111142018001850

# SECURITIES AND EXCHANGE COMMISSION

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Company Information

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|---|---|
| SEC Registration No. | 0000001803 |
| Company Name | ABS-CBN CORPORATION |
| Industry Classification | |
| Company Type | Stock Corporation |

**Document Information**

| | |
|---|---|
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| Department | CFD |
| Remarks | |

# COVER SHEET

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 |
|---|---|---|
| 17Q | | |

## COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| | 415-2272 | |

| No. of Stockholders | Annual Meeting Month/Day | Fiscal Year Month/Day |
|---|---|---|
| 8,374 | Apr 6 | September 30 |

## 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 |
|---|---|---|---|
| Aldrin M. Cerrado | Aldrin_Cerrado@abs-cbn.com | 415-2272 | |

Contact Person's Address

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

**Note: 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.**

**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 17-Q**
QUARTERLY REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: **September 30, 2018**

2. SEC Identification Number: **1803** 3. BIR Tax Identification No.: **000-406-761-000**

4. Exact name of issuer as specified in its charter: **ABS-CBN CORPORATION AND SUBSIDIARIES**

5. **Philippines** 6. [ ] (SEC Use Only)
   Province, Country or other jurisdiction of incorporation or organization — Industry Classification Code:

7. **ABS-CBN Broadcast Center, Sgt. Esguerra Avenue corner Mother Ignacia St., Quezon City 1100**
   Address of principal office

8. **(632) 924-4101 to 22 / (632) 415-2272**
   Issuer's telephone number, including area code

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

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

| Title of Each Class | Number of Shares of Stock Issued |
|---|---|
| **Common Stock, P1.00 par value** | **883,515,142 shares** |
| **Preferred Stock, P0.20 par value** | **1,000,000,000 shares** |

Short-term & Long-term debt (current & non-current) **₱28.2 billion**

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

    If yes, state the name of such stock exchange and the classes of securities listed therein:
    **Philippine Stock Exchange** **Common Stock**

12. Check whether the issuer:

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

    Yes [✓] No [ ]

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

    Yes [✓] No [ ]

**ABS-CBN CORPORATION**
**QUARTERLY REPORT**

**ANNEX A**

**MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is a discussion and analysis of ABS-CBN Corporation and Subsidiaries' ("ABS-CBN" or the "Company") financial performance for the nine-month period ended September 30, 2018 and 2017.

All values are presented in Philippine Peso and are rounded to the nearest millions, except when otherwise indicated.

The table below summarizes the results of operations for the nine-month period ended September 30, 2018.

| | 9M 2018 | 9M 2017 | Variance | |
|---|---|---|---|---|
| | | | Amount | % |
| **Consolidated Revenues** | **₱29,490** | **₱29,512** | **(₱22)** | **(0.1)** |
| Advertising Revenues | 14,878 | 15,312 | (434) | (2.8) |
| Consumer Sales | 14,612 | 14,200 | 412 | 2.9 |
| *Sale of Services* | *12,249* | *12,161* | *88* | *0.7* |
| *Sale of Goods* | *2,178* | *1,858* | *320* | *17.2* |
| *Others* | *185* | *181* | *4* | *2.2* |
| **Costs and Expenses** | **28,190** | **26,845** | **1,345** | **5.0** |
| Production Costs | 9,560 | 8,866 | 694 | 7.8 |
| Cost of Sales and Services | 9,738 | 9,778 | (40) | (0.4) |
| General and Administrative Expenses (GAEX) | 8,892 | 8,201 | 691 | 8.4 |
| **Financial Costs (Earnings) – net** | **16** | **454** | **(438)** | **(96.5)** |
| **Equity in Net Loss (Earnings) of Associates and Joint Ventures** | **24** | **(3)** | **27** | **(900.0)** |
| **Other Income – net** | **(367)** | **(595)** | **228** | **(38.3)** |
| **Net Income** | **₱1,481** | **₱2,267** | **(₱786)** | **(34.7)** |
| **EBITDA** | **₱6,065** | **₱7,035** | **(₱970)** | **(13.8)** |

**Consolidated Revenues**

For the nine-month period ended September 30, 2018, ABS-CBN generated consolidated revenues of ₱29.5 billion from advertising and consumer sales, ₱22 million or 0.1% lower year-on-year.

Advertising revenues decreased by ₱434 million or 2.8% lower, attributable to fewer advertising placements from the nine-month period of 2018. Consumer sales increased by ₱412 million, mainly resulting from a 24% increase in TV Plus boxes sold year-on-year.

Comparative revenue mix is as follows:

| | 9M 2018 | 9M 2017 |
|---|---|---|
| Advertising revenues | 50% | 52% |
| Consumer sales | 50% | 48% |

**Consolidated Costs and Expenses**
Direct costs and expenses amounted to ₱28.2 billion, or a 5.2% increase year-on-year.

Production cost increased by ₱694 million, or 7.8%. The increase was due the growth in amortization expenses by ₱123 million, year-on year. In addition, the Company's facilities-related expenses and employee related costs grew also by ₱424 million, or 7% increase year-on-year.

Cost of sales and services decreased by ₱40 million, or 0.4% decrease year-on-year. The Company was able to reduce facilities and programming related expenses amounting to ₱566 million, or 21.6% year-on year. Interconnection costs also declined by ₱116 million, or 51.2% coming from ABS-CBN Mobile's change in business direction. The decrease in cost of services were offset by growth in costs of sales, a majority of which, being attributable to the sale of ABS-CBN TVPlus. Boxes sold for the nine-month period reached 1.79 million, or a 24% increase in comparison to same period last year.

GAEX increased by ₱691 million or 8.4%. The increase is attributable mainly to the Company's investments on various initiatives such as content building, information security measures, and digital initiatives.

**Net Income and EBITDA**
The Company generated ₱1,481 million net income for the nine-month period ended September 30, 2018. EBITDA decreased to ₱6.065 billion, a 13.8% decrease year-on-year.

**Business Segments**

For management purposes, the Company categorizes its operations into the following reportable businesses: (i) Media Networks & Studio Entertainment, (ii) Cable, Satellite & Broadband, (iii) Digital & Interactive Media and (iv) Consumer Products & Experience. This segmentation is the basis upon which the Company measures its business operations.

| | |
|---|---|
| | **Media Network & Studio Entertainment**<br>- Entertainment<br>- News<br>- Global<br>- Film & Music<br>- DTT<br>- Sports<br>- Cable Networks<br>- Publishing |
| | **Cable, Satellite & Broadband**<br>- Pay TV (Cable & Satellite)<br>- Broadband |
| | **Digital & Interactive Media**<br>- Online<br>- Mobile<br>- Over-the-top |
| | **Consumer Products & Experiences**<br>- Live events<br>- Themepark<br>- Home shopping<br>- ABS-CBN store<br>- Licensing & merchandising |

The following analysis presents results of operations of the Company's business segments for the nine-month period ended September 30, 2018:

| Segment | Operating Revenue | | Net Income | |
|---|---|---|---|---|
| | 9M 2018 | 9M 2017 | 9M 2018 | 9M 2017 |
| Media & Studio Entertainment | ₱21,238 | ₱21,249 | ₱1,926 | ₱2,556 |
| Cable, Satellite & Broadband | 6,654 | 6,849 | (182) | 75 |
| Digital & Interactive Media | 884 | 839 | (144) | (306) |
| Consumer Product & Experience | 713 | 575 | (119) | (58) |

**A. Media Networks & Studio Entertainment**

ABS-CBN channels (Channel 2, Sports & Action, Cinemo, Yey, Knowledge Channel and Teleradyo) led in national audience share and ratings. Overall audience share was at 51.84% for the nine months of 2018. ABS-CBN programs continuously filled out the Top 10 highest rating programs in September 2018, which was led by the top rating program and long running telenovela "Ang Probinsyano" with an average national TV rating of 41.6%. "Pilipinas Got Talent", "Your Face Sounds Familiar", "Bagani", and "La Luna Sangre" were also included in the Top 10 programs.

Aside from the top programs mentioned above, ABS-CBN's TV Patrol and Bandila were among the most watched news and current affairs programs with average national ratings of 31.7 and 2.6, respectively.

Revenue from international business increased by ₱36 million or 0.8% year-on-year. The increase in international business was attributable to Global's subscription services, which increased by ₱94 million or 2.4% year-on-year. This was offset however, by a decrease in Global's advertising revenues by ₱72 million or 18.5% year-on-year. Program syndication increased by 9.9% coming from Latin America.

Film & Music's revenues increased by ₱180 million or 21.9% in 2018. This is due to the release of the Philippine's highest grossing locally produced box office movie, "The Hows of Us".

ABS-CBN TVPlus contributed significant increase in revenues during the nine months with 1.79 million boxes sold, or a 24% increase in comparison to same period last year.

**B. Cable, Satellite & Broadband**

Sky's revenue decreased by ₱195 million or 2.8% year-on-year. The decrease in Sky's performance was triggered by the decrease in cable subscriber count by 68 thousand. In total, subscriber count of Sky increased by 458 thousand, significantly attributable to direct-to-home subscribers.

**C. Digital & Interactive Media**

Since the Company's direction is to go digital, various platforms are continuously developed and enhanced to address the rapid digital preference move of the "millennials". This thrust in digital content production in various platforms such as, Push, ABS-CBN Lifestyle, Choose Philippines, Iwant TV, ABS-CBN Exclusives and Entertainment, further drove consumer engagement reflected through increasing monthly active subscribers throughout 2018. Total revenues generated from digital platforms amounted to ₱627 million in 2018, higher by 46% compared to the same period last year.

**D. Consumer Products & Experience**

Kidzania generated ₱374 million in revenues with 229 thousand visitors in the nine months of 2018.

ABS-CBN's live events, which brings the ABS-CBN experience closer to its audiences, generated ₱615 million in revenues in the nine months of 2018.

**<u>Capital Expenditures</u>**

Cash capital expenditures and program rights acquisitions amounted to ₱5.9 billion as of September 30, 2018.

**<u>Statement of Financial Position Accounts</u>**

As at September 30, 2018, total consolidated assets stood at ₱84.5 billion, 12.5% higher than total assets of ₱75.1 billion as of December 31, 2017.

Shareholders' equity increased to ₱34.7 billion or 2.9% in September 30, 2018 compared to the previous year.

The company's net debt-to-equity ratio was at 0.23x and 0.24x as of September 30, 2018 and December 31, 2017, respectively.

# ABS–CBN Corporation and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements
September 30, 2018
and for the Nine Months Ended September 30, 2018 and 2017
*(With Comparative Audited Consolidated Statements of Financial Position*
*as at December 31, 2017*

# COVER SHEET
for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 1 | 8 | 0 | 3 |

**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) |
|---|---|---|
| 8,374 | Apr 6 | September 30 |

**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.*

## ABS-CBN CORPORATION AND SUBSIDIARIES

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

**(Amounts in Thousands)**

| | September 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 6) | **₱20,099,411** | ₱12,346,556 |
| Short-term investments (Note 6) | **386,492** | 1,358,429 |
| Trade and other receivables (Notes 7 and 23) | **9,978,609** | 10,630,014 |
| Inventories (Note 8) | **898,213** | 508,721 |
| Program rights and other intangible assets (Note 12) | **1,273,405** | 1,137,234 |
| Other current assets (Note 9) | **5,832,391** | 5,062,390 |
| Total Current Assets | **38,468,521** | 31,043,344 |
| **Noncurrent Assets** | | |
| Property and equipment (Notes 10, 18 and 31) | **27,396,284** | 25,700,997 |
| Program rights and other intangible assets - net of current portion (Note 12) | **7,484,128** | 7,707,460 |
| Goodwill (Note 16) | **5,482,200** | 5,473,725 |
| Available-for-sale (AFS) investments (Note 13) | **247,741** | 242,743 |
| Investment properties (Notes 11 and 18) | **205,154** | 200,740 |
| Investments in associates and joint ventures (Note 14) | **501,247** | 524,953 |
| Deferred tax assets (Note 29) | **3,290,494** | 2,462,942 |
| Other noncurrent assets (Note 15) | **1,430,498** | 1,768,425 |
| Total Noncurrent Assets | **46,037,746** | 44,081,985 |
| **TOTAL ASSETS** | **₱84,506,267** | ₱75,125,329 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Notes 4, 17, 23 and 30) | **₱13,647,659** | ₱13,272,821 |
| Income tax payable | **227,555** | 263,329 |
| Obligations for program rights (Note 19) | **57,081** | 349,736 |
| Interest-bearing loans and borrowings (Notes 10, 11 and 18) | **420,799** | 350,678 |
| Total Current Liabilities | **14,353,094** | 14,236,564 |
| **Noncurrent Liabilities** | | |
| Interest-bearing loans and borrowings - net of current portion (Notes 10, 11 and 18) | **27,828,219** | 20,036,027 |
| Obligations for program rights - net of current portion (Note 19) | **650,815** | 554,657 |
| Accrued pension obligation and other employee benefits (Note 30) | **5,938,881** | 5,757,944 |
| Deferred tax liability (Note 29) | **138,271** | 138,271 |
| Convertible note (Note 20) | **217,152** | 205,380 |
| Other noncurrent liabilities (Note 21) | **679,556** | 485,542 |
| Total Noncurrent Liabilities | **35,452,894** | 27,177,821 |
| Total Liabilities | **49,805,988** | 41,414,385 |

(Forward)

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| **Equity Attributable to Equity Holders of the Parent Company** | | |
| Capital stock (Note 22): | | |
| Common | **₱883,515** | ₱872,124 |
| Preferred | **200,000** | 200,000 |
| Additional paid-in capital | **5,098,735** | 4,745,399 |
| Subscription Receivable (Note 22) | **(309,355)** | – |
| Exchange differences on translation of foreign operations | **602,508** | 359,816 |
| Unrealized gain on AFS investments (Note 13) | **185,406** | 180,408 |
| Retained earnings (Note 22) | **29,392,005** | 28,560,106 |
| Treasury shares and Philippine depository receipts (PDR) convertible to common shares (Note 22) | **(1,638,719)** | (1,638,719) |
| Equity attributable to Equity Holders of the Parent | **34,414,095** | 33,279,134 |
| **Noncontrolling Interests** (Note 24) | **286,184** | 431,810 |
| Total Equity | **34,700,279** | 33,710,944 |
| **TOTAL LIABILITIES AND EQUITY** | **₱84,506,267** | ₱75,125,329 |

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

# ABS-CBN CORPORATION AND SUBSIDIARIES

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

**(Amounts in Thousands, Except Per Share Amounts)**

| | For the Quarter Ended September 30 | | For the Period Ended September 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | 2018 | 2017 |
| **REVENUE** | | | | |
| Advertising revenue (Note 23) | **₱5,301,544** | ₱5,432,666 | **₱14,878,116** | ₱15,311,594 |
| Sale of services (Note 31) | **4,348,612** | 4,067,668 | **12,248,699** | 12,161,114 |
| Sale of goods (Note 23) | **812,197** | 627,970 | **2,177,741** | 1,857,536 |
| Others | **90,607** | 39,863 | **184,605** | 181,474 |
| | **10,552,960** | 10,168,167 | **29,489,161** | 29,511,718 |
| **PRODUCTION COSTS** (Notes 10, 12, 23, 25, 30 and 31) | **(3,104,313)** | (2,936,503) | **(9,559,830)** | (8,866,355) |
| **COST OF SERVICES** (Notes 8, 10, 12, 15, 23, 26, 30 and 31) | **(2,820,393)** | (2,872,015) | **(7,963,105)** | (8,270,106) |
| **COST OF SALES** (Notes 8, 10, 23, 26, 30 and 31) | **(645,531)** | (502,971) | **(1,774,405)** | (1,508,115) |
| **GROSS PROFIT** | **3,982,723** | 3,856,678 | **10,191,821** | 10,867,142 |
| **GENERAL AND ADMINISTRATIVE EXPENSES** (Notes 7, 8, 10, 11, 12, 22, 23, 27, 30 and 31) | **(3,125,182)** | (2,751,849) | **(8,892,364)** | (8,201,431) |
| **FINANCE COSTS** (Notes 18, 20 and 28) | **(294,741)** | (253,772) | **(829,071)** | (760,982) |
| **INTEREST INCOME** (Notes 6 and 23) | **48,337** | 35,636 | **149,737** | 121,473 |
| **FOREIGN EXCHANGE GAINS** - Net | **77,345** | 95,453 | **662,903** | 185,125 |
| **EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES** (Note 14) | **(11,521)** | 117 | **(23,706)** | 2,618 |
| **OTHER INCOME** - net (Notes 15, 21, 28 and 31) | **105,688** | 250,732 | **366,563** | 595,125 |
| **INCOME BEFORE INCOME TAX** | **782,649** | 1,232,995 | **1,625,883** | 2,809,070 |
| **PROVISION FOR INCOME TAX** (Note 29) | **42,607** | 221,907 | **144,716** | 542,094 |
| **NET INCOME** | **₱740,042** | ₱1,011,088 | **₱1,481,167** | ₱2,266,976 |
| **Attributable to** | | | | |
| Equity holders of the Parent Company (Note 34) | **₱776,911** | ₱956,869 | **₱1,626,793** | ₱2,411,529 |
| Noncontrolling interests | **(36,869)** | 54,219 | **(145,626)** | (144,553) |
| | **₱740,042** | ₱1,011,088 | **₱1,481,167** | ₱2,266,976 |
| **Basic/Diluted Earnings per Share Attributable to Equity Holders of the Parent Company** (Note 34) | **₱0.929** | ₱1.158 | **₱1.950** | ₱2.925 |

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

## ABS-CBN CORPORATION AND SUBSIDIARIES

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

**(Amounts in Thousands)**

| | For the Quarter Ended September 30 | | For the Period Ended September 30 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **NET INCOME** | **₱740,042** | ₱1,011,088 | **₱1,481,167** | ₱2,266,976 |
| Other comprehensive income (loss) to be reclassified to profit and loss in subsequent periods: | | | | |
| Exchange differences on translation of foreign operations | **(277,711)** | 45,342 | **242,692** | (101,157) |
| Unrealized fair value gain (loss) on AFS investments - net (Note 13) | **(7,977)** | 11,352 | **4,998** | 9,205 |
| | **(285,688)** | 56,694 | **247,690** | (91,952) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | **(285,688)** | 56,694 | **247,690** | (91,952) |
| **TOTAL COMPREHENSIVE INCOME** | **₱454,354** | ₱1,067,782 | **₱1,728,857** | ₱2,175,024 |
| **Attributable to:** | | | | |
| Equity holders of the Parent Company | **₱491,223** | ₱1,013,563 | **₱1,874,483** | ₱2,319,577 |
| Noncontrolling interests | **(36,869)** | 54,219 | **(145,626)** | (144,553) |
| | **₱454,354** | ₱1,067,782 | **₱1,728,857** | ₱2,175,024 |

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

## ABS-CBN CORPORATION AND SUBSIDIARIES

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**FOR THE NINE MONTH ENDED SEPTEMBER 30, 2018 AND 2017**

**(Unaudited)**

**(Amounts in Thousands)**

| | **Capital Stock** (Note 22) | | **Additional Paid-in** | **Subscription Receivable** | **Exchange Differences in Translation of Receivable** | **Unrealized Gain (Loss) on Available-for-Sale Investments** | **Share-based Payment Plan** | **Retained Earnings** (Note 22) | | **Treasury Shares and PDRs Convertible to Common Shares** | | **Noncontrolling Interests** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Common** | **Preferred** | **Capital** | (Note 22) | **Operations** | (Note 13) | (Note 22) | **Appropriated** | **Unappropriated** | (Note 22) | **Total** | (Note 24) | **Total Equity** |
| 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** |
| Net income (loss) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1,626,793** | **–** | **1,626,793** | **(145,626)** | **1,481,167** |
| Other comprehensive income | **–** | **–** | **–** | **–** | **242,692** | **4,998** | **–** | **–** | **–** | **–** | **247,690** | **–** | **247,690** |
| Total comprehensive income (loss) | **–** | **–** | **–** | **–** | **242,692** | **4,998** | **–** | **–** | **1,626,793** | **–** | **1,874,483** | **(145,626)** | **1,728,857** |
| Cash dividends declared | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(794,894)** | **–** | **(794,894)** | **–** | **(794,894)** |
| Employee stock subscriptions | **11,391** | **–** | **353,336** | **(309,355)** | **–** | **–** | **–** | **–** | **–** | **–** | **55,372** | **–** | **55,372** |
| At September 30, 2018 | **₱883,515** | **₱200,000** | **₱5,098,735** | **(₱309,355)** | **₱602,508** | **₱185,406** | **₱–** | **₱16,200,000** | **₱13,192,005** | **(₱1,638,719)** | **₱34,414,095** | **₱286,184** | **₱34,700,279** |
| 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) | – | – | – | – | – | – | – | – | 2,411,529 | – | 2,411,529 | (144,553) | 2,266,976 |
| Other comprehensive income (loss) | – | – | – | – | (101,157) | 9,205 | – | – | – | – | (91,952) | – | (91,952) |
| Total comprehensive income (loss) | – | – | – | – | (101,157) | 9,205 | – | – | 2,411,529 | – | 2,319,577 | (144,553) | 2,175,024 |
| Cash dividends declared | – | – | – | – | – | – | – | – | (854,962) | – | (854,962) | – | (854,962) |
| At September 30, 2017 | ₱872,124 | ₱200,000 | ₱4,740,811 | ₱– | (₱82,808) | ₱157,089 | ₱4,588 | ₱16,200,000 | ₱12,066,548 | (₱1,638,719) | ₱32,519,633 | ₱492,132 | ₱33,011,765 |

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

## ABS-CBN CORPORATION AND SUBSIDIARIES

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

**(Amounts in Thousands)**

| | Nine Months Ended September 30 | |
|---|---|---|
| | **2018** | 2017 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱1,625,883** | ₱2,809,070 |
| Adjustments for: | | |
| Depreciation and amortization (Notes 10 and 11) | **2,808,322** | 2,704,002 |
| Amortization of: | | |
| Program rights and other intangibles (Note 12) | **1,169,543** | 1,294,099 |
| Debt issue costs (Note 28) | **26,964** | 22,238 |
| Deferred charges (Note 26) | **6,993** | 6,924 |
| Interest expense (Note 28) | **779,769** | 715,797 |
| Movement in accrued pension obligation and other employee benefits (Note 30) | **518,651** | 486,741 |
| Net unrealized foreign exchange loss | **380,062** | 17,063 |
| Interest income (Notes 6 and 23) | **(149,737)** | (121,473) |
| Equity in net losses (earnings) of associates and joint ventures (Note 14) | **23,706** | (2,618) |
| Gain on sale of property and equipment (Notes 10 and 28) | **(1,066)** | (5,837) |
| Income before working capital changes | **7,189,090** | 7,926,006 |
| Decrease (increase) in: | | |
| Other current assets | **(788,199)** | (927,296) |
| Trade and other receivables | **410,567** | 231,104 |
| Inventories | **(385,659)** | (343,865) |
| Decrease in: | | |
| Trade and other payables | **(545,785)** | (1,594,060) |
| Obligations for program rights | **(202,656)** | (254,880) |
| Other noncurrent liabilities | **(27,750)** | (88,096) |
| Cash generated from operations | **5,649,608** | 4,948,913 |
| Income taxes paid | **(789,370)** | (537,967) |
| Net cash provided by operating activities | **4,860,238** | 4,410,946 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to: | | |
| Property and equipment (Notes 5 and 10) | **(4,457,195)** | (3,809,578) |
| Program rights and other intangible assets (Notes 12 and 35) | **(894,903)** | (801,709) |
| Decrease in short-term investments | **971,937** | 1,525,319 |
| Increase in other noncurrent assets | **387,270** | 277,955 |
| Interest received | **139,409** | 118,611 |
| Proceeds from sale of property and equipment | **33,930** | 52,130 |
| Net cash used in investing activities | **(3,819,552)** | (2,637,272) |

(Forward)

| | Nine Months Ended September 30 | |
|---|---|---|
| | **2018** | 2017 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from long-term debt | **₱8,762,949** | ₱– |
| Payments of: | | |
| Long-term debt (Notes 18 and 28) | **(955,618)** | (102,762) |
| Interest | **(768,774)** | (728,527) |
| Dividends | **(550,966)** | (809,884) |
| Obligations under finance lease | **(5,704)** | (13,871) |
| Issuance of common shares (Note 22) | **55,372** | – |
| Net cash provided by (used in) financing activities | **6,537,259** | (1,655,044) |
| **EFFECTS OF EXCHANGE RATE CHANGES AND TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS** | **174,910** | 5,585 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **7,752,855** | 124,215 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **12,346,556** | 10,964,524 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 6) | **₱20,099,411** | ₱11,088,739 |

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

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**(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 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.

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

Basis of Preparation

The interim condensed 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 AFS investments measured at fair value. The interim condensed 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 interim condensed consolidated financial statements of the Company were prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual consolidated financial statement and should be read in conjunction with the 2017 audited annual consolidated financial statements, comprising the consolidated statements of financial position as at December 31, 2017, 2016 and January 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 the years ended December 31, 2017, 2016 and 2015, issued and approved on February 22, 2018 (referred to as the "2017 audited annual consolidated financial statements").

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's 2017 audited annual consolidated financial statements.

Basis of Consolidation and Noncontrolling Interests

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 September 30, 2018 and December 31, 2017:

| Company | Place of Incorporation | Principal Activities | Functional Currency | Effective Interest September 30, 2018 | Effective Interest December 31, 2017 |
|---|---|---|---|---|---|
| **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** | 100.0 |
| **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 |

| Company | Place of Incorporation | Principal Activities | Functional Currency | Effective Interest September 30, 2018 | Effective Interest December 31, 2017 |
|---|---|---|---|---|---|
| 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) | 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-CBNs Convergence, Inc, (ABS-C)[q] | Philippines | Telecommunication | Philippine peso | **69.3** | 69.3 |
| **Cable, Satellite and Broadband** | | | | | |
| Sky Vision Corporation (Sky Vision) (see Note 4) | Philippines | Holding Company | Philippine peso | **75.0** | 75.0 |
| Sky Cable Corporation (Sky Cable) (see Note 4) | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Bisaya Cable Television Network, Inc.[h] [i] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Bright Moon Cable Networks, Inc.[h] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Cavite Cable Corporation [h] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Cepsil Consultancy and Management Corporation[h] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Davao Cableworld Network, Inc.[h] [o] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| HM Cable Networks, Inc.[h] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| HM CATV, Inc.[h] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Hotel Interactive Systems, Inc.[h] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Isla Cable TV, Inc.[h] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Moonsat Cable Television, Inc.[h] [o] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Pilipino Cable Corporation (PCC) [h] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Satellite Cable TV, Inc.[h] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Sun Cable Holdings, Incorporated (SCHI) [h] | Philippines | Holding company | Philippine peso | **59.4** | 59.4 |
| Sun Cable Systems Davao, Inc.[h] [i] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Sunvision Cable, Inc.[h] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Tarlac Cable Television Network, Inc.[h] | Philippines | Cable television services | Philippine peso | **59.4** | 59.4 |
| Telemondial Holdings, Inc.[h] [i] | Philippines | Holding company | Philippine peso | **59.4** | 59.4 |
| JMY Advantage Corporation [h] | Philippines | Cable television services | Philippine peso | **56.4** | 56.4 |
| Cebu Cable Television, Inc.[h] [o] [p] | Philippines | Cable television services | Philippine peso | **57.4** | 57.4 |
| Suburban Cable Network, Inc.[h] | Philippines | Cable television services | Philippine peso | **54.9** | 54.9 |
| Pacific CATV, Inc. (Pacific) [h] [o] | Philippines | Cable television services | Philippine peso | **58.0** | 58.0 |
| First Ilocandia CATV, Inc.[h] [o] | Philippines | Cable television services | Philippine peso | **54.9** | 54.9 |
| Mactan CATV Network, Inc.[h] [o] [p] | Philippines | Cable television services | Philippine peso | **56.6** | 56.6 |
| Discovery Mactan Cable, Inc.[h] [s] | Philippines | Cable television services | Philippine peso | **41.6** | 41.6 |
| Home-Lipa Cable, Inc.[h] [s] | 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** | 100.0 |

| Company | Place of Incorporation | Principal Activities | Functional Currency | Effective Interest September 30, 2018 | Effective Interest December 31, 2017 |
|---|---|---|---|---|---|
| Play Innovations, Inc.[g] | 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.*

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

The Company’s interim condensed consolidated financial statements prepared under PFRS require management to make judgments and estimates that affect amounts reported in the interim condensed 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 interim condensed 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.

Judgments

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 interim condensed 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.

<u>Estimates and Assumptions</u>
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.

*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.

*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.

*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.

*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.

*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.

*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.

*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).

Seasonality of Operations

The Company's operations are not generally affected by any seasonality or cyclicality.

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

a. Sky Cable's Acquisition of Inter-Island Information System, Inc.'s (Tri-Isys) Internet and Value-added Services Business and Assets

On March 6, 2017, Sky Cable entered into an Asset Purchase Agreement (APA) with 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.

b. 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 (see Note 17). On January 24, 2018, the increase in capital stock of Sky Cable was approved by the SEC. As at September 30, 2018, the PDR instruments remain unissued.

On January 25, 2018, the Board of Directors (BOD) of the Company approved the merger of ABS-CBN Publishing and CPI with the latter as the surviving corporation. On September 19, 2018, the merger was approved by the SEC.

## 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.

<u>Geographical Segments</u>

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.

<u>Inter-segment Transactions</u>

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:

| | **Nine Months Ended September 30** (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Consolidated EBITDA | **₱6,065,333** | ₱7,034,735 |
| Depreciation and amortization | **(2,808,322)** | (2,704,002) |
| Amortization of intangible assets** | **(974,132)** | (905,101) |
| Finance costs* | **(806,733)** | (738,035) |
| Interest income | **149,737** | 121,473 |
| Provision for income tax | **(144,716)** | (542,094) |
| Consolidated net income | **₱1,481,167** | ₱2,266,976 |

**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 for the nine months ended September 30, 2018 and 2017 and certain asset and liability information regarding business segments as of September 30, 2018 and December 31, 2017:

| | Media, Network and Studio Entertainment | | Cable, Satellite and Broadband | | Digital and Interactive Media | | Consumer Products and Live Experience | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **Revenue** | | | | | | | | | | | | |
| External sales | **₱21,384,252** | ₱21,314,965 | **₱6,393,492** | ₱6,652,961 | **₱1,002,600** | ₱942,566 | **₱1,368,321** | ₱1,210,381 | **₱–** | ₱– | **₱30,148,665** | ₱30,120,873 |
| Inter-segment sales | **3,031,436** | 3,003,130 | **155,501** | 196,354 | **–** | – | **–** | – | **(3,186,937)** | (3,199,484) | **–** | – |
| Revenue deductions | **(554,564)** | (482,835) | **–** | – | **(124,131)** | (97,563) | **(22,282)** | (30,304) | **41,473** | 1,547 | **(659,504)** | (609,155) |
| Total revenue | **₱23,861,124** | ₱23,835,260 | **₱6,548,993** | ₱6,849,315 | **₱878,469** | ₱845,003 | **₱1,346,039** | ₱1,180,077 | **(₱3,145,464)** | (₱3,197,937) | **₱29,489,161** | ₱29,511,718 |
| **Results** | | | | | | | | | | | | |
| Operating results | **₱1,670,069** | ₱2,802,951 | **(₱374,016)** | ₱178,695 | **(₱142,640)** | (₱343,952) | **(₱81,411)** | (₱123,010) | **₱227,455** | ₱151,027 | **₱1,299,457** | ₱2,665,711 |
| Finance costs | **(768,431)** | (698,929) | **(178,751)** | (205,180) | **(1,602)** | (199) | **(34,879)** | (34,376) | **154,592** | 177,702 | **(829,071)** | (760,982) |
| Foreign exchange gains (losses) - net | **470,944** | 212,858 | **159,612** | 38,825 | **(1,190)** | 1,290 | **(4,298)** | (645) | **37,835** | (67,203) | **662,903** | 185,125 |
| Interest income | **128,629** | 180,658 | **33,336** | 4,314 | **114** | 853 | **1,548** | 1,540 | **(13,890)** | (65,892) | **149,737** | 121,473 |
| Equity in net earnings (losses) of associates and joint ventures | **(23,706)** | 2,618 | **–** | – | **–** | – | **–** | – | **–** | – | **(23,706)** | 2,618 |
| Other income - net | **681,292** | 853,295 | **100,532** | 110,004 | **2,894** | 7,236 | **263** | 2,793 | **(418,418)** | (378,203) | **366,563** | 595,125 |
| Income tax | **(230,068)** | (506,926) | **85,329** | (29,458) | **(287)** | 449 | **310** | (6,159) | **–** | – | **(144,716)** | (542,094) |
| Net income | **₱1,928,729** | ₱2,846,525 | **(₱173,958)** | ₱97,200 | **(₱142,711)** | (₱334,323) | **(₱118,467)** | (₱159,857) | **(₱12,426)** | (₱182,569) | **₱1,481,167** | ₱2,266,976 |
| **EBITDA** | | | | | | | | | | | **₱6,065,333** | ₱7,034,735 |
| **EBITDA Margin** | | | | | | | | | | | **20%** | 23% |
| **Assets and Liabilities** | | | | | | | | | | | | |
| Operating assets | **₱69,964,196** | ₱62,875,687 | **₱24,356,910** | ₱21,604,378 | **₱3,485,227** | ₱3,589,758 | **₱870,330** | ₱908,307 | **(₱17,962,137)** | (₱16,840,696) | **₱80,714,526** | ₱72,137,434 |
| Investments in associates and joint ventures | **20,517,512** | 20,488,396 | **1,562** | 1,562 | **–** | – | **–** | – | **(20,017,827)** | (19,965,005) | **501,247** | 524,953 |
| Deferred tax assets - net | **2,128,125** | 1,761,641 | **1,041,169** | 786,797 | **131,013** | 128,718 | **35,736** | 21,235 | **(45,549)** | (235,449) | **3,290,494** | 2,462,942 |
| Total assets | **₱92,609,833** | ₱85,125,724 | **₱25,399,641** | ₱22,392,737 | **₱3,616,240** | ₱3,718,476 | **₱906,066** | ₱929,542 | **(₱38,025,513)** | (₱37,041,150) | **₱84,506,267** | ₱75,125,329 |
| Operating liabilities | **₱13,136,151** | ₱13,460,154 | **₱7,469,273** | ₱6,203,801 | **₱3,369,083** | ₱758,764 | **₱844,115** | ₱769,726 | **(₱3,399,923)** | (₱303,036) | **₱21,418,699** | ₱20,889,409 |
| Interest-bearing loans and borrowings | **22,602,548** | 16,698,267 | **6,147,829** | 4,209,671 | **–** | – | **–** | – | **(533,472)** | (545,000) | **28,216,905** | 20,362,938 |
| Deferred tax liabilities - net | **–** | – | **–** | – | **138,271** | 138,271 | **–** | – | **–** | – | **138,271** | 138,271 |
| Obligations under finance lease | **–** | – | **16,385** | 3,049 | **15,728** | 20,718 | **–** | – | **–** | – | **32,113** | 23,767 |
| Total liabilities | **₱35,738,699** | ₱30,158,421 | **₱13,633,487** | ₱10,416,521 | **₱3,523,082** | ₱917,753 | **₱844,115** | ₱769,726 | **(₱3,933,395)** | (₱848,036) | **₱49,805,988** | ₱41,414,385 |
| **Other Segment Information** | | | | | | | | | | | | |
| Capital expenditures: | | | | | | | | | | | | |
| Property and equipment | **₱2,158,249** | ₱2,439,017 | **₱2,276,038** | ₱1,353,182 | **₱14,162** | ₱4,901 | **₱8,746** | ₱12,477 | **₱–** | ₱– | **₱4,457,195** | ₱3,809,577 |
| Intangible assets | **1,239,598** | 1,023,349 | **(48,587)** | 3,071 | **4,025** | 24,830 | **–** | – | **–** | – | **1,195,036** | 1,051,250 |
| Depreciation and amortization | **3,474,190** | 3,389,976 | **1,257,809** | 1,204,415 | **67,895** | 68,253 | **59,053** | 58,288 | **(881,082)** | (722,831) | **3,977,865** | 3,998,101 |
| Noncash expenses other than depreciation and amortization | **32,647** | (25,755) | **198,225** | 273,388 | **6,520** | 25,841 | **–** | – | **–** | – | **237,392** | 273,474 |

Geographical Segment Data

The following tables present revenue and expenditure for the nine months ended September 30, 2018 and 2017 and certain asset information regarding geographical segments as of September 30, 2018 and December 31, 2017:

| | Philippines | | United States | | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **Revenue** | | | | | | | | | | |
| External sales | **₱25,853,342** | ₱25,927,530 | **₱3,199,713** | ₱3,098,694 | **₱1,095,610** | ₱1,094,649 | **₱–** | ₱– | **₱30,148,665** | ₱30,120,873 |
| Inter-segment sales | **3,186,937** | 3,199,484 | **–** | – | **–** | – | **(3,186,937)** | (3,199,484) | **–** | – |
| Revenue deductions | **(700,977)** | (610,702) | **–** | – | **–** | – | **41,473** | 1,547 | **(659,504)** | (609,155) |
| Total revenue | **₱28,339,302** | ₱28,516,312 | **₱3,199,713** | ₱3,098,694 | **₱1,095,610** | ₱1,094,649 | **(₱3,145,464)** | (₱3,197,937) | **₱29,489,161** | ₱29,511,718 |
| **Assets** | | | | | | | | | | |
| Operating assets | **₱88,379,111** | ₱79,663,191 | **₱1,755,546** | ₱2,058,526 | **₱8,542,006** | ₱7,256,413 | **(₱17,962,137)** | (₱16,840,696) | **₱80,714,526** | ₱72,137,434 |
| Investments in associates and joint ventures | **20,519,074** | 20,489,958 | **–** | – | **–** | – | **(20,017,827)** | (19,965,005) | **501,247** | 524,953 |
| Deferred tax assets – net | **3,215,562** | 2,604,233 | **–** | 218,043 | **120,481** | (123,885) | **(45,549)** | (235,449) | **3,290,494** | 2,462,942 |
| Total assets | **₱112,113,747** | ₱102,757,382 | **₱1,755,546** | ₱2,276,569 | **₱8,662,487** | ₱7,132,528 | **(₱38,025,513)** | (₱37,041,150) | **₱84,506,267** | ₱75,125,329 |
| **Liabilities** | | | | | | | | | | |
| Operating liabilities | **₱21,514,866** | ₱20,551,111 | **₱614,296** | ₱603,709 | **₱2,689,460** | ₱37,625 | **(₱3,399,923)** | (₱303,036) | **₱21,418,699** | ₱20,889,409 |
| Interest-bearing loans and borrowings | **28,713,878** | 20,872,388 | **–** | 2,436 | **36,499** | 33,114 | **(533,472)** | (545,000) | **28,216,905** | 20,362,938 |
| Deferred tax liabilities – net | **138,271** | 138,271 | **–** | 1,752,564 | **–** | (1,752,564) | **–** | – | **138,271** | 138,271 |
| Obligations under finance lease | **32,113** | 23,767 | **–** | – | **–** | – | **–** | – | **32,113** | 23,767 |
| Total liabilities | **₱50,399,128** | ₱41,585,537 | **₱614,296** | ₱2,358,709 | **₱2,725,959** | (₱1,681,825) | **(₱3,933,395)** | (₱848,036) | **₱49,805,988** | ₱41,414,385 |
| **Other Segment Information** | | | | | | | | | | |
| Capital expenditures: | | | | | | | | | | |
| Property and equipment | **₱4,432,402** | ₱3,658,877 | **₱24,727** | ₱147,524 | **₱66** | ₱3,176 | **₱–** | ₱– | **₱4,457,195** | ₱3,809,577 |
| Intangible assets | **1,195,036** | 1,051,250 | **–** | – | **–** | – | **–** | – | **1,195,036** | 1,051,250 |

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

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Cash on hand and in banks | **₱11,842,249** | ₱7,906,083 |
| Cash equivalents | **8,257,162** | 4,440,473 |
| | **₱20,099,411** | ₱12,346,556 |

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 ₱386 million and ₱1,358 million as at September 30, 2018 and December 31, 2017, respectively, and with maturities of more than three months but less than one year are classified as "Short-term investments" in the interim condensed consolidated statements of financial position.

Interest earned from cash and cash equivalents and short-term investments amounted to ₱150 million and ₱121 million for the nine months ended September 30, 2018 and 2017, respectively.

## 7. Trade and Other Receivables

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Trade: | | |
| Airtime | **₱5,086,637** | ₱6,627,531 |
| Subscriptions | **3,159,451** | 2,675,490 |
| Others | **2,191,354** | 1,824,713 |
| Due from related parties (see Note 23) | **409,904** | 322,227 |
| Advances to employees and talents (see Note 23) | **331,545** | 638,035 |
| Others | **902,088** | 433,999 |
| | **12,080,979** | 12,521,995 |
| Less allowance for doubtful accounts | **2,102,370** | 1,891,981 |
| | **₱9,978,609** | ₱10,630,014 |

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:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Less than 30 days | **₱1,027,186** | ₱756,404 |
| 31 to 60 days | **2,915** | 134,922 |
| | **₱1,030,101** | ₱891,326 |

Movements in the allowance for doubtful accounts are as follows:

| | Trade | | | | |
|---|---|---|---|---|---|
| | Airtime | Subscriptions | Others | Nontrade | Total |
| Balance at January 1, 2017 | ₱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 |
| Provisions (see Note 27) | **5,842** | **194,581** | **10,005** | **–** | **210,428** |
| Write-offs and others | **(39)** | **–** | **–** | **–** | **(39)** |
| **Balance at September 30, 2018** | **₱339,276** | **₱1,371,319** | **₱321,810** | **₱69,965** | **₱2,102,370** |

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

## 8. Inventories

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| At cost: | | |
| Merchandise inventories | **₱768,641** | ₱379,247 |
| Office supplies | **1,396** | 1,396 |
| At net realizable value: | | |
| Merchandise inventories | **19,850** | 37,937 |
| Materials, supplies and spare parts | **108,326** | 90,141 |
| | **₱898,213** | ₱508,721 |

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 ₱1,689 million and ₱1,397 million for the nine months ended September 30, 2018 and 2017, respectively, is recorded as part of "Inventory costs" under the "Cost of sales" account in the interim condensed consolidated statements of income (see Note 26). Total inventory costs, recognized under "Cost of sales and services" amounted to ₱1,788 million and ₱1,498 million for the nine months ended September 30, 2018 and 2017, respectively (see Note 26).

The cost of inventories carried at net realizable value amounted to ₱277 million as at September 30, 2018 and December 31, 2017. Inventory losses amounted to ₱16 million and ₱11 million for the nine months ended September 30, 2018 and 2017, respectively (see Note 27).

## 9. Other Current Assets

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Creditable withholding and prepaid taxes | **₱2,599,706** | ₱2,397,592 |
| Advances to suppliers | **1,483,301** | 1,406,488 |
| Preproduction expenses | **638,566** | 425,308 |
| Prepayments: | | |
| Licenses | **409,067** | 491,968 |
| Rent | **133,014** | 91,239 |
| Subscription | **115,104** | 6,346 |
| Insurance | **43,205** | 23,207 |
| Transponder services | **16,181** | 23,244 |
| Others | **394,247** | 196,998 |
| | **₱5,832,391** | ₱5,062,390 |

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

Other prepayments mainly pertain to sponsorship and royalties.

## 10. Property and Equipment

| | September 30, 2018 (Unaudited - Nine Months) | | | | | |
|---|---|---|---|---|---|---|
| | 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 | **₱2,221,854** | **₱12,802,354** | **₱22,897,683** | **₱13,547,798** | **₱4,026,682** | **₱55,496,371** |
| Additions | **2,060** | **2,816** | **1,536,199** | **445,216** | **2,470,904** | **4,457,195** |
| Disposals/retirements | **–** | **(184,080)** | **(208,271)** | **(747,905)** | **–** | **(1,140,256)** |
| Reclassifications | **2,547** | **190,609** | **(255,248)** | **104,997** | **(42,905)** | **–** |
| Translation adjustments | **7,329** | **47,971** | **36,929** | **81,774** | **1,135** | **175,138** |
| Balance at end of year | **2,233,790** | **12,859,670** | **24,007,292** | **13,431,880** | **6,455,816** | **58,988,448** |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Balance at beginning of year | **40,989** | **7,422,247** | **14,385,557** | **7,946,581** | **–** | **29,795,374** |
| Depreciation and amortization (see Notes 25, 26 and 27) | **1,828** | **377,869** | **1,626,891** | **800,412** | **–** | **2,807,000** |
| Disposals/retirements | – | **(180,726)** | **(195,131)** | **(731,535)** | **–** | **(1,107,392)** |
| Translation adjustments | **87** | **15,479** | **33,129** | **48,487** | **–** | **97,182** |
| Balance at end of year | **42,904** | **7,634,869** | **15,850,446** | **8,063,945** | **–** | **31,592,164** |
| **Net Book Value** | **₱2,190,886** | **₱5,224,801** | **₱8,156,846** | **₱5,367,935** | **₱6,455,816** | **₱27,396,284** |

| | December 31, 2017 (Audited - One Year) | | | | | |
|---|---|---|---|---|---|---|
| | 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** |

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 September 30, 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 ₱18,805 million and ₱19,572 million as at September 30, 2018 and December 31, 2017, 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 ₱1,428 million and ₱1,299 million as at September 30, 2018 and December 31, 2017, respectively. Borrowing costs capitalized in 2018 and 2017 amounted to ₱150 million and ₱200 million, respectively. Borrowing cost capitalization rate in 2018 and 2017 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):

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Cost capitalized under finance lease | **₱858,029** | ₱786,867 |
| Accumulated depreciation | **(525,005)** | (438,705) |
| Net book value | **₱333,024** | ₱348,162 |

The amount of property and equipment under finance lease includes the net book value of the Indefeasible Right of Use (IRU) covered by the lease agreement between Sky Cable and Bayan Telecommunications, Inc (Bayantel).

## 11. Investment Properties

| | **September 30, 2018** (Unaudited – Nine Months) | | |
|---|---|---|---|
| | **Land** | **Building** | **Total** |
| **Cost:** | | | |
| Balance at beginning of year | **₱170,878** | **₱43,072** | **₱213,950** |
| Translation adjustments | **3,154** | **3,811** | **6,965** |
| Balance at end of year | **174,032** | **46,883** | **220,915** |
| **Accumulated depreciation:** | | | |
| Balance at beginning of year | **–** | **13,210** | **13,210** |
| Depreciation (see Note 27) | **–** | **1,322** | **1,322** |
| Translation adjustments | **–** | **1,229** | **1,229** |
| Balance at end of year | **–** | **15,761** | **15,761** |
| **Net book value** | **₱174,032** | **₱31,122** | **₱205,154** |

| | December 31, 2017 (Audited – One Year) | | |
|---|---|---|---|
| | 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 |

The Parent Company owns a parcel of land for capital appreciation purposes costing ₱136 million as at September 30, 2018 and December 31, 2017. The Parent Company did not obtain updated appraisal reports as at September 30, 2018 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 ₱63 million and ₱58 million as at September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017, 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 ₱84 million and ₱79 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 for the nine months ended September 30, 2018 and 2017. Direct operating expenses, which consist mainly of depreciation, amounted to ₱1 million for the nine months ended September 30, 2018 and 2017.

## 12. Program Rights and Other Intangible Assets

**September 30, 2018** (Unaudited – Nine Months)

| | 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 | ₱4,514,725 | ₱3,356 | ₱1,003,400 | ₱128,922 | ₱1,111,784 | ₱993,973 | ₱511,214 | ₱459,968 | ₱57,247 | ₱60,105 | ₱8,844,694 |
| Additions | 902,482 | – | 220,424 | 2,378 | – | – | – | – | – | 12,338 | 1,137,622 |
| Reclassifications | – | – | – | – | – | – | (56,900) | – | – | – | (56,900) |
| Amortization (see Notes 25, 26 and 27) | (936,557) | (155) | (187,870) | (7,386) | – | (3,546) | (18,791) | – | – | (15,238) | (1,169,543) |
| Translation adjustments | – | – | – | – | – | 1,493 | – | – | 167 | – | 1,660 |
| Balance at end of year | 4,480,650 | 3,201 | 1,035,954 | 123,914 | 1,111,784 | 991,920 | 435,523 | 459,968 | 57,414 | 57,205 | 8,757,533 |
| Less current portion | 1,068,953 | 2,395 | 94,725 | 107,332 | – | – | – | – | – | – | 1,273,405 |
| Noncurrent portion | ₱3,411,697 | ₱806 | ₱941,229 | ₱16,582 | ₱1,111,784 | ₱991,920 | ₱435,523 | ₱459,968 | ₱57,414 | ₱57,205 | ₱7,484,128 |

December 31, 2017 (Audited – One Year)

| | 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 |

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

| | **September 30, 2018** (Unaudited – Nine Months) | | | | | | December 31, 2017 (Audited – One Year) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **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** | **₱692,374** | **₱574,960** | **₱212,358** | **₱60,280** | **₱1,582,749** | ₱42,777 | ₱749,274 | ₱574,960 | ₱212,358 | ₱56,255 | ₱1,635,624 |
| Accumulated amortization | **(15,906)** | **(256,851)** | **(114,992)** | **(154,944)** | **(40,879)** | **(583,572)** | (13,853) | (238,060) | (114,992) | (155,111) | (25,641) | (547,657) |
| Net book value | **₱26,871** | **₱435,523** | **₱459,968** | **₱57,414** | **₱19,401** | **₱999,177** | ₱28,924 | ₱511,214 | ₱459,968 | ₱57,247 | ₱30,614 | ₱1,087,967 |

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 September 30, 2018, 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 September 30, 2018, the remaining useful life of the license is approximately four 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 September 30, 2018, the remaining useful life of this intangible asset is approximately five 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**

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Quoted equity securities | **₱173,037** | ₱168,039 |
| Unquoted ordinary common and club shares | **74,704** | 74,704 |
| | **₱247,741** | ₱242,743 |

Movements in this account follow:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Balance at beginning of year | **₱242,743** | ₱210,219 |
| Unrealized fair value gain on AFS investments | **4,998** | 32,524 |
| Balance at end of year | **₱247,741** | ₱242,743 |

## 14. Investments in Associates and Joint Ventures

| | | Percentage of Ownership | |
|---|---|---|---|
| Entity | Principal Activities | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
| 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 Corporation (Daum Kakao) | Services | **50.0** | 50.0 |
| ALA Sports Promotions International, Inc. (ALA Sports) | Boxing promotions | **44.0** | 44.0 |

The details and movement in the account are as follows:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Acquisition costs: | | |
| Balance at beginning and end of year | **₱1,064,552** | ₱1,064,552 |
| Accumulated equity in net losses: | | |
| Balance at beginning of year | **(536,864)** | (531,812) |
| Equity in net loss during the year | **(23,706)** | (5,052) |
| Balance at end of year | **(560,570)** | (536,864) |
| Accumulated impairment loss: | | |
| Balance at beginning and end of year | **(2,735)** | (2,735) |
| | **₱501,247** | ₱524,953 |

| | | |
|---|---|---|
| Investments in: | | |
| Joint ventures | **₱347,250** | ₱370,938 |
| Associates | **153,997** | 154,015 |
| | **₱501,247** | ₱524,953 |

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 September 30, 2018 and December 31, 2017.

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

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:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Current assets | **₱927,913** | ₱865,792 |
| Noncurrent assets | **149,091** | 147,498 |
| Current liabilities | **(365,640)** | (253,962) |
| Noncurrent liabilities | **(845)** | (695) |
| Net equity | **₱710,519** | ₱758,633 |

| | **Nine Months Ended September 30** (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Revenue | **₱636,527** | ₱642,722 |
| Costs and expenses | **(684,641)** | (637,903) |
| Net income (loss) | **(48,114)** | 4,819 |
| Equity in net earnings (losses) of joint ventures | **(₱23,688)** | ₱2,643 |

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

| | **September 30, 2018** (Unaudited – Nine Months) | | | |
|---|---|---|---|---|
| | **A CJ O** | **ALA Sports** | **Daum Kakao** | **Total** |
| Net assets of joint ventures | **₱226,308** | **₱87,901** | **₱396,310** | **₱710,519** |
| Interest of the Parent Company in the net assets of the joint ventures | **50%** | **44%** | **50%** | |
| | **113,154** | **38,676** | **198,155** | **349,985** |
| Accumulated impairment loss | **–** | **–** | **(2,735)** | **(2,735)** |
| Carrying amount of investments in joint ventures | **₱113,154** | **₱38,676** | **₱195,420** | **₱347,250** |

| | December 31, 2017 (Audited – One Year) | | | |
|---|---|---|---|---|
| | 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 |

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 nine months ended September 30, 2018 and 2017 because it is immaterial.

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 September 30, 2018 and December 31, 2017.

Combined financial information of associates follows:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Current assets | **₱78,472** | ₱48,917 |
| Noncurrent assets | **254,291** | 255,082 |
| Current liabilities | **(241,645)** | (212,844) |
| Net equity | **₱91,118** | ₱91,155 |

| | **Nine Months Ended September 30** (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Revenue | **₱23,203** | ₱24,953 |
| Costs and expenses | **(23,240)** | (25,005) |
| Net loss | **(₱37)** | (₱52) |
| Equity in net losses of associates | **(₱18)** | (₱25) |

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

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Net assets of associate – Amcara | **₱83,192** | ₱83,215 |
| Interest of the Parent Company in the net assets of the associate | **49%** | 49% |
| Carrying amount of investment in Amcara | **40,757** | 40,775 |
| Carrying amount of investment in Flagship | **103,178** | 103,178 |
| Investment in TSI | **10,062** | 10,062 |
| Carrying amount of investments in associates | **₱153,997** | ₱154,015 |

15. **Other Noncurrent Assets**

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Tax credits with TCCs – net of allowance for impairment | **₱867,571** | ₱1,149,321 |
| Deposits and bonds | **435,393** | 361,321 |
| Deferred charges | **53,498** | 75,722 |
| Others (see Note 23) | **74,036** | 182,061 |
| | **₱1,430,498** | ₱1,768,425 |

16. **Goodwill**

Goodwill arose from the following acquisitions and business combination:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Sky Cable | **₱4,649,827** | ₱4,649,827 |
| CTI and ABS-C | **567,836** | 567,836 |
| ABS-CBN International | **255,336** | 246,861 |
| Sapientis | **9,201** | 9,201 |
| | **₱5,482,200** | ₱5,473,725 |

Movements in the account follows:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Balance at beginning of year | **₱5,473,725** | ₱5,314,677 |
| Effect of business acquisition (see Note 4) | **–** | 158,010 |
| Translation adjustment | **8,475** | 1,038 |
| Balance at end of year | **₱5,482,200** | ₱5,473,725 |

## 17. Trade and Other Payables

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Trade | **₱1,655,556** | ₱1,247,188 |
| Accrued expenses: | | |
| Production costs and other expenses | **4,684,906** | 5,912,409 |
| Salaries and other employee benefits (see Note 30) | **2,784,122** | 1,339,504 |
| Taxes | **1,080,036** | 1,203,142 |
| Interest | **224,920** | 225,697 |
| Deferred revenue | **1,460,454** | 1,510,413 |
| Deposit for future subscription (see Note 4) | **1,220,000** | 1,220,000 |
| Dividend payable | **281,525** | 257,961 |
| Due to related parties (see Note 23) | **91,875** | 171,303 |
| Others | **164,265** | 185,204 |
| | **₱13,647,659** | ₱13,272,821 |

## 18. Interest-bearing Loans and Borrowings

| | **September 30, 2018** (Unaudited – Nine Months) | | | December 31, 2017 (Audited – One Year) | | |
|---|---|---|---|---|---|---|
| Borrower | **Current Portion** | **Noncurrent Portion** | **Total** | Current Portion | Noncurrent Portion | Total |
| Parent Company | **₱91,583** | **₱22,234,467** | **₱22,326,050** | ₱70,934 | ₱16,351,784 | ₱16,422,718 |
| Sky Cable | **82,628** | **5,548,113** | **5,630,741** | 23,737 | 2,883,530 | 2,907,267 |
| PCC | **–** | **–** | **–** | 6,808 | 753,646 | 760,454 |
| Play Innovations, Inc. | **240,000** | **–** | **240,000** | 240,000 | – | 240,000 |
| ABS-CBN International | **2,757** | **33,742** | **36,499** | 2,441 | 33,108 | 35,549 |
| ABS-C (see Note 31) | **3,831** | **11,897** | **15,728** | 6,758 | 13,959 | 20,717 |
| | **₱420,799** | **₱27,828,219** | **₱28,249,018** | ₱350,678 | ₱20,036,027 | ₱20,386,705 |

Parent Company

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

| | **September 30, 2018** (Unaudited – Nine Months) | | | December 31, 2017 (Audited – One Year) | | |
|---|---|---|---|---|---|---|
| | **Current Portion** | **Noncurrent Portion** | **Total** | Current Portion | Noncurrent Portion | Total |
| Term loans: | | | | | | |
| Loan agreements | **₱91,583** | **₱16,262,595** | **₱16,354,178** | ₱70,934 | ₱10,388,056 | ₱10,458,990 |
| Bonds payable | **–** | **5,971,872** | **5,971,872** | – | 5,963,728 | 5,963,728 |
| | **₱91,583** | **₱22,234,467** | **₱22,326,050** | ₱70,934 | ₱16,351,784 | ₱16,422,718 |

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.

On March 1, 2018, the Parent Company entered into a loan with BPI for a principal amount of ₱6 billion to refinance maturing debt and general working capital requirements. The loan bears interest of 2.00% payable quarterly with a term of seven years. Transaction cost incurred in availing the loan amounted to ₱45 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 September 30, 2018 and December 31, 2017, 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 ₱77 million and ₱44 million as at September 30, 2018 and December 31, 2017, respectively.

Amortization of debt issue costs amounted to ₱12 million and ₱6 million for the nine month ended September 30, 2018 and 2017, 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 September 30, 2018 and December 31, 2017, 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 ₱28 million and ₱36 million as at September 30, 2018 and December 31, 2017, respectively.

Amortization of debt issue costs amounted to ₱8 million for the nine months ended September 30, 2018 and 2017 (see Note 28).

Breakdown of the Parent Company's term loans as at September 30, 2018 and December 31, 2017 follows:

| | **September 30, 2018** (Unaudited – Nine Months) | | | December 31, 2017 (Audited) | | |
|---|---|---|---|---|---|---|
| | **Loan Agreements** | **Bonds Payable** | **Total** | Loan Agreements | Bonds Payable | Total |
| Principal | **₱16,430,956** | **₱6,000,000** | **₱22,430,956** | ₱10,502,500 | ₱6,000,000 | ₱16,502,500 |
| Less unamortized transaction costs | **76,778** | **28,128** | **104,906** | 43,510 | 36,272 | 79,782 |
| | **16,354,178** | **5,971,872** | **22,326,050** | 10,458,990 | 5,963,728 | 16,422,718 |
| Less current portion | **91,583** | **–** | **91,583** | 70,934 | – | 70,934 |
| Noncurrent portion | **₱16,262,595** | **₱5,971,872** | **₱22,234,467** | ₱10,388,056 | ₱5,963,728 | ₱16,351,784 |

Debt issue costs as at September 30, 2018 are amortized over the term of the loans using the effective interest method as follows:

| Year | Loan Agreements | Bonds Payable | Total |
|---|---|---|---|
| 2018 | ₱7,815 | ₱5,621 | ₱13,436 |
| 2019 | 3,770 | 22,507 | 26,277 |
| 2020 and onwards | 65,193 | – | 65,193 |
| | ₱76,778 | ₱28,128 | ₱104,906 |

Amortization of debt issue costs for the nine months ended September 30, 2018 and September 30, 2017 amounted to ₱22 million and ₱14 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 | ₱55,500 | ₱– | ₱55,500 |
| 2019 | 95,500 | – | 95,500 |
| 2020-2027 | 16,279,956 | 6,000,000 | 22,279,956 |
| | ₱16,430,956 | ₱6,000,000 | ₱22,430,956 |

Sky Cable

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

| | **September 30, 2018** (Unaudited – Nine Months) | | | December 31, 2017 (Audited – One Year) | | |
|---|---|---|---|---|---|---|
| | **Current Portion** | **Noncurrent Portion** | **Total** | Current Portion | Noncurrent Portion | Total |
| Term Loans: | | | | | | |
| Unsubordinated loan | **₱75,145** | **₱4,553,358** | **₱4,628,503** | ₱13,710 | ₱1,911,185 | ₱1,924,895 |
| Loan agreement | **6,540** | **979,313** | **985,853** | 9,004 | 970,318 | 979,322 |
| Obligations under finance lease (see Note 31) | **943** | **15,442** | **16,385** | 1,023 | 2,027 | 3,050 |
| | **₱82,628** | **₱5,548,113** | **₱5,630,741** | ₱23,737 | ₱2,883,530 | ₱2,907,267 |

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.

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.

On January 15, 2018, Sky Cable executed another loan agreement with BDO for the purpose of refinancing PCC's outstanding loan obligation amounting to ₱762 million for a term of 7 years, with an interest rate of higher of the sum of the prevailing 3-month PDST-R2 rate and the prevailing BSP Term Deposit Facility Rate until the first interest rate repricing date, and the higher of the sum of the prevailing 3-month PDST-R2 rate and the prevailing BSP Term Deposit Facility Rate divided by .95 until maturity date.

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 September 30, 2018 and December 31, 2017, 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 ₱30 million and ₱16 million as at September 30, 2018 and December 31, 2017, respectively. Using the effective interest method, unamortized debt issue costs as at September 30, 2018 will be amortized as follows:

| Year | Amount |
|---|---:|
| 2018 | ₱2,512 |
| 2019 | 4,729 |
| 2020 | 4,896 |
| 2021 and onwards | 18,109 |
| | ₱30,246 |

Amortization of debt issue costs amounted to ₱7 million and ₱8 million for the nine months ended September 30, 2018 and 2017, respectively (see Note 28).

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

| Year | Amount |
|---|---:|
| 2018 | ₱544,332 |
| 2019 | 39,730 |
| 2020 | 5,060,540 |
| | ₱5,644,602 |

<u>PCC</u>
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.

Debt issue costs on the loan amounting to nil and ₱2 million as at September 30, 2018 and December 31, 2017, respectively are deferred and amortized using the effective interest method. Amortization of debt issue costs amounted to about ₱773 thousand and ₱812 thousand for the nine months ended September 30, 2018 and 2017, respectively (see Note 28).

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 as at September 30, 2018 and December 31, 2017.

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 | ₱2,757 |
| 2019 | 2,900 |
| 2020 | 3,071 |
| 2021 | 3,253 |
| 2022 and onwards | 24,518 |
| | ₱36,499 |

As at September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017, 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 ₱16 million and ₱21 million as at September 30, 2018 and December 31, 2017, respectively.

## 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 September 30, 2018 and December 31, 2017 is as follows:

| | **September 30, 2018** (Unaudited – Nine Months) | | | December 31, 2017 (Audited – One Year) | | |
|---|---|---|---|---|---|---|
| | **Gross Value** | **Unamortized Discount** | **Carrying Value** | Gross Value | Unamortized Discount | Carrying Value |
| Within one year | **₱89,478** | **₱32,397** | **₱57,081** | ₱382,841 | ₱33,105 | ₱349,736 |
| More than one year to five years | **700,843** | **50,028** | **650,815** | 614,117 | 59,460 | 554,657 |
| | **₱790,321** | **₱82,425** | **₱707,896** | ₱996,958 | ₱92,565 | ₱904,393 |

## 20. Convertible Note

On February 14, 2011, ABS-CBN, Lopez, Inc, Lopez Holdings, Sky Vision, Sky Cable, STT Communications Ltd. 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.

The carrying value of the convertible note amounted to ₱217 million and ₱205 million as at September 30, 2018 and December 31, 2017, respectively.

Accretion of the convertible note recognized as part of interest expense in the consolidated statements of income amounted to ₱12 million for the nine months ended September 30, 2018 and 2017 (see Note 28).

## 21. Other Noncurrent Liabilities

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Customers' deposits | **₱387,760** | ₱386,805 |
| Deferred credits | **108,555** | 17,525 |
| Others | **183,241** | 81,212 |
| | **₱679,556** | ₱485,542 |

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 September 30, 2018 and December 31, 2017 are as follows:

| | **September 30, 2018** (Unaudited) | | December 31, 2017 (Audited) | |
|---|---|---|---|---|
| | **Number of Shares** | **Amount** | Number of Shares | Amount |
| | *(Amounts in Thousands, Except Number of Shares)* | | | |
| **Common Shares - ₱1.0 par value** | | | | |
| Authorized: | | | | |
| Balance at beginning and end of year | **1,300,000,000** | **₱1,300,000** | 1,300,000,000 | ₱1,300,000 |
| Issued: | | | | |
| Balance at beginning of year | **872,123,642** | **₱872,124** | 872,123,642 | ₱872,124 |
| Issuances for the year | **11,391,500** | **11,391** | – | – |
| Balance at beginning of year | **883,515,142** | **₱883,515** | 872,123,642 | ₱872,124 |

| | **September 30, 2018** (Unaudited) | | December 31, 2017 (Audited) | |
|---|---|---|---|---|
| | **Number of Shares** | **Amount** | Number of Shares | Amount |
| | *(Amounts in Thousands, Except Number of Shares)* | | | |
| **Preferred Shares - ₱0.2 par value** | | | | |
| Authorized: | | | | |
| Balance at beginning and end of year | **1,000,000,000** | **₱200,000** | 1,000,000,000 | ₱200,000 |
| Issued: | | | | |
| Balance at beginning and end of year | **1,000,000,000** | **₱200,000** | 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 8,374 and 5,317 as at September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017.

<u>Share-based Payment Plan</u>

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:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Balance at beginning of year | – | 711,743 |
| Exercised during the year | – | (711,743) |
| Balance at end of year | – | – |

<u>Employee Stock Purchase Plan</u>

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.

The Company accepted the total ESPP subscription from participants of 11,391,500 common shares.

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 ₱2,079 million and ₱1,840 million for the nine months ended September 30, 2018 and 2017, 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 February 22, 2018, the BOD approved the declaration of cash dividend of ₱0.92 per common share or an aggregate amount of ₱791 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.

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 September 30, 2018 and December 31, 2017 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.

## 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:

| | | **Nine Months Ended September 30** (Unaudited) | |
|---|---|---|---|
| | Nature | **2018** | 2017 |
| **Associate and Joint Venture** | | | |
| Blocktime fees paid to Amcara | Blocktime fees | **₱28,876** | ₱24,949 |
| Expenses and charges paid for by the Parent Company which are reimbursed by A CJ O and Amcara | Rent and utilities | **33,295** | 11,696 |
| Revenue from Parent Company and subsidiaries from other related parties | Print revenue and other service fees | **2,493** | 1,360 |
| Airtime revenue from A CJ O | Airtime fees | **–** | 7,500 |
| **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 | **89,787** | 91,254 |
| Expenses and charges paid for by the Parent Company which are reimbursed by the concerned related parties | Rent and utilities | **24,526** | 15,440 |
| Revenue of ABS-CBN Publishing and subsidiaries from other related parties | Print revenue and Other service Fees | **21,350** | 24,387 |

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 | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|---|---|---|
| **Due from** (see Note 7) | | | | | |
| Amcara | Associate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **₱136,930** | ₱146,794 |
| ALA Sports | Joint Venture | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **56,169** | 50,496 |
| ABS-CBN Lingkod Kapamilya | Corporate social responsibility sector of ABS-CBN | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **46,429** | 40,818 |
| INAEC Aviation Corporation | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **40,637** | 36,478 |
| Skyworks, Inc. | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **30,003** | 24,441 |
| First Philippine Holdings Corporation (FPHC) | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **4,346** | 2,510 |
| Goldlink | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **3,006** | – |
| First Gas Power Corp. | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **1,540** | 1,540 |
| Rockwell Land Corporation (Rockwell Land) | Affiliate | 30 days upon receipt of billings; noninterest-bearing | Unsecured, no impairment | **–** | 1,952 |
| Others | Affiliate | 30 days upon receipt; noninterest-bearing | Unsecured, no impairment | **90,844** | 17,198 |
| Total | | | | **₱409,904** | ₱322,227 |

| | Relationship* | Terms | Conditions | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|---|---|---|
| **Due to** (see Note 17) | | | | | |
| 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 | **6,734** | 6,725 |

*(Forward)*

| | Relationship* | Terms | Conditions | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|---|---|---|
| A CJ O | Joint Venture | 30 days upon receipt of billings; noninterest-bearing | Unsecured | **₱3,631** | ₱28,274 |
| Lopez, Inc. | Ultimate parent | 30 days upon receipt of billings; noninterest-bearing | Unsecured | – | 415 |
| ABS-CBN Bayan Foundation | Corporate social responsibility sector of ABS-CBN | 30 days upon receipt of billings; noninterest-bearing | Unsecured | – | 1,355 |
| Others | Affiliates | 30 days upon receipt of billings; noninterest-bearing | Unsecured | **64,820** | 117,844 |
| Total | | | | **₱91,875** | ₱171,303 |

**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 ₱332 million and ₱638 million as at September 30, 2018 and December 31, 2017, respectively (see Note 7).

d. In 2015, the Parent Company purchased certain properties from Lopez Holdings amounting to ₱96 million. As at September 30, 2018 and December 31, 2017, the carrying values of these properties amounted to ₱56 million.

e. The Parent Company has advances to ALA Sports amounting to ₱51 million as at September 30, 2018 and December 31, 2017.

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

<u>Terms and Conditions of Transactions with Related Parties</u>
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 nine months ended September 30, 2018 and 2017, 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

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Compensation (see Notes 25, 26 and 27) | **₱835,786** | ₱802,211 |
| Termination benefits | **78,580** | 53,048 |
| Pension benefits (see Note 30) | **37,859** | 34,854 |
| Vacation leaves and sick leaves | **35,578** | 26,343 |
| | **₱987,803** | ₱916,456 |

## 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 | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
| 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 | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Sky Cable Corporation and Subsidiaries | **₱1,983,560** | ₱2,059,786 |
| Sapientis Holdings Corporation and Subsidiaries | **(1,676,424)** | (1,560,423) |

Net Income (Loss) Attributable to Material Noncontrolling Interests

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| Company | **2018** | 2017 |
| Sky Cable Corporation and Subsidiaries | **(₱74,648)** | ₱39,876 |
| Sapientis Holdings Corporation and Subsidiaries | **(57,938)** | (166,518) |

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

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Cash and cash equivalents | **₱4,245,902** | ₱2,717,523 |
| Other current assets | **2,968,488** | 3,061,885 |
| Goodwill | **4,638,080** | 4,649,827 |
| Trademarks | **1,111,784** | 1,111,784 |
| Customer relationships | **435,525** | 511,215 |
| Other noncurrent assets | **13,834,671** | 11,237,995 |
| Current liabilities | **(7,930,886)** | (7,002,500) |
| Noncurrent liabilities | **(7,697,688)** | (4,801,663) |

Summarized Consolidated Statements of Comprehensive Income

| | **Nine Months Ended September 30** (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Revenue | **₱6,548,993** | ₱6,849,315 |
| Cost of services | **(4,994,902)** | (4,896,959) |
| General and administrative expenses | **(1,928,107)** | (1,773,661) |
| Finance costs | **(178,751)** | (205,180) |
| Other income – net | **293,480** | 153,143 |
| Income before income tax | **(259,287)** | 126,658 |
| Provision for (benefit from) income tax | **(85,329)** | 29,458 |
| Net income (loss) | **(173,958)** | ₱97,200 |
| Total comprehensive income (loss) | **(₱173,958)** | ₱97,200 |

Summarized Consolidated Statements of Cash Flows

| | **Nine Months Ended September 30** (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Operating | **₱1,900,256** | ₱2,051,343 |
| Investing | **(2,093,978)** | (1,608,928) |
| Financing | **1,716,630** | (187,495) |
| | **₱1,522,908** | ₱254,920 |

*b. Sapientis*

Summarized Consolidated Statements of Financial Position

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Cash and cash equivalents | **₱8,840** | ₱92,636 |
| Other current assets | **1,405,998** | 1,287,770 |
| Goodwill | **567,836** | 567,836 |
| Other noncurrent assets | **1,698,252** | 1,770,025 |
| Current liabilities | **(655,544)** | (731,267) |
| Noncurrent liabilities | **(10,129,949)** | (9,757,659) |

Summarized Consolidated Statements of Comprehensive Income

| | **Nine Months Ended September 30 (Unaudited)** | |
|---|---|---|
| | **2018** | 2017 |
| Revenue | **₱318,468** | ₱454,206 |
| Cost of services | **(189,889)** | (311,183) |
| General and administrative expenses | **(268,531)** | (662,183) |
| Finance costs | **(1,602)** | (199) |
| Other income – net | **1,818** | 9,380 |
| Loss before income tax | **(139,736)** | (509,979) |
| Provision for (benefit from) income tax | **287** | (449) |
| Net loss | **(140,023)** | (509,530) |
| Total comprehensive loss | **(₱140,023)** | (₱509,530) |

Summarized Consolidated Statements of Cash Flows

| | **Nine Months Ended September 30** (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Operating | **(₱2,895,582)** | ₱62,249 |
| Investing | **(1,647,802)** | 7,683 |
| Financing | **4,459,588** | – |
| | **(₱83,796)** | ₱69,932 |

## 25. **Production Costs**

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Personnel expenses and talent fees (see Notes 23 and 30) | **₱4,989,132** | ₱4,783,461 |
| Facilities-related expenses (see Notes 23 and 31) | **1,464,612** | 1,246,035 |
| Depreciation and amortization (see Note 10) | **795,967** | 803,363 |
| Amortization of program rights (see Note 12) | **774,319** | 651,029 |
| Travel and transportation | **717,313** | 687,749 |
| License and royalty | **312,472** | 288,184 |
| Set requirements | **223,602** | 176,707 |
| Catering and food expenses | **161,908** | 168,722 |
| Other program expenses (see Notes 12 and 23) | **120,505** | 61,105 |
| | **₱9,559,830** | ₱8,866,355 |

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:

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Facilities-related expenses (see Notes 23 and 31) | **₱2,060,447** | ₱2,626,597 |
| Programming costs | **1,457,266** | 1,458,570 |
| Depreciation and amortization (see Note 10) | **1,351,792** | 1,318,775 |
| Personnel expenses (see Notes 23 and 30) | **1,094,773** | 1,052,721 |
| Bandwidth costs | **543,895** | 466,436 |
| Transportation and travel | **189,573** | 149,122 |
| Amortization of program rights (see Note 12) | **162,238** | 206,398 |
| Interconnection costs | **110,861** | 227,179 |
| Taxes and licenses | **64,555** | 12,236 |
| Freight and delivery | **63,042** | 58,916 |
| Inventory costs (see Note 8) | **55,221** | 58,118 |
| Stationery and office supplies | **43,585** | 52,864 |
| License fees and royalties | **36,267** | 43,291 |
| Catering and food expenses | **26,710** | 22,166 |
| Amortization of other intangible assets (see Note 12) | **14,085** | 19,336 |
| Transaction costs | **12,435** | 37,384 |
| Set requirements | **12,229** | 13,035 |

*(Forward)*

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Amortization of deferred charges (see Note 15) | **₱6,993** | ₱6,924 |
| Installation costs | **287** | 529 |
| Others (see Note 23) | **656,851** | 439,509 |
| | **₱7,963,105** | ₱8,270,106 |

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:

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Inventory costs (see Note 8) | **₱1,732,480** | ₱1,440,138 |
| Personnel expenses (see Notes 23 and 30) | **20,027** | 27,588 |
| Printing and reproduction | **5,917** | 16,563 |
| Handling and processing costs | **5,865** | 9,461 |
| Facilities related expenses (see Notes 23 and 31) | **373** | 2,443 |
| Others | **9,743** | 11,922 |
| | **₱1,774,405** | ₱1,508,115 |

## 27. General and Administrative Expenses

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Personnel expenses (see Notes 22, 23 and 30) | **₱4,221,944** | ₱4,289,131 |
| Facilities related expenses (see Notes 23 and 31) | **811,458** | 801,692 |
| Contracted services | **782,372** | 515,518 |
| Depreciation and amortization (see Notes 10 and 11) | **660,563** | 581,864 |
| Advertising and promotion | **503,985** | 352,492 |
| Transportation and travel | **483,140** | 492,322 |
| Taxes and licenses | **343,814** | 368,806 |
| Research and survey | **281,472** | 197,074 |
| Provision for doubtful accounts (see Note 7) | **210,428** | 251,236 |
| Entertainment, amusement and recreation | **71,481** | 81,535 |
| Donations and contributions | **58,412** | 36,481 |
| Amortization of other intangible assets (see Note 12) | **23,490** | 28,338 |
| Inventory losses (see Note 8) | **15,569** | 10,960 |
| Others | **424,236** | 193,982 |
| | **₱8,892,364** | ₱8,201,431 |

## 28. Other Income and Expenses

Finance Costs

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Interest expense (see Notes 18 and 20) | **₱779,769** | ₱715,797 |
| Amortization of debt issue costs (see Note 18) | **26,964** | 22,238 |
| Bank service charges | **22,338** | 22,947 |
| | **₱829,071** | ₱760,982 |

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

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Long-term debt (see Note 18) | **₱681,625** | ₱640,961 |
| Bonds payable (see Note 18) | **86,372** | 62,373 |
| Convertible note (see Note 20) | **11,772** | 12,190 |
| Obligations under finance lease (see Note 18) | **–** | 273 |
| | **₱779,769** | ₱715,797 |

Other Income

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Leasing operations (see Note 31) | **₱24,204** | ₱23,017 |
| Dividend income | **7,651** | 10,364 |
| Gain on sale of property and equipment | **1,066** | 5,837 |
| Others - net (see Notes 15, 20 and 21) | **333,642** | 555,907 |
| | **₱366,563** | ₱595,125 |

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:

| | **Nine Months Ended September 30** (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Current | **₱753,596** | ₱504,645 |
| Deferred | **(608,880)** | 37,449 |
| | **₱144,716** | ₱542,094 |

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

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Deferred tax assets - net : | | |
| Accrued pension obligation and other employee benefits | **₱1,485,687** | ₱1,097,117 |
| NOLCO | **672,165** | 468,901 |
| Allowance for doubtful accounts | **594,871** | 535,445 |
| MCIT | **374,852** | 235,853 |
| Excess of the purchase price over the fair value of net assets acquired | **337,577** | 249,751 |
| Capitalized interest, duties, and taxes | **(259,165)** | (265,578) |
| License | **(149,828)** | (149,828) |
| Accrued expenses | **138,195** | 74,076 |
| Unearned revenue | **126,306** | 126,681 |
| Customers' deposits | **109,937** | 99,997 |
| Imputed discount | **(84,536)** | (84,536) |
| Net unrealized foreign exchange loss (gain) | **(75,368)** | 21,210 |
| Allowance for inventory obsolescence | **7,412** | 4,625 |
| Allowance for impairment loss on property and equipment | **3,726** | 8,764 |
| Others | **8,663** | 40,464 |
| | **₱3,290,494** | ₱2,462,942 |
| | | |
| 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:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| NOLCO | **₱2,390,885** | ₱2,123,324 |
| Allowance for doubtful accounts | **927,209** | 939,159 |
| Accrued pension obligation and others | **339,608** | 348,722 |
| Unearned revenue | **254,696** | 203,130 |
| Allowance for impairment loss on property and equipment | **83,846** | 83,846 |
| Allowance for decline in value of inventories | **70,250** | 63,420 |
| MCIT | **9,766** | 6,504 |

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 2018, NOLCO amounting to ₱4 million, were claimed as deduction against RCIT due and taxable income.

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.

MCIT of certain subsidiaries amounting to ₱385 million can be claimed as tax credit against future RCIT as follows:

| Year Paid | Expiry Dates | Amount |
|---|---|---|
| 2015 | December 31, 2018 | ₱35,593 |
| 2016 | December 31, 2019 | 45,230 |
| 2017 | December 31, 2020 | 86,176 |
| 2018 | December 31, 2021 | 217,619 |
| | | ₱384,618 |

NOLCO of certain subsidiaries amounting to ₱4,631 million can be claimed as deductions from future taxable income as follows:

| Year Incurred | Expiry Dates | Amount |
|---|---|---|
| 2015 | December 31, 2018 | ₱1,175,790 |
| 2016 | December 31, 2019 | 1,482,439 |
| 2017 | December 31, 2020 | 951,570 |
| 2018 | December 31, 2021 | 1,021,636 |
| | | ₱4,631,435 |

As at September 30, 2018 and December 31, 2017, deferred tax liability on undistributed earnings of ABS-CBN Global, holding company of the Parent Company's foreign subsidiaries, amounting to ₱2,261 million and ₱1,860 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:

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Statutory tax rate | **30%** | 30% |
| Additions to (reduction in) income taxes resulting from the tax effects of: | | |
| Interest income subjected to final tax | **(9)** | (4) |
| Nondeductible interest expense | **3** | 1 |
| Others (mainly income subject to different tax rates) | **(15)** | (8) |
| Effective tax rates | **9%** | 19% |

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 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₱6 million and ₱5 million for the nine months ended September 30, 2018 and 2017, 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:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Pension obligation | **₱4,438,661** | ₱4,316,059 |
| Other employee benefits | **1,812,790** | 1,828,560 |
| | **₱6,251,451** | ₱6,144,619 |

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

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Current (see Note 17) | **₱312,570** | ₱386,675 |
| Noncurrent | **5,938,881** | 5,757,944 |
| | **₱6,251,451** | ₱6,144,619 |

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

| | **Nine Months Ended September 30** (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Current service cost | **₱485,727** | ₱437,451 |
| Net interest cost | **124,588** | 85,793 |
| Net pension expense | **₱610,315** | ₱523,244 |

Accrued Pension Obligation

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Present value of obligation | **₱6,384,113** | ₱6,899,614 |
| Fair value of plan assets | **(1,945,452)** | (2,583,555) |
| Accrued pension obligation | **₱4,438,661** | ₱4,316,059 |

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

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| | *(Percentage)* | |
| Investment in fixed/floating rate treasury note | **15.8** | 12.4 |
| Investment in government securities and bonds | **5.9** | 11.2 |
| Investment in stocks | **65.9** | 63.7 |
| Others | **12.4** | 12.7 |
| | **100.0** | 100.0 |

ABS-CBN

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 70% and 30% as at September 30, 2018, respectively, and 80% and 20% as at December 31, 2017, respectively

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 September 30, 2018 and December 31, 2017 are as follows:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Fixed Income: | | |
| Short-term | **₱207,575** | ₱228,391 |
| Medium and long-term: | | |
| Government Securities | **209,824** | 174,619 |
| Corporate Bonds | **95,141** | 83,193 |
| Peso Bond Mutual Funds | **20,001** | 9,586 |
| Preferred Shares | **3,641** | – |

*(Forward)*

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Equities: | | |
| Investment in shares of stock and other securities of related parties | **₱1,006,023** | ₱1,631,645 |
| Common shares and unit investment trust fund (UITF) | **267,506** | 318,676 |
| | **₱1,809,711** | ₱2,446,110 |

*Short-term Fixed Income*. Short-term fixed income investment includes time deposit, special deposit account and special savings account with interest ranging from 4% to 5% in 2018 and from 2% to 5% in 2017.

*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 8% and 3% to 9 % in 2018 and 2017, 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 ₱94 million and ₱83 million with terms ranging from 7 years to 15 years as at September 30, 2018 and December 31, 2017, respectively. Yield to maturity rate ranges from 4% to 7% in 2018 and 2017.

Investment in peso bond mutual fund has a total cost and market value of ₱20 million as at September 30, 2018.

In 2018 and 2017, investment in preferred stock refers to 5,700 shares with a total cost of ₱4 million and ₱9 million and loss of ₱59 thousand and gain of ₱949 thousand, respectively. The market value of preferred stock is ₱4 million as at September 30, 2018.

*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.

| | **September 30, 2018** (Unaudited – Nine Months) | | | |
|---|---|---|---|---|
| | **Number of Shares** | **Cost** | **Market Value** | **Unrealized Gain (Loss)** |
| ABS-CBN PDRs | **34,903,218** | **₱1,515,864** | **₱670,142** | **(₱845,722)** |
| ABS-CBN Common | **501,320** | **24,052** | **10,678** | **(13,374)** |
| Lopez Holdings | **65,996,580** | **227,178** | **292,365** | **65,187** |
| Rockwell Land | **17,103,433** | **34,476** | **32,839** | **(1,638)** |
| | **118,504,551** | **₱1,801,570** | **₱1,006,024** | **(₱795,547)** |

| | December 31, 2017 (Audited – One Year) | | | |
|---|---|---|---|---|
| | 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) |
| FPHC | 46,500 | 3,503 | 2,883 | (620) |
| | 118,803,276 | ₱1,805,856 | ₱1,631,645 | (₱174,211) |

In 2016, the retirement fund purchased additional ABS-CBN PDRs and common shares from ABS-CBN, Rockwell Land, Lopez Holdings, Energy Development Corporation, First Gen and FPHC. As at September 30, 2018 and December 31, 2017, the value of each ABS-CBN PDRs held by the retirement fund is at ₱19.20 and ₱34.50, respectively.

Total loss from investments in shares of stock and other securities of related parties amounted to ₱796 million and ₱174 million in 2018 and 2017, respectively.

*Investments in Common Shares and UITF.* Common shares pertain to 32,543,004 shares and 90,490,457 shares listed in the PSE in 2018 and 2017, respectively, with market value of ₱268 million and ₱319 million as at September 30, 2018 and December 31, 2017, respectively. Total loss and gain from these investments amounted to ₱64 million in 2018 and ₱5 million in 2017, respectively.

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 September 30, 2018 and December 31, 2017 are as follows:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Short-term fixed income | **₱11,237** | ₱13,880 |
| Investment in medium and long-term fixed income: | | |
| Government securities | **97,175** | 91,898 |
| Corporate bonds and debt securities | **19,508** | 22,079 |
| UITF | **4,830** | – |
| Investment in shares of stock of First Gen | **1,030** | 7,495 |
| Preferred shares | **1,961** | 2,093 |
| | **₱135,741** | ₱137,445 |

*Short-term Fixed Income.* Short-term fixed income investment includes time deposit, special deposit account and special savings account with average interests of 3.6% and 2.0% as at September 30, 2018 and December 31, 2017, respectively.

*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 2.9% to 7.9% and 2.1% to 6.4% as at September 30, 2018 and December 31, 2017, respectively. 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 ₱5 million and ₱769 thousand as of September 30, 2018 and December 31, 2017, respectively.

*Investment in Corporate Bonds.* These pertain to ₱20 million unsecured bonds with terms ranging from 6 to 10 years as at September 30, 2018 and December 31, 2017, respectively. Yield to maturity rate ranges from 4.6% to 6.8% with a loss of ₱42 thousand and gain of ₱229 thousand in 2018 and 2017, respectively.

*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 of investments in shares of stock of First Gen amounted to ₱1 million and ₱7 million as at September 30, 2018 and December 31, 2017, respectively, with market value of ₱1 million and ₱7 million as at September 30, 2018 and December 31, 2017, respectively. Total loss and gain from these investments amounted to ₱30 thousand in 2018 and 2017, 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.

<u>Net Benefit Expense</u>

| | **Nine Months Ended September 30** (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Current service cost | **₱114,398** | ₱53,471 |
| Interest cost | **74,093** | 22,967 |
| Net benefit expense | **₱188,491** | ₱76,438 |

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

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Defined benefit obligation at beginning of year | **₱1,828,560** | ₱2,190,341 |
| Current service cost | **114,398** | 152,531 |
| Interest cost | **74,093** | 98,791 |
| Actuarial gain | **–** | (406,616) |
| Benefits paid | **(204,261)** | (206,487) |
| Defined benefit obligation at end of year | **₱1,812,790** | ₱1,828,560 |

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** |
|---|---|
| | **Increase (Decrease) in Defined Benefit Obligation** |
| Discount rate: | |
| Increase by 1% | **(₱2,303,979)** |
| Decrease by 1% | **1,021,955** |
| Future salary increases: | |
| Increase by 1% | **(₱990,779)** |
| Decrease by 1% | **2,342,165** |

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

| Year | **December 31, 2017** |
|---|---|
| One year | **₱331,965** |
| More than one year but less than five years | **2,279,489** |
| More than five years but less than ten years | **3,708,857** |
| Beyond ten years | **24,050,302** |

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

## 31. **Commitments**

Deal Memorandum with DirecTV

ABS-CBN International’s share in the subscription revenue earned from subscribers that have migrated to DirecTV amounted to ₱541 million and ₱552 million for the nine months ended September 30, 2018 and 2017, 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:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Within one year | **₱326,970** | ₱204,721 |
| After one year but not more than five years | **764,840** | 706,271 |
| After five years but not more than ten years | **322,208** | 401,763 |
| | **₱1,414,018** | ₱1,312,755 |

*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:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Within one year | **₱168,764** | ₱36,379 |
| After one year but not more than five years | **72,923** | 15,443 |
| | **₱241,687** | ₱51,822 |

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:

| | **September 30, 2018** (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| Within one year | **₱6,594** | ₱7,963 |
| After one year but not more than five years | **30,241** | 30,245 |
| Total minimum lease payments | **36,835** | 38,208 |
| Less amounts representing finance charges | **4,722** | 14,441 |
| Present value of minimum lease payments | **32,113** | 23,767 |
| Less current portion (see Note 18) | **4,774** | 7,781 |
| Noncurrent portion (see Note 18) | **₱27,339** | ₱15,986 |

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 | ₱680,190 |
| After one year but not more than five years | 964,698 |

**Includes variable fees based on the number of active subscribers as at September 30, 2018.*

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 ₱111 million and ₱227 million for the nine months ended September 30, 2018 and 2017, respectively (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. All outstanding construction projects have been significantly completed in 2017.

## 32. Financial Risk Management Objectives and Policies

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.

## 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 September 30, 2018 and December 31, 2017. There are no material unrecognized financial assets and liabilities as at September 30, 2018 and December 31, 2017.

| | **September 30, 2018** (Unaudited – Nine Months) | | | | |
|---|---|---|---|---|---|
| | **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) | **₱244,271** | **₱224,833** | **₱–** | **₱–** | **₱224,833** |
| AFS investments – quoted | **173,037** | **173,037** | **173,037** | **–** | **–** |
| | **₱417,308** | **₱397,870** | **₱173,037** | **₱–** | **₱224,833** |
| **Financial Liabilities** | | | | | |
| Other financial liabilities at amortized cost: | | | | | |
| Interest-bearing loans and borrowings | **₱28,249,018** | **₱28,349,069** | **₱–** | **₱–** | **₱28,349,069** |
| Obligations for program rights | **707,896** | **790,321** | **–** | **790,321** | **–** |
| Convertible note | **217,152** | **261,758** | **–** | **–** | **261,758** |
| Customers' deposits (included as part of "Other noncurrent liabilities") | **387,760** | **358,891** | **–** | **–** | **358,891** |
| | **₱29,561,826** | **₱29,760,039** | **₱–** | **₱790,321** | **₱28,969,718** |

| | December 31, 2017 (Audited – One Year) | | | | |
|---|---|---|---|---|---|
| | 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 |

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% in 2018 and 2017.

There were no transfers between levels in the fair value hierarchy as at September 30, 2018 and December 31, 2017.

Offsetting of Financial Assets and Financial Liabilities

There is no offsetting of financial assets and financial liabilities as at September 30, 2018 and December 31, 2017.

## 34. **Earnings Per Share (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:

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Net income attributable to equity holders of the Parent Company | **₱1,626,793** | ₱2,411,529 |
| Dividends on preferred shares | **(4,000)** | (4,000) |
| (a) Net income attributable to common equity holders of the Parent Company | **₱1,622,793** | ₱2,407,529 |
| (b) Weighted average number of shares outstanding: | | |
| At beginning of year | **822,972,436** | 822,972,436 |
| Issuances of common shares | **8,213,713** | – |
| At end of year | **832,186,149** | 822,972,436 |
| Basic/diluted EPS (a/b) | **₱1.950** | ₱2.925 |

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

Noncash investing activities follow:

| | Nine Months Ended September 30 (Unaudited) | |
|---|---|---|
| | **2018** | 2017 |
| Acquisitions of program rights on account | **₱300,136** | ₱90,000 |

Changes in liabilities arising from financing activities:

| | December 31, 2017 (Audited) | Cash flows | Noncash changes | **September 30, 2018** (Unaudited) |
|---|---|---|---|---|
| Term loans | ₱20,362,938 | 7,807,331 | 46,636 | **₱28,216,905** |
| Obligations under finance leases | 23,767 | 8,346 | – | **32,113** |
| Interest payable (Note 17) | 225,697 | (768,774) | 767,997 | **224,920** |
| Dividends payable (Note 17) | 257,961 | (550,966) | 574,530 | **281,525** |
| Deposit for future subscription (Notes 4 and 17) | 1,220,000 | – | – | **1,220,000** |
| Total liabilities from financing activities | ₱22,090,363 | ₱6,495,937 | ₱1,389,163 | **₱29,975,463** |

Noncash changes includes effect of accrual of dividends and interests, 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 September 30, 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 National Telecommunications Commission (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 September 30, 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 September 30, 2018, the case is still ongoing. The Parent Company 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 Philippine Accounting Standard 37, *Provisions, Contingent Liabilities and Contingent Assets*, only general descriptions were provided.

**Exhibit A – Aging of Accounts Receivable**

As of September 30, 2018

| | **Neither Past Due nor Impaired** | **Past Due but not Impaired** | | | | |
|---|---|---|---|---|---|---|
| | | **Less than 30** | **30 Days and Over** | **Impaired** | **Allowance** | **Total** |
| Trade receivables: | | | | | | |
| Airtime | **₱4,002,067** | **₱579,698** | **₱393,972** | **₱110,900** | **(₱339,276)** | **₱4,747,361** |
| Subscriptions | **1,043,622** | **491,249** | **452,754** | **1,171,826** | **(1,371,319)** | **1,788,132** |
| Others | **892,221** | **203,088** | **711,309** | **384,736** | **(321,810)** | **1,869,544** |
| Nontrade receivables | **419,029** | **372,299** | **401,964** | **40,341** | **(69,965)** | **1,163,668** |
| Due from related parties | **–** | **–** | **409,904** | **–** | **–** | **409,904** |
| | **₱6,356,939** | **₱1,646,334** | **₱2,369,903** | **₱1,707,803** | **(₱2,102,370)** | **₱9,978,609** |

As of 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 |

## SIGNATURES

**For the SEC 17-Q Third Quarter 2018 Report**

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

Registrant: ABS-CBN Corporation

By:

**ALDRIN M. CERRADO**

Chief Financial Officer

Date: ____________