763 |
| Unearned revenue | **203,130** | 253,621 |
| Allowance for impairment loss on property and equipment | **83,846** | 66,769 |
| Allowance for decline in value of inventories | **63,420** | 90,181 |
| MCIT | **6,504** | 3,386 |

Management believes that it is not probable that taxable income will be available against which these temporary differences, NOLCO and MCIT will be utilized.

In 2017, NOLCO amounting to ₱1,711 million, expired and were written off. NOLCO amounting to ₱109 million, were claimed as deduction against RCIT due and taxable income. In 2016, NOLCO amounting to ₱547 million, expired and were written off. MCIT and NOLCO amounting to ₱100 thousand and ₱541 thousand, respectively, were claimed as deduction against RCIT due and taxable income.

MCIT of certain subsidiaries amounting to ₱242 million can be claimed as tax credit against future RCIT as follows:

| Year Paid | Expiry Dates | Amount |
|---|---|---|
| 2015 | December 31, 2018 | ₱40,408 |
| 2016 | December 31, 2019 | 45,923 |
| 2017 | December 31, 2020 | 156,026 |
| | | ₱242,357 |

NOLCO of certain subsidiaries amounting to ₱3,686 million can be claimed as deductions from future taxable income as follows:

| Year Incurred | Expiry Dates | Amount |
|---|---|---|
| 2015 | December 31, 2018 | ₱1,254,302 |
| 2016 | December 31, 2019 | 1,472,075 |
| 2017 | December 31, 2020 | 959,950 |
| | | ₱3,686,327 |

As at December 31, 2017 and 2016, deferred tax liability on undistributed earnings of ABS-CBN Global, holding company of the Parent Company’s foreign subsidiaries, amounting to ₱1,860 million and ₱1,772 million, respectively, has not been recognized because the Parent Company has control over such earnings, which have been earmarked for expansion in the Company’s foreign operations and are not expected to reverse in the foreseeable future.

The reconciliation of statutory tax rate to effective tax rates applied to income before income tax is as follows:

| | **Years Ended December 31** | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Statutory tax rate | **30%** | 30% | 30% |
| Additions to (reduction in) income taxes resulting from the tax effects of: | | | |
| Interest income subjected to final tax | **(4)** | (5) | (5) |
| Nondeductible interest expense | **1** | 1 | 2 |
| Others (mainly income subject to different tax rates) | **(6)** | (1) | (2) |
| Effective tax rates | **21%** | 25% | 25% |

The income tax on profits of overseas subsidiaries have been calculated at the rates of tax prevailing in the countries where such subsidiary operates, based on existing legislation, interpretations and practices in respect thereof.

Registration with the PEZA
On July 14, 2009, the PEZA approved the application of Big Dipper for registration as an Ecozone Information Technology (IT) Enterprise to provide digital film archiving, digital central library, content licensing and transmission at the 3rd Floor, Eugenio Lopez, Jr. Communications Center, Eugenio Lopez Drive, Quezon City.

On February 13, 2014, the PEZA approved the application of Big Dipper for entitlement to Pioneer Status. Consequently, Big Dipper's income tax holiday period was extended until October 31, 2015.

Total income tax holiday incentives availed by Big Dipper amounted to nil in 2017 and 2016, and ₱420 million in 2015.

Registration with the Board of Investments
On April 8, 2015, the Board of Investments approved Play Innovation Inc.'s project as a New Operator of Tourism Entertainment Complex – Educational Theme Park and was granted income tax holiday for four years beginning April 2015. Total income tax holiday incentives availed by Play Innovations, Inc. amounted to ₱8 million and ₱9 million for the years ended December 31, 2017 and 2016, respectively.

Republic Act (RA) No. 10963
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 at the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statements as at the reporting date.

## 30. **Pension and Other Employee Benefits**

Accrued pension obligation and other employee benefits consist of:

| | **2017** | 2016 |
|---|---|---|
| Pension obligation | **₱4,316,059** | ₱3,486,606 |
| Other employee benefits | **1,828,560** | 2,190,341 |
| | **₱6,144,619** | ₱5,676,947 |

These are presented in the consolidated statements of financial position as follows:

| | **2017** | 2016 |
|---|---|---|
| Current (see Note 17) | **₱386,675** | ₱770,711 |
| Noncurrent | **5,757,944** | 4,906,236 |
| | **₱6,144,619** | ₱5,676,947 |

a. Pension Plan

The Company's pension plans are composed of funded (Parent Company and Sky Cable) and unfunded (other subsidiaries), noncontributory and actuarially computed defined benefit pension plans, except for ABS-CBN International (contributory), covering substantially all of its employees. The benefits are based on years of service and compensation during the last year of employment. Actuarial valuation is performed every year-end.

The following tables summarize the components of consolidated net pension expense recognized in the consolidated statements of income and accrued pension obligation recognized in the consolidated statements of financial position:

Net Pension Expense

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Current service cost | **₱642,280** | ₱561,607 | ₱578,052 |
| Net interest cost | **154,386** | 144,767 | 159,097 |
| Past service cost | **22,124** | – | 908 |
| Curtailment | **–** | (113,095) | (422,601) |
| Settlement loss | **–** | 86,839 | 235,117 |
| Net pension expense | **₱818,790** | ₱680,118 | ₱550,573 |

Accrued Pension Obligation

| | **2017** | 2016 |
|---|---|---|
| Present value of obligation | **₱6,899,614** | ₱6,453,912 |
| Fair value of plan assets | **(2,583,555)** | (2,967,306) |
| Accrued pension obligation | **₱4,316,059** | ₱3,486,606 |

Consolidated changes in the present value of the defined benefit obligation are as follows:

| | **2017** | 2016 |
|---|---|---|
| Defined benefit obligation at beginning of year | **₱6,453,912** | ₱5,925,481 |
| Current service cost | **642,280** | 561,607 |
| Interest cost | **305,969** | 291,292 |
| Actuarial losses (gains) arising from: | | |
| Experience adjustments | **871,346** | 636,675 |
| Change in financial assumptions | **(157,732)** | (387,750) |
| Change in demographic assumptions | **(341,695)** | (177,550) |
| Benefits paid | **(896,590)** | (282,748) |
| Past service cost | **22,124** | – |
| Curtailment gain | **–** | (113,095) |
| Defined benefit obligation at end of year | **₱6,899,614** | ₱6,453,912 |

Changes in the fair value of plan assets of the Parent Company and Sky Cable are as follows:

| | **2017** | 2016 |
|---|---|---|
| Fair value of plan assets at beginning of year | **₱2,967,306** | ₱2,945,835 |
| Return on plan assets excluding amount included in net interest cost | **(533,641)** | (456,693) |
| Interest income included in net interest cost | **151,583** | 146,525 |
| Losses on return on plan assets | **(1,871)** | (3,361) |
| Benefits paid | **178** | – |
| Actual contributions | **–** | 335,000 |
| Fair value of plan assets at end of year | **₱2,583,555** | ₱2,967,306 |

The Parent Company and Sky Cable expect to contribute ₱935 million and ₱460 million, respectively, to the retirement fund in 2018.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

| | **2017** | 2016 |
|---|---|---|
| | *(Percentage)* | |
| Investment in fixed/floating rate treasury note | **12.4** | 18.2 |
| Investment in government securities and bonds | **11.2** | 7.5 |
| Investment in stocks | **63.7** | 63.4 |
| Others | **12.7** | 10.9 |
| | **100.0** | 100.0 |

The ranges of principal assumptions used in determining pension benefit obligations for the Company's plans are shown below:

| | **December 31** | January 1 | |
|---|---|---|---|
| | **2017** | **2017** | 2016 |
| Discount rate | **5.70%-5.81%** | **5.13%-5.66%** | 4.6%–4.8% |
| Future salary rate increases | **3.0%-11.0%** | **4.0%-9.0%** | 5.0%–11.0% |

<u>ABS-CBN</u>
The pension fund is actively managed by the retirement committee, composed of five members, four of whom are executive staff of the Parent Company and beneficiaries of the plan.

The retirement committee of the beneficial trust fund uses an investment approach with the objective of maximizing the long-term expected return of plan assets. The plan's investment portfolio seeks to achieve regular income, long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the Trustee's mandate is to invest in a diversified portfolio of fixed income and equities. The investment portfolio consists of investment in equity and fixed income securities of 80% and 20% as at December 31, 2017, respectively, and 76% and 24% as at December 31, 2016, respectively. The Parent Company contributed ₱335 million in 2016 (nil in 2017).

On July 27, 2010, the retirement committee of the retirement fund approved the following:

a. Acquisition of ABS-CBN securities to fully fund the retirement fund deficiency;
b. Allow the acquisition of Lopez Holdings shares and shares of other listed companies;
c. Migrate to an investment management account arrangement in lieu of a "Trusteed" arrangement with BDO; and
d. Appoint an investment officer of the retirement plan.

The market value of ABS-CBN asset allocation as at December 31, 2017 and 2016 are as follows:

| | **2017** | 2016 |
|---|---|---|
| Fixed Income: | | |
| Short-term | **₱228,391** | ₱468,865 |
| Medium and long-term: | | |
| Government securities | **174,619** | 124,401 |
| Corporate bonds | **83,193** | 78,970 |
| Preferred shares | **9,586** | 3,205 |
| Equities: | | |
| Investment in shares of stock and other securities of related parties | **1,631,645** | 1,813,950 |
| Common shares and unit investment trust fund (UITF) | **318,676** | 344,800 |
| | **₱2,446,110** | ₱2,834,191 |

*Short-term Fixed Income.* Short-term fixed income investment includes time deposit, special deposit account and special savings account with interest ranging from 2% to 5% in 2017 and from 1% to 4% in 2016.

*Medium and Long-term Fixed Income.* Investments in medium and long-term fixed income include Philippine peso-denominated bonds, such as government securities, corporate bonds, notes and debt securities and equity investment in preferred shares.

Government securities include treasury bills and fixed-term treasury notes bearing interest ranging from 3% to 9% and 4% to 9% in 2017 and 2016, respectively. These securities are fully guaranteed by the government of the Republic of the Philippines.

Investment in unsecured corporate bonds has a total cost of ₱83 million and ₱76 million with terms ranging from 7 years to 15 years and 6 years to 15 years as at December 31, 2017 and 2016, respectively. Yield to maturity rate ranges from 4% to 7% with a total loss of ₱747 thousand and 4% to 7% with a total gain of ₱1 million in 2017 and 2016, respectively.

In 2017 and 2016, investment in preferred stock refers to 5,700 shares and 5,000 shares with a total cost of ₱9 million and ₱3 million and gain of ₱949 thousand and ₱205 thousand, respectively. The market value of preferred stock is ₱3 million as at December 31, 2017 and 2016, respectively.

*Equities.* These pertain to investments in shares of stock and other securities of related parties and other companies listed in the PSE.

*Investments in Shares of Stock and Other Securities of Related Parties.* These pertain to investments in ABS-CBN PDRs and common shares and Lopez Holdings and Rockwell Land common shares.

| | **December 31, 2017** | | | |
|---|---|---|---|---|
| | **Number of Shares** | **Cost** | **Market Value** | **Unrealized Gain (Loss)** |
| ABS-CBN PDRs | **34,903,218** | **₱1,515,864** | **₱1,204,161** | **(₱311,703)** |
| ABS-CBN Common | **501,320** | **24,052** | **17,346** | **(6,706)** |
| Lopez Holdings | **66,248,580** | **227,955** | **370,992** | **143,037** |
| Rockwell Land | **17,103,433** | **34,476** | **36,259** | **1,783** |
| First Gen Corporation (First Gen) | **225** | **6** | **4** | **(2)** |
| First Philippine Holdings (FPH) | **46,500** | **3,503** | **2,883** | **(620)** |
| | **118,803,276** | **₱1,805,856** | **₱1,631,645** | **(₱174,211)** |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Number of Shares | Cost | Market Value | Unrealized Gain (Loss) |
| ABS-CBN PDRs | 27,164,998 | ₱1,149,039 | ₱1,195,259 | ₱46,220 |
| ABS-CBN Common | 441,120 | 21,186 | 19,321 | (1,865) |
| Lopez Holdings | 71,513,080 | 244,021 | 557,802 | 313,781 |
| Rockwell Land | 17,103,433 | 34,476 | 26,681 | (7,795) |
| Energy Development Corp (EDC) | 2,137,500 | 14,294 | 11,008 | (3,286) |
| First Gen | 225 | 6 | 5 | (1) |
| FPH | 57,060 | 4,298 | 3,874 | (424) |
| | 118,417,416 | ₱1,467,320 | ₱1,813,950 | ₱346,630 |

In 2016, the retirement fund purchased additional ABS-CBN PDRs and common shares from ABS-CBN, Rockwell Land, Lopez Holdings, EDC, First Gen and FPH. In 2015, the retirement fund purchased 1,357,780 shares of ABS-CBN PDRs and 50,000 shares of Lopez Holdings at ₱65.96 and ₱7.18, respectively. As at December 31, 2017 and 2016, the value of each ABS-CBN PDRs held by the retirement fund is at ₱34.50 and ₱44.00, respectively.

Total gain (loss) from investments in shares of stock and other securities of related parties amounted to (₱174) million and ₱346 million in 2017 and 2016, respectively.

*Investments in Common Shares and UITF.* Common shares pertain to 90,490,457 shares and 41,205,888 shares listed in the PSE in 2017 and 2016, respectively, with market value of ₱319 million and ₱337 million as at December 31, 2017 and 2016, respectively. UITF has a market value of ₱7 million as at December 31, 2016 (nil in 2017). Total gain from these investments amounted to ₱5 million in 2017 and ₱4 million in 2016.

Sky Cable and PCC

Sky Cable's retirement benefit fund is being maintained by trustee banks, BDO and Rizal Commercial Banking Corporation.

The market value of Sky Cable asset allocation as at December 31, 2017 and 2016 are as follows:

| | **2017** | 2016 |
|---|---|---|
| Short-term fixed income | **₱13,880** | ₱22,385 |
| Investment in medium and long-term fixed income: | | |
| Government securities | **91,898** | 83,020 |
| Corporate bonds and debt securities | **22,079** | 18,070 |
| Investment in shares of stock of First Gen Corporation (First Gen) | **7,495** | 7,480 |
| Preferred shares | **2,093** | 2,160 |
| | **₱137,445** | ₱133,115 |

*Short-term Fixed Income.* Short-term fixed income investment includes time deposit, special deposit account and special savings account with average interests of 2.0% as at December 31, 2017 and 2016

*Medium and Long-term Fixed Income.* Investment in medium and long-term fixed income include Philippine peso-denominated bonds, such as government securities, corporate bonds, notes and debt securities.

*Investment in Government Securities.* Investment in government securities include treasury bills and fixed-term treasury notes bearing interest ranging from 2.13% to 6.38% as at December 31, 2017 and 2016. These securities are fully guaranteed by the government of the Republic of the Philippines. Total loss and gain from investments in government securities amounted to ₱769 thousand and ₱200 thousand for the years ended December 31, 2017 and 2016, respectively.

*Investment in Corporate Bonds.* These pertain to ₱20 million and ₱18 million unsecured bonds with terms ranging from 6 to 10 years as at December 31, 2017 and 2016, respectively. Yield to maturity rate ranges from 4.6% to 6.8% with a gain of ₱229 thousand and ₱100 thousand in 2017 and 2016, respectively.

*Investment in Debt Securities.* This refers to a ₱5 million unsecured subordinated note with a term of 5 years and yield to maturity of 6.7% as at December 31, 2017. Accrued interest receivable amounted to ₱58 thousand as at December 31, 2017.

*Investments in Shares of Stock of First Gen.* These refer to investments in preferred shares of First Gen which is listed in the PSE.

Total cost and market value of investments in shares of stock of First Gen amounted to ₱7 million as at December 31, 2017 and 2016. Total gain from these investments amounted to ₱1 million and ₱900 thousand in 2017 and 2016, respectively.

*Investments in Shares.* These refer to investments in shares of stock other than those of the related parties.

b. Other Employee Benefits

Other employee benefits consists of accumulated employee sick and vacation leave entitlement.

Net Benefit Expense

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Current service cost | **₱152,531** | ₱281,530 | ₱168,319 |
| Interest cost | **98,791** | 86,271 | 74,123 |
| Net actuarial loss (gain) | **(406,616)** | 19,554 | (71,100) |
| Net benefit expense (income) | **(₱155,294)** | ₱387,355 | ₱171,342 |

Consolidated changes in the present value of the defined benefit obligation are as follows:

| | **2017** | 2016 |
|---|---|---|
| Defined benefit obligation at beginning of year | **₱2,190,341** | ₱1,869,265 |
| Current service cost | **152,531** | 281,530 |
| Interest cost | **98,791** | 86,271 |
| Actuarial loss (gain) | **(406,616)** | 19,554 |
| Benefits paid | **(206,487)** | (66,279) |
| Defined benefit obligation at end of year | **₱1,828,560** | ₱2,190,341 |

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 were held constant:

| | **2017** | 2016 |
|---|---|---|
| | **Increase (Decrease) in Defined Benefit Obligation** | Increase (Decrease) in Defined Benefit Obligation |
| Discount rate: | | |
| Increase by 1% | **(₱2,303,979)** | (₱646,435) |
| Decrease by 1% | **(1,021,955)** | 845,384 |
| Future salary increases: | | |
| Increase by 1% | **(₱990,779)** | ₱851,393 |
| Decrease by 1% | **(2,342,165)** | (665,117) |

Shown below is the maturity analysis of the undiscounted benefit payments:

| Year | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| One year | **₱331,965** | ₱594,697 |
| More than one year but less than five years | **2,279,489** | 1,501,901 |
| More than five years but less than ten years | **3,708,857** | 3,618,369 |
| Beyond ten years | **24,050,302** | 24,146,545 |

The average duration of the defined benefit obligation at the end of the period is 21 years.

## 31. Commitments

Deal Memorandum with DirecTV

On June 1, 2005, the Parent Company and ABS-CBN International entered in to a 25-year Deal Memorandum (Memorandum) with DirecTV in which the Parent Company granted DirecTV the exclusive right via satellite, internet protocol technology and satellite master antenna television system or similar system, to display, exhibit, perform and distribute certain programs of the Parent Company that are listed in the Memorandum. ABS-CBN International may engage in any marketing plan mutually agreed by both parties. All costs under any mutually agreed marketing plans shall be shared equally between DirecTV and ABS-CBN International.

As provided in the Memorandum, all rights, title and interest in and to the content, discrete programs or channels not granted to DirecTV are expressly reserved by the Parent Company. All programming decisions with respect to the programs shall be in the Parent Company's commercially reasonable discretion, including the substitution or withdrawal of any scheduled programs, provided that the Parent Company agrees that the programs will consist substantially the same content and genre provided for in the Memorandum.

The Memorandum also provides that subscription revenues, computed as the current and stand alone retail price per month for a subscription to The Filipino Channel multiplied by the average number of subscribers, shall be divided equally between DirecTV and ABS-CBN International.

ABS-CBN International's share in the subscription revenue earned from subscribers that have migrated to DirecTV amounted to ₱733 million, ₱701 million and ₱641 million in 2017, 2016 and 2015, respectively.

Operating Lease

*As Lessee*. The Parent Company and subsidiaries lease office facilities, space and satellite equipment. Future minimum rental payable under non-cancelable operating leases are as follows:

| | **2017** | 2016 |
|---|---|---|
| Within one year | **₱204,721** | ₱240,284 |
| After one year but not more than five years | **706,271** | 744,863 |
| After five years but not more than ten years | **401,763** | 567,102 |
| | **₱1,312,755** | ₱1,552,249 |

*As Lessor*. The Parent Company has entered into commercial property leases on its building, consisting of the Parent Company's surplus office buildings. These non-cancelable leases have remaining non-cancelable lease terms of 3 to 5 years. All leases include a clause to enable upward revision of the rental charge on a predetermined rate.

Future minimum rental receivable under non-cancelable operating leases are as follows:

| | **2017** | 2016 |
|---|---|---|
| Within one year | **₱36,379** | ₱68,709 |
| After one year but not more than five years | **15,443** | 41,029 |
| | **₱51,822** | ₱109,738 |

Obligations under Finance Lease
The Company has finance leases over various items of equipment and IRU granted by various telecommunication companies. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

| | **2017** | 2016 |
|---|---|---|
| Within one year | **₱7,963** | ₱21,959 |
| After one year but not more than five years | **30,245** | 31,006 |
| Total minimum lease payments | **38,208** | 52,965 |
| Less amounts representing finance charges | **14,441** | 15,095 |
| Present value of minimum lease payments | **23,767** | 37,870 |
| Less current portion (see Note 18) | **7,781** | 19,781 |
| Noncurrent portion (see Note 18) | **₱15,986** | ₱18,089 |

Purchase Commitments
Sky Cable has commitments with various program suppliers for a period of 1 to 5 years. Channel license fees are based on fixed and variable rates. Estimated fees for the next four years are as follows:

| Year | Amount* |
|---|---|
| Within one year | ₱666,658 |
| After one year but not more than five years | 1,453,966 |

**Includes variable fees based on the number of active subscribers as at December 31, 2017.*

The estimated fees include channel license fees contracted by Sky Cable for its subsidiaries, amounting to ₱174 million, for which Sky Cable will be reimbursed.

Network Sharing Agreement
On May 28, 2013, ABS-CBN announced its network sharing agreement with Globe Telecom, Inc. (Globe). This partnership enables ABS-CBN to deliver ABS-CBN content and offer traditional telecommunication services on mobile devices. Through the network-sharing agreement, Globe will provide capacity and coverage on its existing cellular mobile telephony network to ABS-C on a nationwide basis. The parties may also share assets such as servers, towers, and switches. The Company recognized interconnection cost amounting to ₱202 million in 2017, ₱293 million in 2016 and ₱263 million in 2015 (see Note 26).

Construction Contracts
Play Innovations entered into various construction contracts for the development of an educational theme park under the franchise license of KidZania brand in the Philippines. The contract value committed for the significant construction contracts amounted to ₱1,165 million as at December 31, 2016. All outstanding construction projects have been significantly completed in 2017.

## 32. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash and cash equivalents, short-term investments, AFS investments and interest-bearing loans and borrowings. The main purpose of these financial instruments is to raise funds for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The BOD reviews and agrees on the policies for managing each of these risks and they are summarized below.

Cash Flow Interest Rate Risk
The Company's exposure to the risk for changes in market interest rates relates primarily to the Company's debt obligations with floating interest rates.

To manage this mix in a cost-efficient manner, it is the Company's policy to enter into interest rate swaps whenever the need arises. Without the existence of any swaps, the Company's loan with fixed rate of interest is at about 87% and 96% of the total loans at the end of 2017 and 2016, respectively. As at December 31, 2017 and 2016, there are no freestanding derivative contracts.

The following table sets out the carrying amount, by maturity, of the Company's consolidated financial instruments that are exposed to interest rate risk:

| | Within One Year | One to Two Years | Two to Three Years | Three to Four Years | Four to Five Years | More than Five Years | Transaction Costs and Discount | Total |
|---|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | | |
| Interest-bearings loans and borrowings: | | | | | | | | |
| Fixed rate | **₱330,523** | **₱107,527** | **₱105,500** | **₱7,048,000** | **₱95,500** | **₱1,004,000** | **(₱79,782)** | **₱8,611,268** |
| Floating rate | **30,171** | **776,310** | **22,462** | **22,624** | **44,632** | **1,839,350** | **(17,829)** | **2,717,720** |
| 2016 | | | | | | | | |
| Interest-bearings loans and borrowings: | | | | | | | | |
| Fixed rate | ₱325,305 | ₱1,681,697 | ₱97,135 | ₱87,051 | ₱6,084,569 | ₱8,600,500 | (₱110,181) | ₱16,766,076 |
| Floating rate | 10,291 | 30,426 | 778,569 | 32,721 | 2,870,184 | – | (16,044) | 3,706,147 |

Interest on financial instruments classified as floating rate is repriced at intervals of three months. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the above tables are noninterest-bearing and are therefore not subject to interest rate risk.

Based on these experiences, the Company provides the following table to demonstrate the sensitivity of the Company's income before income tax (through the impact on floating rate borrowings) to a reasonably possible change in interest rates, with all other variables held constant. There is no impact on the Company's equity other than those already affecting the net income.

| | Effect on Income Before Income Tax | |
|---|---|---|
| | **2017** | 2016 |
| Parent Company: | | |
| Increase by 2% | **(₱–)** | (₱–) |
| Decrease by 2% | **–** | – |
| PCC: | | |
| Increase by 1% | **(₱7,620)** | (₱7,720) |
| Decrease by 1% | **7,620** | 7,720 |

Foreign Currency Risk
It is the Company's policy to enter into cross currency swaps whenever the need arises to manage foreign currency risk and eliminate the variability of cash flows due to changes in the fair value of the foreign-currency denominated debt with maturity of more than one year.

As at December 31, 2017 and 2016, there are no freestanding derivative contracts and the Company's long-term loan obligations are generally in Philippine currency.

The Company, however has transactional currency exposures. Such exposure arises when the transaction is denominated in currencies other than the functional currency of the operating unit or the counterparty.

The following tables show the Company's significant foreign currency-denominated financial assets and liabilities and their Philippine peso equivalents as at December 31, 2017 and 2016:

| | Original Currency | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **USD** | **EUR** | **JPY** | **CAD** | **GBP** | **AUD** | **AED** | **Swiss Franc (CHF)** | **Norway Kroner (NOK)** | **Denmark Kroner (DKK)** | **Sweden Kroner (SEK)** | **Saudi Arabia Riyal (SAR)** | **Taiwan Dollar (TWD)** | **Israeli New Shekel (ILS)** | **Peso Equivalent** |
| **December 31, 2017** | | | | | | | | | | | | | | | |
| Financial assets: | | | | | | | | | | | | | – | | |
| Cash and cash equivalents | **90,961** | **7,602** | **59,350** | **30,356** | **2,199** | **406** | **53,201** | **370** | **260** | **1,314** | **75** | **5** | – | **58** | **7,151,631** |
| Trade and other receivables | **401,940** | **10,095** | **70,759** | **36,250** | **10,464** | **1,556** | **4,399** | **315** | **51** | **230** | **110** | **768** | – | **819** | **23,015,421** |
| | **492,901** | **17,697** | **130,109** | **66,606** | **12,663** | **1,962** | **57,600** | **685** | **311** | **1,544** | **185** | **773** | **0** | **877** | **30,167,052** |
| Financial liabilities: | | | | | | | | | | | | | | | |
| Trade and other payables | **438,952** | **339** | **10,283** | **27,868** | **2,284** | **428** | **3,885** | **1** | – | – | – | **234** | – | **155** | **23,280,115** |
| Obligations for program rights | **1,367** | – | – | – | – | – | – | – | – | – | – | – | – | – | **68,260** |
| | **440,319** | **339** | **10,283** | **27,868** | **2,284** | **428** | **3,885** | **1** | – | – | – | **234** | – | **155** | **23,348,375** |
| Net foreign currency-denominated financial assets (liabilities) | **52,582** | **17,358** | **119,826** | **38,738** | **10,379** | **1,534** | **53,715** | **684** | **311** | **1,544** | **185** | **539** | – | **722** | **6,818,677** |
| December 31, 2016 | | | | | | | | | | | | | | | |
| Financial assets: | | | | | | | | | | | | | | | |
| Cash and cash equivalents | 45,527 | 34,077 | 152 | 50,797 | 21,439 | 1,410 | 2,070 | 119 | 846 | 534 | 138 | – | 28,098 | 164 | 7,425,179 |
| Trade and other receivables | 215,876 | 20,471 | 53,205 | 29,381 | 1,143 | 2,911 | 48,405 | 314 | (37) | 246 | 109 | 25,073 | 481 | 819 | 14,132,577 |
| | 261,403 | 54,548 | 53,357 | 80,178 | 22,582 | 4,321 | 50,475 | 433 | 809 | 780 | 247 | 25,073 | 28,579 | 983 | 21,557,756 |
| Financial liabilities: | | | | | | | | | | | | | | | |
| Trade and other payables | 185,930 | 1,747 | 8,209 | 17,604 | 2,983 | 4,356 | 21,221 | 4 | 27 | 2 | 1 | 640 | – | 155 | 10,640,500 |
| Obligations for program rights | 17,923 | – | – | – | – | – | – | – | – | – | – | – | – | – | 891,324 |
| | 203,853 | 1,747 | 8,209 | 17,604 | 2,983 | 4,356 | 21,221 | 4 | 27 | 2 | 1 | 640 | – | 155 | 11,531,824 |
| Net foreign currency-denominated financial assets | 57,550 | 52,801 | 45,148 | 62,574 | 19,599 | (35) | 29,254 | 429 | 782 | 778 | 246 | 24,433 | 28,579 | 828 | 10,025,932 |

In translating the foreign currency-denominated monetary assets and liabilities into Philippine peso amounts, the Company used the following exchange rates:

| Currency | **2017** | 2016 |
|---|---|---|
| USD | **49.93** | 49.81 |
| EUR | **60.00** | 51.84 |
| JPY | **0.44** | 0.43 |
| CAD | **39.75** | 36.75 |
| GBP | **67.57** | 60.87 |
| AUD | **39.03** | 34.24 |
| AED | **13.61** | 35.78 |
| CHF | **51.30** | 48.44 |
| NOK | **6.09** | 5.72 |
| DKK | **8.05** | 6.98 |
| SEK | **6.11** | 5.42 |
| SAR | **13.33** | 13.28 |
| TWD | **1.68** | 1.54 |
| ILS | **14.38** | 12.91 |

The following tables demonstrate the sensitivity of the Company's income before income tax to a reasonably possible change in foreign exchange rates, with all other variables held constant. There is no impact on the Company's equity other than those already affecting the net income.

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Increase (Decrease) in ₱ to Foreign Currency Exchange Rate** | **Effect on Income Before Income Tax** | Increase (Decrease) in ₱ to Foreign Currency Exchange Rate | Effect on Income Before Income Tax |
| USD | **0.5%** | **11,825** | 0.9% | ₱25,799 |
| | **-0.4%** | **(10,905)** | (0.4%) | (11,466) |
| EUR | **1.3%** | **13,923** | 1.0% | 27,372 |
| | **-0.3%** | **(2,627)** | (0.7%) | (19,160) |
| JPY | **0.9%** | **466** | 20.0% | 3,883 |
| | **-0.5%** | **(271)** | (19.1%) | (3,708) |
| CAD | **1.3%** | **19,527** | 1.6% | 36,794 |
| | **-0.7%** | **(10,334)** | (0.8%) | (18,397) |
| GBP | **1.1%** | **7,472** | 1.0% | 11,930 |
| | **-0.3%** | **(2,044)** | (2.1%) | (25,053) |
| AUD | **1.6%** | **942** | 1.4% | (17) |
| | **-0.9%** | **(517)** | (0.8%) | 10 |
| AED | **0.5%** | **3,482** | 1.0% | 10,467 |
| | **-0.4%** | **(3,026)** | (0.5%) | (5,234) |
| CHF | **0.9%** | **319** | 0.9% | 187 |
| | **-0.5%** | **(167)** | (0.7%) | (145) |
| NOK | **1.4%** | **27** | 1.6% | 72 |
| | **-0.9%** | **(18)** | (0.9%) | (40) |
| DKK | **1.3%** | **165** | 1.0% | 54 |
| | **-0.3%** | **(32)** | (0.7%) | (38) |
| SEK | **1.7%** | **19** | 0.9% | 12 |
| | **-0.7%** | **(8)** | (1.3%) | (17) |
| SAR | **0.5%** | **34** | 1.0% | 3,245 |
| | **-0.4%** | **(30)** | (0.4%) | (1,298) |
| TWD | **1.0%** | – | 1.0% | 440 |
| | **-0.3%** | – | (0.2%) | (88) |
| ILS | **1.2%** | **123** | 1.1% | 118 |
| | **-0.3%** | **(34)** | (0.6%) | (64) |

The change in currency rate is based on the Company's best estimate of expected change considering historical trends and experiences. Positive change in currency rate reflects a weaker peso against foreign currency.

The Company computes for the percentages of changes in exchange rates for the foreign currency-denominated accounts by comparing the year-end closing rates or existing foreign currency exchange rates with the forward foreign currency exchange rates two months before and after financial reporting date. The Company assumes the trend for the six months period to be its exposure on foreign currency fluctuations.

Credit Risk

The Company is exposed to credit risk from its operational and financing activities. On the Company's credit risk arising from operating activities, the Company only extends credit with recognized and accredited third parties. The Company implements a pay before broadcast policy to new customers. In addition, receivable balances are monitored on an ongoing basis. Such determination takes into consideration the age of the receivable and the current solvency of the individual accounts.

The Company holds deposits in connection with its subscription contracts amounting to ₱386 million and ₱178 million as at December 31, 2017 and 2016, respectively (see Note 21). There is no requirement for collateral over the Company's other trade receivables since the Company trades only with recognized and accredited counterparties, thus, maximum exposure to credit risk is equal to the carrying value of the financial instruments.

With regard to the Company's financing activities, as a general rule, the Company transacts these activities with counterparties that have a long credit history in the market and outstanding relationship with the Company. The policy of the Company is to have the BOD accredit these banks and/or financial institutions before any of these financing activities take place.

With respect to credit risk arising from the financial assets of the Company, exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

*Credit Risk Exposures.* The table below shows the maximum exposure to on- and off-balance sheet credit risk exposures of the Company, without considering the effects of collateral, credit enhancements and other credit risk mitigation techniques as at December 31:

| | Gross Maximum Exposure | | Net Maximum Exposure | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Loans and receivables: | | | | |
| Cash and cash equivalents (excluding cash on hand) | **₱12,197,716** | ₱10,902,043 | **₱12,340,056** | ₱10,902,043 |
| Short-term investments | **1,358,429** | 3,065,793 | **1,358,429** | 3,065,793 |
| Trade and other receivables - net | **10,630,014** | 10,204,118 | **10,554,530** | 10,204,118 |
| Deposits | **213,023** | 187,937 | **213,023** | 187,937 |
| AFS investments | **242,743** | 210,219 | **242,743** | 210,219 |
| | **₱24,641,925** | ₱24,570,110 | **₱24,708,781** | ₱24,570,110 |

*Credit Quality per Class of Financial Asset.* The credit quality of financial assets is being managed by the Company using internal credit ratings. The following tables show the credit quality by class of financial assets based on the Company's credit rating system as at December 31, 2017 and 2016:

| | **December 31, 2017** | | | | | |
|---|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | | | **Past Due but** | | |
| | **High** | **Moderate** | **Low** | **not Impaired** | **Impaired** | **Total** |
| Loans and receivables: | | | | | | |
| Cash and cash equivalents: | | | | | | |
| Cash in banks | **₱7,757,242** | **₱–** | **₱–** | **₱–** | **₱–** | **₱7,757,242** |
| Cash equivalents | **4,589,314** | – | – | – | – | **4,589,314** |
| Short-term investment | **1,358,429** | – | – | – | – | **1,358,429** |
| Trade receivables: | | | | | | |
| Airtime | **3,981,895** | **1,200,345** | **157,465** | **1,123,116** | **164,710** | **6,627,531** |
| Subscriptions | **313,204** | **290,710** | **343,056** | **576,503** | **1,152,017** | **2,675,490** |
| Others | **646,434** | **33,726** | **35,437** | **773,325** | **335,791** | **1,824,713** |
| Nontrade receivables | **307,380** | **64,380** | **76,447** | **583,515** | **40,312** | **1,072,034** |
| Due from related parties | **322,227** | – | – | – | – | **322,227** |
| Deposits | **213,023** | – | – | – | – | **213,023** |
| AFS investments | **242,743** | – | – | – | – | **242,743** |
| | **₱19,731,891** | **₱1,589,161** | **₱612,405** | **₱3,056,459** | **₱1,692,830** | **₱26,682,746** |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | Past Due but | | |
| | High | Moderate | Low | not Impaired | Impaired | Total |
| Loans and receivables: | | | | | | |
| Cash and cash equivalents: | | | | | | |
| Cash in banks | ₱6,053,348 | ₱– | ₱– | ₱– | ₱– | ₱6,053,348 |
| Cash equivalents | 4,848,695 | – | – | – | – | 4,848,695 |
| Short-term investment | 3,065,793 | – | – | – | – | 3,065,793 |
| Trade receivables: | | | | | | |
| Airtime | 3,492,652 | 1,091,199 | 183,420 | 870,411 | 340,201 | 5,977,883 |
| Subscriptions | 361,330 | 11,066 | 193,509 | 975,371 | 1,134,071 | 2,675,347 |
| Others | 700,442 | 662 | 37,311 | 1,037,976 | 220,402 | 1,996,793 |
| Nontrade receivables | 175,923 | 58,363 | 70,906 | 612,042 | 69,626 | 986,860 |
| Due from related parties | – | – | – | 326,467 | – | 326,467 |
| Deposits | 187,937 | – | – | – | – | 187,937 |
| AFS investments | 210,219 | – | – | – | – | 210,219 |
| | ₱19,096,339 | ₱1,161,290 | ₱485,146 | ₱3,822,267 | ₱1,764,300 | ₱26,329,342 |

The credit quality of the financial assets was determined as follows:

- High Credit Quality

  This includes deposits or placements to counterparties with good credit rating or bank standing. For receivables, this covers, as at financial reporting date, accounts of good paying customers, with good credit standing and with no history of account treatment for a defined period. This also includes claims from Elite subscribers, advance payers, airtime and channel lease with advance payment arrangements, related parties with offsetting arrangement and existing employees.

- Moderate Credit Quality

  For receivables, this covers accounts of standard paying customers, those whose payments are within the credit term, and new customers for which sufficient credit history has not been established. This also includes claims from Superior subscribers, airtime and channel lease and related parties without offsetting arrangement.

- Low Credit Quality

  For receivables, this covers accounts of slow paying customers and those whose payments are received upon demand at financial reporting date. This also includes claims from Special subscribers.

Trade Receivables
These represent amounts collectible from advertising agencies, advertisers or trade customers arising from the sale of airtime, subscription, services and/or goods in the ordinary course of business.

*Airtime*. This account refers to revenue generated from the sale of time or time block within the on-air broadcast hours on television and radio.

*Subscriptions*. This account refers to revenue generated from regular subscriber's fees for either: (1) access to programs aired through DTH and cable television systems, or (2) direct sale of publications to subscribers.

*Others*. This account refers to other revenue generated from the sale of goods and services.

Nontrade Receivables
These represent claims, arising from sources other than the sale of airtime, subscriptions, services and goods in the ordinary course of business, that are reasonably expected to be realized in cash.

The following tables show the aging analysis of past due but not impaired receivables per class that the Company held as at December 31, 2017 and 2016. A financial asset is past due when a counterparty has failed to make a payment when contractually due.

| | **December 31, 2017** | | | | | |
|---|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | **Past Due but not Impaired** | | | | |
| | | **Less than 30** | **30 Days and Over** | **Impaired** | **Allowance** | **Total** |
| Trade receivables: | | | | | | |
| Airtime | **₱5,339,705** | **₱360,059** | **₱763,057** | **₱164,710** | **(₱333,473)** | **₱6,294,058** |
| Subscriptions | **946,970** | **164,561** | **411,942** | **1,152,017** | **(1,176,738)** | **1,498,752** |
| Others | **715,597** | **154,045** | **619,279** | **335,792** | **(311,805)** | **1,512,908** |
| Nontrade receivables | **448,207** | **33,018** | **550,592** | **40,217** | **(69,965)** | **1,002,069** |
| Due from related parties | **–** | **–** | **322,227** | **–** | **–** | **322,227** |
| | **₱7,450,479** | **₱711,683** | **₱2,667,097** | **₱1,692,736** | **(₱1,891,981)** | **₱10,630,014** |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due but not Impaired | | | | |
| | | Less than 30 | 30 Days and Over | Impaired | Allowance | Total |
| Trade receivables: | | | | | | |
| Airtime | ₱4,767,271 | ₱514,663 | ₱355,748 | ₱340,201 | (₱333,473) | ₱5,644,410 |
| Subscriptions | 565,905 | 357,326 | 618,045 | 1,134,071 | (1,045,388) | 1,629,959 |
| Others | 738,415 | 261,894 | 776,082 | 220,402 | (310,406) | 1,686,387 |
| Nontrade receivables | 305,192 | 266,085 | 345,957 | 69,626 | (69,965) | 916,895 |
| Due from related parties | – | – | 326,467 | – | – | 326,467 |
| | ₱6,376,783 | ₱1,399,968 | ₱2,422,299 | ₱1,764,300 | (₱1,759,232) | ₱10,204,118 |

Liquidity Risk
The Company seeks to manage its funds through cash planning on a weekly basis. This undertaking specifically considers the maturity of both the financial investments and financial assets and projected operational disbursements. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows. As a general rule, cash balance should be equal to ₱3.5 billion at any given time to compensate for 2 months of operational exigencies amidst occasional fluctuation of cash inflows.

It is the Company's objective to maintain a balance between continuity of funding and flexibility through the use of bank credit and investment facilities. As such, the Company continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities such as the ₱6 billion bond issuance in 2014 and refinancing of loans in 2016. Currently, the debt maturity profile of the Company ranges from 0.20 to 10 years. Also, the Company places funds in the money market only when there are surpluses from the Company's requirements. Placements are strictly made based on cash planning assumptions and as much as possible, covers only a short period of time.

The tables below summarize the maturity profile of the Company's financial assets and liabilities based on contractual undiscounted payments.

| | **December 31, 2017** | | | | | |
|---|---|---|---|---|---|---|
| | **Within One Year** | **One to Two Years** | **Two to Three Years** | **Three to Four Years** | **More than Four Years** | **Total** |
| Cash and cash equivalents | **₱12,446,416** | **₱–** | **₱–** | **₱–** | **₱–** | **₱12,446,416** |
| Short-term investment | **1,258,569** | – | – | – | – | **1,258,569** |
| Trade receivables: | | | | | | |
| Airtime | **6,294,058** | – | – | – | – | **6,294,058** |
| Subscription | **1,498,752** | – | – | – | – | **1,498,752** |
| Others | **1,512,908** | – | – | – | – | **1,512,908** |
| Nontrade receivables | **1,002,069** | – | – | – | – | **1,002,069** |
| Due from related parties | **322,227** | – | – | – | – | **322,227** |
| | **₱24,334,999** | **₱–** | **₱–** | **₱–** | **₱–** | **₱24,334,999** |
| | | | | | | |
| Trade and other payables* | **₱10,650,801** | **₱–** | **₱–** | **₱–** | **₱–** | **₱10,650,801** |
| Obligations for program rights | **781,430** | **62,222** | **62,222** | **62,222** | **62,222** | **1,030,318** |
| Interest-bearing loans and borrowings | **1,007,524** | **1,127,725** | **8,789,023** | **2,988,994** | **11,165,529** | **25,078,795** |
| Customers' deposits | – | **2,189** | **61,154** | **91,116** | **108,841** | **263,300** |
| | **₱12,439,755** | **₱1,192,136** | **₱8,912,399** | **₱3,142,332** | **₱11,336,592** | **₱37,023,214** |

**Excluding deferred revenue, accrued taxes and other payables to government agencies.*

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Within One Year | One to Two Years | Two to Three Years | Three to Four Years | More than Four Years | Total |
| Cash and cash equivalents | ₱10,964,524 | ₱– | ₱– | ₱– | ₱– | ₱10,964,524 |
| Short-term investment | 3,065,793 | – | – | – | – | 3,065,793 |
| Trade receivables: | | | | | | |
| Airtime | 5,644,410 | – | – | – | – | 5,644,410 |
| Subscription | 1,629,959 | – | – | – | – | 1,629,959 |
| Others | 1,686,357 | – | – | – | – | 1,686,357 |
| Nontrade receivables | 916,895 | – | – | – | – | 916,895 |
| Due from related parties | 326,467 | – | – | – | – | 326,467 |
| | ₱24,234,405 | ₱– | ₱– | ₱– | ₱– | ₱24,234,405 |
| | | | | | | |
| Trade and other payables* | ₱10,542,417 | ₱– | ₱– | ₱– | ₱– | ₱10,542,417 |
| Obligations for program rights | 500,990 | 190,733 | 135,859 | 139,720 | 258,606 | 1,225,908 |
| Interest-bearing loans and borrowings | 1,007,374 | 1,165,571 | 8,779,130 | 2,981,091 | 11,169,771 | 25,102,937 |
| Customers' deposits | – | 61,154 | 91,116 | 25,864 | – | 178,134 |
| | ₱12,050,781 | ₱1,417,458 | ₱9,006,105 | ₱3,146,675 | ₱11,428,377 | ₱37,049,396 |

**Excluding deferred revenue, accrued taxes and other payables to government agencies.*

Capital Management

The Company's capital structure pertains to the mix of long-term sources of funds. When the Company expands, it needs capital, and that capital can come from debt or equity.

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios and strong credit ratings while viably supporting its business to maximize shareholder value.

The Company's approach focuses on efficiently allocating internally generated cash for operational requirements and investments to grow the existing business as well as to deliver on its commitment of a regular dividend payout at a maximum of 50% of the previous year's net income. Shortages if any and acquisitions or investments in new business are funded by the incurrence of additional debt largely capped by existing loan covenants on financial ratios.

As evidenced by the quarterly financial certificates that the Company issued to its lenders, all financial ratios are within the required limits all throughout 2017 and 2016 as follows:

| **2017 Financial Ratios** | Required | **1st Quarter** | **2nd Quarter** | **3rd Quarter** | **4th Quarter** |
|---|---|---|---|---|---|
| Loan Agreement | | | | | |
| Debt to equity | Less than or equal to 2.50 | **1.31** | **1.26** | **1.21** | **1.23** |
| Debt service coverage ratio | Greater than or equal to 1.10 | **7.38** | **7.75** | **7.56** | **8.94** |

| **2016 Financial Ratios** | Required | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|---|
| Loan Agreement | | | | | |
| Debt to equity | Less than or equal to 2.50 | 1.48 | 1.43 | 1.41 | 1.30 |
| Debt service coverage ratio | Greater than or equal to 1.10 | 12.81 | 13.62 | 11.2 | 8.00 |

The following table shows the financial ratios that Sky Cable is required to maintain in accordance with the DRA:

| Financial ratios | Required | **2017** | 2016 |
|---|---|---|---|
| Total liabilities to equity | Maintain at all times not exceeding 2:1 | **1.05** | 1.69 |
| Debt service coverage ratio | Maintain at least 1.5 times | **4.93** | 5.77 |

## 33. Financial Assets and Financial Liabilities

The following tables set forth the carrying amounts and estimated fair values of consolidated financial assets and liabilities recognized as at December 31, 2017 and 2016. There are no material unrecognized financial assets and liabilities as at December 31, 2017 and 2016.

| | **December 31, 2017** | | | | |
|---|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| **Financial Assets** | | | | | |
| Loans and receivables: | | | | | |
| Deposits (included under "Other noncurrent assets" account in the consolidated statements of financial position) | **₱213,023** | **₱187,666** | **₱–** | **₱–** | **₱187,666** |
| AFS investments – quoted | **168,039** | **168,039** | **168,039** | **–** | **–** |
| | **₱381,062** | **₱355,705** | **₱168,039** | **₱–** | **₱187,666** |
| **Financial Liabilities** | | | | | |
| Other financial liabilities at amortized cost: | | | | | |
| Interest-bearing loans and borrowings | **₱20,386,705** | **₱20,479,688** | **₱–** | **₱–** | **₱20,479,688** |
| Obligations for program rights | **904,393** | **1,030,318** | **–** | **1,030,318** | **–** |
| Convertible note | **205,380** | **242,839** | **–** | **–** | **242,839** |
| Customers' deposits (included as part of "Other noncurrent liabilities") | **386,805** | **175,096** | **–** | **–** | **175,096** |
| | **₱21,883,283** | **₱21,927,941** | **₱–** | **₱1,030,318** | **₱20,897,623** |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| Financial Assets | | | | | |
| Loans and receivables: | | | | | |
| Deposits (included under "Other noncurrent assets" account in the consolidated statements of financial position) | ₱187,937 | ₱172,199 | ₱– | ₱– | ₱172,199 |
| AFS investments - quoted | 135,515 | 135,515 | 135,515 | ₱– | – |
| | ₱323,452 | ₱307,714 | ₱135,515 | ₱– | ₱172,199 |

(Forward)

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| Financial Liabilities | | | | | |
| Other financial liabilities at amortized cost: | | | | | |
| Interest-bearing loans and borrowings | ₱20,472,223 | ₱21,571,827 | ₱– | ₱21,571,827 | ₱– |
| Obligations for program rights | 1,099,983 | 1,225,908 | – | 1,225,908 | – |
| Convertible note | 221,063 | 250,277 | – | – | 250,277 |
| Customers' deposits (included as part of "Other noncurrent liabilities") | 178,134 | 175,096 | – | – | 175,096 |
| | ₱21,971,403 | ₱23,223,108 | ₱– | ₱22,797,735 | ₱425,373 |

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, Short-term Investments, Trade and Other Receivables and Trade and Other Payables.* Due to the short-term nature of transactions, the fair values of these instruments approximate the carrying amounts as at financial reporting date.

*Deposits.* Fair value of these instruments is computed by discounting future cash flows using the risk-free interest rates for similar type of instruments adjusted for credit risk.

*AFS Investments.* The fair values of publicly-traded instruments were determined by reference to market bid quotes as at financial reporting date. Investments in unquoted equity securities for which no reliable basis for fair value measurement is available are carried at cost, net of any impairment.

*Interest-bearing Loans and Borrowings*. Fair value was computed based on the following:

| | Fair Value Assumptions |
|---|---|
| Term loans | Estimated fair value is based on the discounted value of future cash flows using the applicable risk-free rates for similar types of loans adjusted for credit risk. The interest rates used to discount the future cash flows have ranged from 0.4% to 3.7%. |
| Other variable rate loans | The face value approximates fair value because of recent and frequent repricing (i.e., 3 months) based on market conditions. |

*Obligations for Program Rights.* Estimated fair value is based on the discounted value of future cash flows using the applicable risk-free rates for similar types of loans adjusted for credit risk.

*Convertible Note.* Fair value was computed based on the discounted value of future cash flows using the PDST-R2 rate plus 1% credit spread.

*Customers' Deposits.* The fair values were calculated by discounting the expected future cash flows at prevailing PDST-R2 rate plus applicable credit spread ranging from 2.8% to 4.7% and 1.9% to 4.7% in 2017 and 2016, respectively.

There were no transfers between levels in the fair value hierarchy as at December 31, 2017 and 2016.

Offsetting of Financial Assets and Financial Liabilities
There is no offsetting of financial assets and financial liabilities as at December 31, 2017 and 2016.

## 34. EPS Computations

Basic EPS amounts are calculated by dividing the net income for the period attributable to common shareholders by the weighted average number of common shares outstanding (net of PDRs) during the period.

The following table presents information necessary to calculate EPS:

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Net income attributable to equity holders of the Parent Company | **₱3,333,889** | ₱3,885,278 | ₱2,931,777 |
| Dividends on preferred shares | **(4,000)** | (4,000) | (4,000) |
| (a) Net income attributable to common equity holders of the Parent Company | **₱3,329,889** | ₱3,881,278 | ₱2,927,777 |
| (b) Weighted average number of shares outstanding: | | | |
| At beginning of year | **822,972,436** | 822,972,436 | 830,569,036 |
| Acquisitions of treasury shares and PDRs (see Note 22) | – | – | (7,088,429) |
| At end of year | **822,972,436** | 822,972,436 | 823,480,607 |
| Basic/diluted EPS (a/b) | **₱4.046** | ₱4.716 | ₱3.555 |

The Company has no dilutive potential common shares outstanding, therefore basic EPS is the same as diluted EPS.

## 35. Note to Consolidated Statements of Cash Flows

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Noncash investing activities: | | | |
| Acquisitions of program rights on account | **₱435,700** | ₱856,073 | ₱76,749 |
| Acquisition of transportation equipment through finance lease | **–** | 21,844 | – |
| Acquisition of an associate | **–** | – | 33,595 |

Changes in liabilities arising from financing activities:

| | January 1, 2017 | Cash flows | Noncash changes | December 31, 2017 |
|---|---|---|---|---|
| Term loans | ₱20,446,492 | (₱1,050,394) | ₱970,243 | ₱20,366,341 |
| Obligations under finance leases | 25,731 | (14,105) | 12,141 | 23,767 |
| Total liabilities from financing activities | ₱20,472,223 | (₱1,087,213) | ₱1,005,098 | ₱20,390,108 |

Noncash changes includes amortization of debt issue costs and the accretion of interest on finance leases.

36. **Contingent Liabilities and Other Matters**

a. The Parent Company has contingent liabilities with respect to claims and lawsuits filed by third parties. The events that transpired last February 4, 2006, which resulted in the death of 71 people and injury to about 200 others led the Parent Company to shoulder the burial expenses of the dead and medical expenses of the injured, which did not result in any direct or contingent financial obligation that is material to the Parent Company. The Parent Company has settled all of the funeral and medical expenses of the victims of the tragedy. Given the income flows and net asset base of the Parent Company, said expenses do not constitute a material financial obligation of the Parent Company, as the Parent Company remains in sound financial position to meet its obligations.

   As at February 22, 2018, the claims, including those in connection with the events of February 4, 2006, are still pending and remain contingent liabilities. While the funeral and medical expenses have all been shouldered by the Parent Company, there still exist claims for compensation for the deaths and injuries, the amount of which have not been declared and cannot be determined with certainty at this time. Management is nevertheless of the opinion that should there be any adverse judgment based on these claims, this will not materially affect the Parent Company's financial position and performance.

b. In relation to the consolidation of Sky Cable and Home Cable in 2004, a competitor television broadcasting company (complainant) filed a case before the NTC for unlawful merger and unlawful cross-ownership and common control and operations of telecommunications companies and cable companies with a prayer for cease and desist order. As at February 22, 2018, the case is still pending before the NTC. Management believes that the case filed by the complainant is without legal basis and would not have a material impact on the consolidated financial statements.

c. In May 2017, Solar Entertainment Corporation ("Solar") filed a civil action against the Parent Company and Sky Cable for collection of allegedly unpaid carriage fees in connection with Solar and ABS-CBN's Joint Television License Agreement for the NBA games. As at February 22, 2018, the case is still ongoing. ABS-CBN believes that the civil complaint has no legal and factual basis and would not have a material impact on the consolidated financial statements.

d. The Company is also subject to periodic examinations by tax authorities and has other legal cases in the ordinary course of business, which are pending in courts or under protest. In consultation with its legal counsel, management believes that the outcome of these examinations and cases are not material to affect the Company's financial position and financial performance.

   Disclosure of additional details beyond the present disclosures may seriously prejudice the Company's position. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only general descriptions were provided.

37. **Events after reporting period**

a. On January 15, 2018, Sky Cable executed a loan agreement with BDO for ₱2 billion for a term of 10 years, with a fixed interest rate of 5.80% per annum until the first interest rate repricing date, 5.80% per annum until the second interest rate repricing date, and interest rate based on the prevailing PDST-R2 or a fixed interest rate until date of maturity, that will be mutually agreed upon by Sky Cable and BDO. The proceeds will be used to finance Sky Cable's capital expenditures.

b. On January 25, 2018, the BOD of the Company approved the merger of ABS-CBN Publishing, Inc. and Creative Programs, Inc., with the latter as the surviving corporation. As at February 22, 2018, the application for merger with the SEC is still in ongoing.

c. From January 22, 2018 to February 9, 2018, the Parent Company offered to qualified employees its ESPP Program where employees may subscribe to the Parent Company's shares up to a maximum of 5% of total authorized shares.

   Participants eligible in the ESPP are non-managers, managers and up, board members and selected artists with at least one year of tenure. Non-managers may subscribe up to a maximum of 2,000 shares per participant while managers and artists may subscribe up to a maximum of shares equivalent to 2.5 months of their monthly salary or income. Members of the BOD may subscribe up to 100,000 shares. The subscription price for the first 2,000 shares will be at a 15% discount on the closing price as at the offer date or 45-day weighted closing prices, whichever is lower. There will be no discount on the subscription price for the shares subscribed in excess of 2,000 shares. The subscription price will be paid in five years.

   As at February 22, 2018, the Company accepted the total ESPP subscription from participants of 11,391,500 common shares.

d. On February 22, 2018, the BOD approved the declaration of cash dividend of ₱0.92 per common share or an aggregate amount of ₱783 million to all common stockholders of record as at March 8, 2018, payable on March 22, 2018. On the same date, the BOD also approved the declaration and payment of 2% per annum cash dividend on the Parent Company's preferred shares with a record date set for March 8, 2018 and payable on March 22, 2018.

SGV
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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

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and Stockholders
ABS-CBN Corporation
ABS-CBN Broadcast Center
Sgt. Esguerra Ave. corner Mother Ignacia Street
Quezon City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of ABS-CBN Corporation and Subsidiaries (collectively referred to as "the Company") as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 and have issued our report thereon dated February 22, 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 consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Catherine E. Lopez
Catherine E. Lopez
Partner
CPA Certificate No. 86447
SEC Accreditation No. 0468-AR-3 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 102-085-895
BIR Accreditation No. 08-001998-65-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 6621274, January 9, 2018, Makati City

February 22, 2018

**ABS-CBN CORPORATION AND SUBSIDIARIES**
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**
**December 31, 2017**

**ABS-CBN CORPORATION and SUBSIDIARIES**
**Schedule A. Financial Assets**
**December 31, 2017**

| Name of Issuing Entity and Description of Each Issue | Number of Shares or Principal Amount of Bonds and Notes | Amount Shown in the Balance Sheet | Value Based on Market Quotations at end of reporting period | Income received & accrued |
|---|---|---|---|---|
| ***Loans and Receivables :*** | | | | |
| ***(Amounts in Thousands)*** | | | | |
| *Cash and Cash Equivalents* | | | | |
| Cash on hand and in banks | | ₱ 7,906,083 | ₱ 7,906,083 | ₱ 82,511 |
| Cash equivalents | | 4,440,473 | 4,440,473 | 40,370 |
| Short-term investments | | 1,358,429 | 1,358,429 | 42,307 |
| ***Subtotal*** | | ***13,704,985*** | ***13,704,985*** | ***165,188*** |
| *Trade and other receivables (excluding advances to suppliers)* | | | | |
| Airtime | | 6,627,531 | 6,627,531 | - |
| Subscriptions | | 2,675,490 | 2,675,490 | - |
| Others | | 1,824,713 | 1,824,713 | - |
| Advances to employees and talents | | 638,035 | 638,035 | - |
| Due from related parties (see Note 23) | | 322,227 | 322,227 | - |
| Others | | 433,999 | 433,999 | - |
| Allowance for doubtful accounts | | (1,891,981) | (1,891,981) | - |
| ***Subtotal*** | | ***10,630,014*** | ***10,630,014*** | **-** |
| *Deposits* | | 213,023 | 213,023 | |
| ***AFS investments*** | | 242,743 | 242,743 | |
| **Total** | **-** | **₱ 24,790,765** | **₱ 24,790,765** | **₱ 165,188** |

**ABS-CBN CORPORATION and SUBSIDIARIES**
**Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)**
**December 31, 2017**

| | | | Deductions | | | | |
|---|---|---|---|---|---|---|---|
| Name and Designation of debtor | Balance at beginning of period | Additions | Amounts collected | Amounts written off | Current | Not current | Balance at end of period |
| NONE | | | | | | | |

*Note: Receivables from officers and employees are within the ordinary course of business.*

**ABS-CBN CORPORATION and SUBSIDIARIES**
**Schedule C.1 Amounts Receivable from Related Parties which are eliminated during Consolidation of Financial Statements**
**December 31, 2017**

| | | | DEDUCTIONS | | | | |
|---|---|---|---|---|---|---|---|
| **Name and Designation of debtor** | **Balance at beginning of period** | **Additions** | **Amounts Collected** | **Amounts Written Off** | **Current** | **Non Current** | **Balance at end of Period** |
| ABS-CBN CORPORATION | ₱ 10,698,274,887 | ₱ 12,438,464,901 | ₱ (10,407,067,151) | ₱ - | ₱ 12,729,672,637 | ₱ - | ₱ **12,729,672,637** |
| ABS-CBN FILM PRODUCTIONS, INC. | 43,023,101 | 1,439,098,407 | (1,362,350,001) | - | 119,771,507 | - | **119,771,507** |
| ABS-CBN GLOBAL | 364,646,188 | 493,724,064 | (385,446,382) | - | 472,923,869 | - | **472,923,869** |
| ABS-CBN INTEGRATED | - | 206,496 | | | | | **206,496** |
| TV FOOD CHEF | 1,283,369 | 13,541,736 | (5,828,693) | - | 8,996,412 | - | **8,996,412** |
| ABS-CBN PUBLISHING, INC. | 14,255,675 | 112,028,964 | (101,682,970) | - | 24,601,669 | - | **24,601,669** |
| ABS-CBN GLOBAL CARGO CORPORATION | - | - | - | - | - | - | - |
| ABS-CBN SHARED SERVICE CENTER PTE., (ROHQ) | 71,793,998 | 492,007,980 | (262,983,178) | - | 300,818,800 | - | **300,818,800** |
| ABS-CBN NEWS CHANNEL INC. | 6,737,462 | 906,228,144 | (582,538,734) | - | 330,426,871 | - | **330,426,871** |
| CENTRAL CATV, INC. (SKY CABLE CORP.) | 66,724,325 | 1,257,566,022 | (1,272,056,906) | - | 52,233,441 | - | **52,233,441** |
| CREATIVE PROGRAMS, INC. | 15,338,498 | 2,814,761,376 | (2,579,951,971) | - | 250,147,904 | - | **250,147,904** |
| SAPIENTIS HOLDINGS CORPORATION | 50,365,570 | 185,447,728 | (97,665,382) | - | 138,147,915 | - | **138,147,915** |
| THE BIG DIPPER DIGITAL CONTENT | 186,068,376 | 4,045,861,788 | (3,456,383,506) | - | 775,546,658 | - | **775,546,658** |
| SKY VISION | 97,973,450 | - | (889,171) | - | 97,084,279 | - | **97,084,279** |
| CINESCREEN, INC. | - | - | - | - | - | - | - |
| ICONNECT CONVERGENCE | 1,488,770 | - | - | | 1,488,770 | | **1,488,770** |
| ABS THEMEPARKS | 4,446,748 | 122,996,929 | (124,623,530) | - | 2,820,147 | - | **2,820,147** |
| | | | | - | - | - | |
| | ₱ 11,622,420,417 | ₱ 24,321,934,535 | ₱ (20,639,467,577) | ₱ - | ₱ 15,304,680,879 | ₱ - | ₱ 15,304,887,375 |

**ABS-CBN CORPORATION and SUBSIDIARIES**
**Schedule C.2 Amounts Payable to Related Parties which are eliminated during Consolidation of Financial Statements**
**December 31, 2017**

| | | | DEDUCTIONS | | | | |
|---|---|---|---|---|---|---|---|
| **Name and Designation of creditor** | **Balance at beginning of period** | **Additions** | **Amounts Paid** | **Amounts Written Off** | **Current** | **Non-Current** | **Balance at end of Period** |
| ABS-CBN CORPORATION | ₱ (505,407,790) | ₱ (15,849,114,584) | ₱ 15,302,148,058 | ₱ - | ₱ (1,052,374,316) | ₱ - | **(1,052,374,316)** |
| ABS-CBN FILM PRODUCTIONS, INC. | (49,888,837) | (2,791,296,631) | 2,782,117,770 | - | (59,067,698) | - | (59,067,698) |
| ABS-CBN GLOBAL | (1,765,791) | (1,244,585,800) | 848,690,436 | - | (397,661,155) | - | (397,661,155) |
| ABS-CBN GLOBAL CARGO CORPORATION | (3,406,788) | 1,586,515 | - | - | (1,820,273) | - | (1,820,273) |
| ABS-CBN INTEGRATED AND STRATEGIC | (10,299,834) | (3,610,420) | 2,261,458 | - | (11,648,796) | - | (11,648,796) |
| ABS-CBN INTERACTIVE, INC. | - | - | - | - | - | - | - |
| ABS-CBN NEWS CHANNEL INC. | (3,646,819) | (1,252,430,549) | 1,240,148,698 | - | (15,928,669) | - | (15,928,669) |
| ABS-CBN PUBLISHING, INC. | (51,732,244) | (477,513,582) | 517,731,593 | - | (11,514,233) | - | (11,514,233) |
| ABS-CBN SHARED SERVICE CENTER PTE., (ROHQ) | (5,482) | (15,238,096) | 15,229,226 | - | (14,352) | - | (14,352) |
| CAPTAIN SERVICES | (31,959,221) | (3,404,982) | - | - | (35,364,203) | - | (35,364,203) |
| CENTER FOR COMMUNICATION ARTS, INC | (8,792,757) | - | - | - | (8,792,757) | - | (8,792,757) |
| CENTRAL CATV, INC. (SKY CABLE CORP.) | (337,995,804) | (2,101,522,662) | 1,447,741,668 | - | (991,776,798) | - | (991,776,798) |
| CREATIVE PROGRAMS, INC. | (209,335,960) | (2,629,593,406) | 2,466,094,063 | - | (372,835,303) | - | (372,835,303) |
| I CONNECT CONVERGENCE | (117,296,769) | (31,768,131) | - | - | (149,064,900) | - | (149,064,900) |
| PANAY MARINE | (464,279,773) | (73,160,235) | - | - | (537,440,008) | - | (537,440,008) |
| PROSTAR, INC. | (5,015,862) | - | - | - | (5,015,862) | - | (5,015,862) |
| ROSETTA HOLDINGS | (1,131,641,152) | (286,802,684) | 300,000 | | (1,418,143,836) | - | (1,418,143,836) |
| SAPIENTIS | (5,207,444,448) | (3,200,583,179) | 167,661,386 | - | (8,240,366,241) | - | (8,240,366,241) |
| SKY VISION (SKY CABLE CORP.) | (62,882,356) | (1,829) | - | - | (62,884,185) | - | (62,884,185) |
| CINESCREEN, INC. | - | (8,524,429) | - | - | (8,524,429) | - | (8,524,429) |
| THE BIG DIPPER DIGITAL CONTENT | (4,457) | (3,517,350,783) | 3,347,500,002 | - | (169,855,238) | - | (169,855,238) |
| THEME PARKS | (711,267,720) | (94,906,223) | 79,543,944 | - | (726,629,999) | - | (726,629,999) |
| ABS STUDIOS | (249,459,013) | (198,440,476) | - | | (447,899,489) | - | (447,899,489) |
| TV FOODS | (1,436) | (11,987,409) | 11,017,382 | | (971,464) | - | (971,464) |
| | | - | | | | | |
| | ₱ (9,163,530,313) | ₱ (33,790,249,575) | ₱ 28,228,185,682 | ₱ - | ₱ (14,725,594,207) | ₱ - | ₱ (14,725,594,207) |

**ABS-CBN CORPORATION and SUBSIDIARIES**
**Schedule D. Intangible Assets - Other Assets**
**December 31, 2017**

| Description | Beginning balance | Additions at cost | Deductions: Charged to Cost and Expenses | Deductions: Charged to other accounts (Disposal) | Deductions: Other changes additions (deductions) | Ending balance |
|---|---|---|---|---|---|---|
| ***(Amounts in Thousands)*** | | | | | | |
| Program Rights | ₱ 4,233,293 | ₱ 1,436,491 | ₱ (1,155,059) | ₱ | ₱ - | ₱ 4,514,725 |
| Music Rights | 128,618 | 2,713 | (6,229) | (121,746) | - | 3,356 |
| Movie In- Process and Filmed Entertainment | 850,462 | 742,196 | (589,258) | - | - | 1,003,400 |
| Story, Video and Publication and Record Master | 14,713 | 3,530 | (11,067) | 121,746 | - | 128,922 |
| Trademarks | 1,111,784 | - | - | - | - | 1,111,784 |
| Licenses | 998,490 | | (4,631) | - | 114 | 993,973 |
| Customer Relationships | 400,108 | 2,419 | (25,228) | - | 133,915 | 511,214 |
| Cable Channels - CPI | 459,968 | | - | | | 459,968 |
| BSS Integration | | | | | | - |
| Digital Platforms and IP Block | 22,160 | 29,367 | (20,913) | | 29,491 | 60,105 |
| Production and Distribution Business-ME | 63,192 | - | (6,421) | - | 476 | 57,247 |
| Total | ₱ 8,282,788 | ₱ 2,216,716 | ₱ (1,818,806) | ₱ - | ₱ 163,996 | ₱ 8,844,694 |

***Note: Charge to other accounts and other changes represent effect of business combination***

**ABS-CBN CORPORATION and SUBSIDIARIES**
**Schedule E. Long-Term Debt**
**December 31, 2017**

| Title of Issue and type of obligation | Amount of authorized 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 |
|---|---|---|---|
| *(Amounts in Thousands)* | | | |
| **Bank Loans** | ₱ 240,000 | ₱ 240,000 | ₱ - |
| **Term Loans : Loan Agreement** | 14,159,210 | 102,897 | 14,056,313 |
| **Term Loans : Syndicated loans** | - | - | - |
| **Term Loans : Obligations under finance lease** | 23,767 | 7,781 | 15,986 |
| **Term Loans : Bonds Payable** | 5,963,728 | - | 5,963,728 |
| Total | ₱ 20,386,705 | ₱ 350,678 | ₱ 20,036,027 |

**ABS-CBN CORPORATION and SUBSIDIARIES**
**Schedule F. Indebtedness to Related Parties**
**December 31, 2017**

| Name of Related Parties | Balance at beginning of period | Balance at end of period |
|---|---|---|

**NOT APPLICABLE**

**ABS-CBN CORPORATION and SUBSIDIARIES**
**Schedule G. Guarantees of Securities of Other Issuers**
**December 31, 2017**

| 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 |
|---|---|---|---|---|

**NONE**

**ABS-CBN CORPORATION and SUBSIDIARIES**
**Schedule H. Capital Stock**
**December 31, 2017**

| Title of Issue | Number of shares authorized | Number of shares issued and outstanding as shown under related balance sheet caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by related parties | Directors, officers and employees | Others* |
|---|---|---|---|---|---|---|
| Common Shares -₱1 Par value | 1,300,000,000 | 850,801,081 | - | 481,714,742 | 1,482,855 | 367,603,484 |
| Preferred Shares - ₱.2 Par value | 1,000,000,000 | 1,000,000,000 | | 987,130,246 | 1,830,550 | 11,039,204 |

** Net of Philippine depository receipts*

**ABS-CBN CORPORATION**
**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS**
**AVAILABLE FOR DIVIDEND DECLARATION**
**December 31, 2017**
Amounts in Thousands

| | | |
|---|---|---|
| Unappropriated retained earnings, beginning | ₱ | 7,122,024 |
| Adjustments: | | |
| Remeasurement loss on defined benefit plan from previous years | | 1,614,189 |
| Deferred tax assets, beginning | | (1,621,565) |
| Treasury shares | | (1,638,719) |
| Retained earnings, beginning, as adjusted to amount available for dividend declaration, beginning | | 5,475,929 |
| Add: Net income actually realized during the year | | |
| Net income during the year closed to retained earnings | | 3,542,235 |
| Add (deduct): | | |
| Unrealized foreign exchange gain – net of effects of cash and cash equivalents | | (26,839) |
| Movement of recognized deferred tax assets for the year | | (60,988) |
| Net income actually realized during the year | | 3,454,408 |
| Less: Dividends declared during the year | | (885,329) |
| Retained earnings available for dividend declaration, end | ₱ | 8,045,008 |

**ABS-CBN CORPORATION AND SUBSIDIARIES**
**SUPPLEMENTARY SCHEDULE REQUIRED**
**UNDER SRC RULE 68, AS AMENDED (2011)**

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017** | | **Adopted** | **Not Adopted** | **Not Applicable **** |
|---|---|---|---|---|
| **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** | | | | |
| **PFRS 1 (Revised)** | 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 | | | |
| | Amendment to PFRS 1: Meaning of Effective PFRSs | | | |
| **PFRS 2** | 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: Share-based Payment – Definition of Vesting Condition | | | |
| | Amendments to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions* | | Not Early Adopted | |
| **PFRS 3** | Business Combinations | | | |
| | Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination | | | |
| | Amendment to PFRS 3: Scope Exceptions for Joint Ventures | | | |
| **PFRS 4** | Insurance Contracts | | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | |
| | Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4* | | Not Early Adopted | |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | |
| | Amendments to PFRS 5: Changes in Methods of Disposal | | | |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | |
| **PFRS 7** | Financial Instruments: Disclosures | | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017 | | Adopted | Not Adopted | Not Applicable ** |
|---|---|---|---|---|
| | 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: Disclosures – Servicing Contracts | | | |
| | Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements | | | |
| **PFRS 8** | Operating Segments | | | |
| | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets | | | |
| **PFRS 9** | Financial Instruments* | | Not Early Adopted | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* | | Not Early Adopted | |
| | Amendments to PFRS 9, Prepayment Features with Negative Compensation* | | Not Early Adopted | |
| **PFRS 10** | Consolidated Financial Statements | | | |
| | Amendments to PFRS 10: Investment Entities | | | |
| | Amendments to PFRS 10 and PAS 28: Applying the Consolidation Exception | | | |
| **PFRS 11** | Joint Arrangements | | | |
| | Amendments to PFRS 11: Investment Entities | | | |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | | | |
| **PFRS 12** | Disclosure of Interests in Other Entities | | | |
| | Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception | | | |
| | Amendments to PFRS 12: Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014-2016 Cycle | | | |
| **PFRS 13** | Fair Value Measurement | | | |
| | Amendment to PFRS 13: Short-term Receivables and Payables | | | |
| | Amendment to PFRS 13: Portfolio Exception | | | |
| **PFRS 14** | Regulatory Deferral Accounts | | | |
| **PFRS 15** | Revenue from Contracts with Customers* | | Not Early Adopted | |
| **PFRS 16** | Leases* | | Not Early Adopted | |
| **Philippine Accounting Standards (PAS)** | | | | |
| **PAS 1 (Revised)** | 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 | | | |

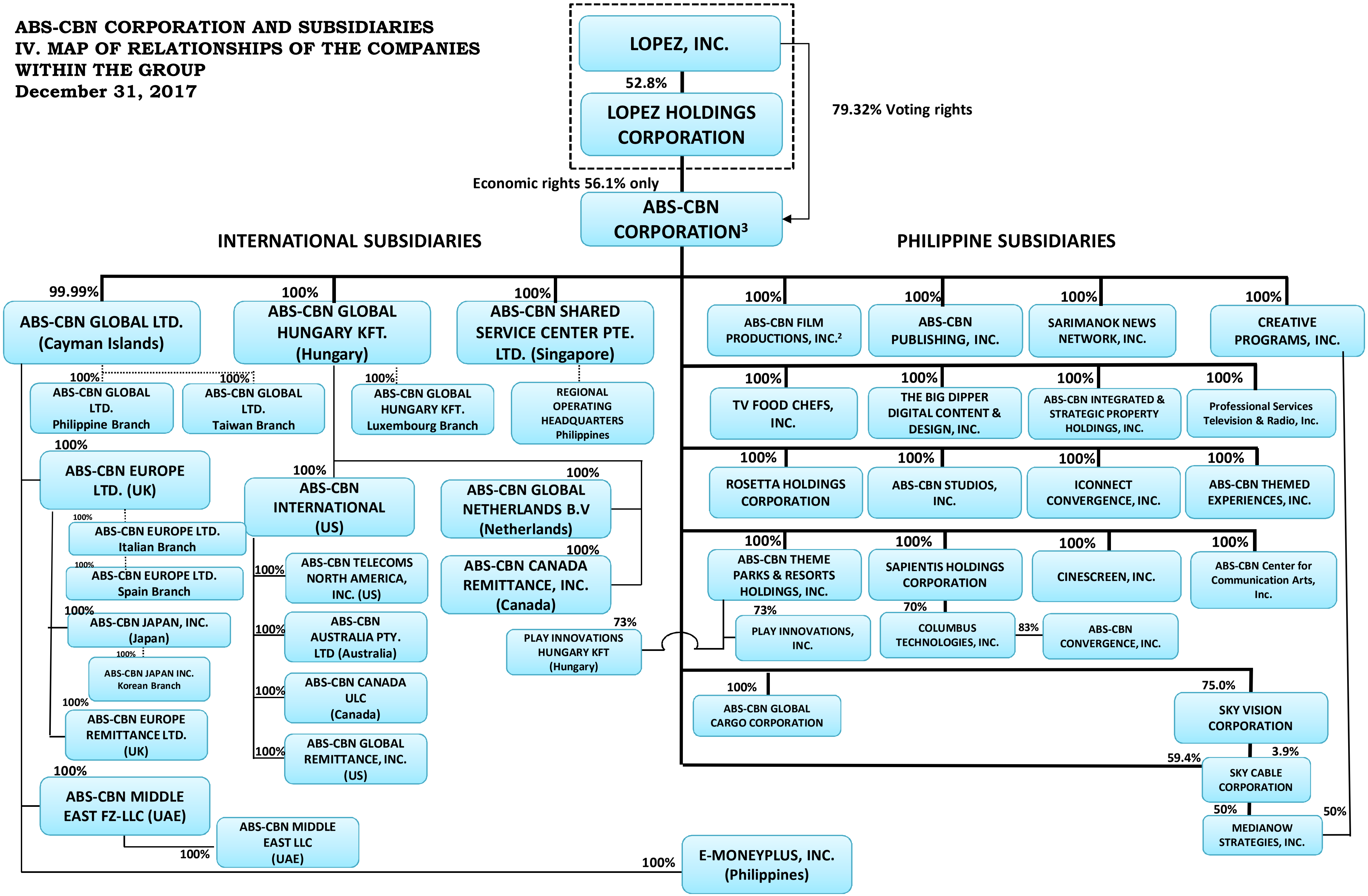
| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2017 | | Adopted | Not Adopted | Not Applicable ** |
|---|---|---|---|---|
| | Amendments to PAS 1: Clarification of the Requirements for Comparative Information | | | |
| | Amendments to PAS 1: Disclosure Initiative | | | |
| **PAS 2** | Inventories | | | |
| **PAS 7** | Statement of Cash Flows | | | |
| | Amendments to PAS 7, Statement of Cash Flows, Disclosure Initiative | | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | | | |
| **PAS 10** | Events after the Reporting Date | | | |
| **PAS 11** | Construction Contracts | | | |
| **PAS 12** | Income Taxes | | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | | | |
| | Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses | | | |
| **PAS 16** | Property, Plant and Equipment | | | |
| | Amendments to PAS 16: Classification of Servicing Equipment | | | |
| | Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation | | | |
| | Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | | |
| | Amendment to PAS 16 and PAS 41: Bearer Plants | | | |
| **PAS 17** | Leases | | | |
| **PAS 18** | Revenue | | | |
| **PAS 19 (Amended)** | Employee Benefits | | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions | | | |
| | Amendments to PAS 19: Regional Market Issue Regarding Discount Rate | | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | | | |
| | Amendment: Net Investment in a Foreign Operation | | | |
| **PAS 23 (Revised)** | Borrowing Costs | | | |
| **PAS 24 (Revised)** | Related Party Disclosures | | | |
| | Amendments to PAS 24: Key Management Personnel | | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | |
| **PAS 27 (Amended)** | Separate Financial Statements | | | |
| | Amendments to PAS 27: Investment Entities | | | |
| | Amendments to PAS 27: Equity Method in Separate Financial Statements | | | |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | | | |
| | Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception | | | |
| | Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)* | | Not Early Adopted | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2017 | | Adopted | Not Adopted | Not Applicable<br>** |
|---|---|---|---|---|
| | Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures* | | Not Early Adopted | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | |
| **PAS 32** | Financial Instruments: Presentation | | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | |
| | Amendment to PAS 32: Classification of Rights Issues | | | |
| | Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments | | | |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | | | |
| **PAS 33** | Earnings per Share | | | |
| **PAS 34** | Interim Financial Reporting | | | |
| | Amendments 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 | | | |
| **PAS 36** | Impairment of Assets | | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | | | |
| **PAS 38** | Intangible Assets | | | |
| | Amendments to PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Amortization | | | |
| | Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | | |
| **PAS 39** | Financial Instruments: Recognition and Measurement | | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | |
| | Amendments to PAS 39: The Fair Value Option | | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | | | |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | | | |
| | Amendment to PAS 39: Eligible Hedged Items | | | |
| | Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | | | |
| **PAS 40** | Investment Property | | | |
| | Amendments to PAS 40: Investment Property | | | |
| | Amendments to PAS 40: Investment Property, Transfers of Investment Property* | | Not Early Adopted | |
| **PAS 41** | Agriculture | | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2017 | | Adopted | Not Adopted | Not Applicable ** |
|---|---|---|---|---|
| | Amendment to PAS 41: Agriculture - 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 9** | 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 | | | |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | |
| | Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement | | | |
| **IFRIC 15** | Agreements for the Construction of Real Estate | | | |
| **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 | | | |
| **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* | | Not Early Adopted | |
| **IFRIC 23** | Uncertainty over Income Tax Treatments* | | Not Early Adopted | |
| **SIC-7** | Introduction of the Euro | | | |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | |
| **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 | | | |

*Notes:*
**Standards and interpretations which will become effective subsequent to December 31, 2017.*
***Standards and interpretations tagged as "Not Applicable" are those standards and interpretations which were adopted but the entity has no significant covered transaction as at December 31, 2017.*

**ABS-CBN CORPORATION AND SUBSIDIARIES**
**IV. MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**
**December 31, 2017**



**ABS-CBN CORPORATION and SUBSIDIARIES**
**Financial Ratios**
**December 31, 2017**

| RATIOS | Formula | In Php ('000s) | 2017 | In Php | 2016 |
|---|---|---|---|---|---|
| **Current Ratio** | Current Assets | 31,043,344 | 2.18 | 29,792,788 | 2.02 |
| | Current Liabilities | 14,236,564 | | 14,720,009 | |
| **Net Debt-to-equity ratio** | Interest-bearing loans and borrowings less Cash and Cash equivalent | 8,040,149 | 0.24 | 9,507,699 | 0.30 |
| | Total Stockholders' Equity | 33,710,944 | | 31,691,703 | |
| **Asset-to-equity ratio** | Total Assets | 75,125,329 | 2.23 | 72,733,952 | 2.30 |
| | Total Stockholders' Equity | 33,710,944 | | 31,691,703 | |
| **Interest rate coverage ratio** | EBIT | 4,741,096 | 5.09 | 5,478,266 | 5.65 |
| | Interest Expense | 931,459 | | 968,768 | |
| **Return on Equity** | Net Income | 3,163,577 | 9.38% | 3,525,316 | 11.12% |
| | Total Stockholders' Equity | 33,710,944 | | 31,691,703 | |
| **Return on Asset** | Net Income | 3,163,577 | 4.21% | 3,525,316 | 4.85% |
| | Total Asset | 75,125,329 | | 72,733,952 | |
| **Profitability ratios** | | | | | |
| Gross Profit Margin | Gross Profit | 16,042,974 | 39.42% | 17,601,966 | 42.28% |
| | Net Revenue | 40,698,244 | | 41,630,598 | |
| **Net Income Margin** | Net Income | 3,163,577 | 7.77% | 3,525,316 | 8.47% |
| | Net Revenue | 40,698,244 | | 41,630,598 | |